Foreign-owned firms dominate the Kenyan economy. It is estimated, for example, that about two-thirds of all value-added in large-scale manufacturing is accounted for by them. Yet very little is actually known about the extent or nature of foreign investment in Kenya.

Six of the seven chapters in this book have been written especially in an attempt to illuminate the activities of multinational corporations operating in Kenya and to assess their economic and political impact. The chapters cover a wide range of relevant subjects such as the history of foreign investment, its dominance in the manufacturing sector, its technological choice and dependence, its reliance on import substitution, its links with the political system, its profitability, the advantages of local (as opposed to foreign) ownership and the emergence of Kenyan multinational firms.

These studies suggest that in some cases the role of M.N.C.s in Kenya grew as merchant capital was induced to industrialize by global economic pressures. In other cases M.N.C.s entered the Kenyan market by taking over locally-owned firms, invariably in a well protected environment. They have been able to generate links with the Kenyan State, thereby ensuring a stable future and high profitability, despite apparently low value-added and pronounced technological dependence.

The readings contained in this book offer an essential introduction to those with a general interest in Kenyan affairs as well as to specialist students of economics and political science.

Shs: 85/- (East Africa only)

Oxford University Press
EASTERN AFRICA ISBN 0 19 572445 3

READINGS ON THE MULTINATIONAL CORPORATION IN KENYA

edited by
Raphael Kaplinsky

Chapter Seven

THE CHANDARIAS: THE DEVELOPMENT OF A KENYAN MULTINATIONAL[1]

Robin Murray

INTRODUCTION

There is a common presumption in the literature on international firms that such firms will have significantly different patterns of economic behaviour from local firms. International firms will tend to expatriate a greater proportion of their profits, they will have lower backward and forward linkages, more restricted diversification locally, a tendency to capital-intensive techniques, and so on. The evidence on these distinctions is far from clear. Local holders of capital in underdeveloped countries have shown themselves ready to invest on international capital markets, as the funding of a share of the Euro-dollar market from Latin America and the Middle East indicates. In times of national crisis, local holders of capital have sought to expatriate liquid funds along with the multinationals. Where international firms are criticized for low linkages, this is often the result of the discontinuous economies involved in the forward or backward stage of production in a developed country,

[1]For their help in preparing this paper, the author would particularly like to thank Raphael Kaplinsky and Reg Green.

economies which apply whether the local operation is owned by international or national firms.[2] On capital intensive techniques, a recent study of Kenya found that subsidiaries of multinationals were in fact more labour intensive than national firms in the same sector. Multinationals, according to the same study, did tend to be active in capital-intensive sectors, but here, as with a number of the other alleged biases of the international firms, it is the sectoral differences which are significant rather than the question of ownership.[3]

I do not want to suggest that ownership has no significance—rather that this significance has to be established by concrete studies. Its material basis must be made clear. For if there is no material basis, or if the cause of the differences lies in spheres other than that of ownership, then governments who attempt to control their local industry through changes in organizational form (national majority in equity or full nationalization) will find their local operations subject to the same international economic pressures and controls as the subsidiaries were subject to before.

With regard to the patterns of growth and diversification (what we might call the product and geographical location of accumulation), Caves has suggested that foreign subsidiaries are typically less vertically integrated in the host economy than are the domestic firms with which they compete, and that manufacturing operations by subsidiaries are less integrated than home production by the parent.[4] Similarly, Chinitz has suggested, on the basis of U.S. regional experience, that within countries large firms provide more inputs from within the firm than do small firms. As a result, when a large firm sets up a new plant there is less likelihood of backward linkage industries clustering round the plant in classical growth pole fashion. Chinitz also argues that local firms would tend to

[2]This issue, as well as a number of the points that follow, are discussed more fully in an article by this author, 'Underdevelopment, International Firms and the International Division of Labour', in *Towards a New World Economy*, Rotterdam, University Press, 1972.

[3]Technical Paper No. 16 in *Employment, Incomes and Equality: A Strategy for Increasing Productive Employment in Kenya*, I.L.O., Geneva, 1972; but see also the recent paper by Steven Langdon, 'M.N.C.s, Taste Transfer and Underdevelopment', *Review of African Political Economy*, *2*, Spring 1975.

[4]R. E. Caves, 'The International Corporation: the Industrial Economics of Foreign Investment', *Economica*, New Series, *38* (149), February 1971.

diversify more in the same area than would large firms with a wider geographical spread.

> The surplus capital which accrues inside large multiplant companies . . . is more mobile within the company than intra-regionally outside the company. A large corporation is more likely to respond to investment opportunities in its traditional activity at other locations than to new investment at home in unrelated industry.[5]

There are a number of reasons why we might expect such differences between subsidiaries and local firms. One is a question of capacity. If the foreign firm has excess capacity in plants producing inputs (or using outputs) outside the host economy, then the marginal cost of supplying the subsidiary from the firm's plants elsewhere is likely to be lower to the firm than the cost of purchasing the product locally either from its own plant or from another local firm, where it would be a matter of building a new plant from scratch. Another reason for the differences might be the use of scarce managerial resources. The foreign firm may prefer to use managerial excess capacity to diversify in large economies where there are higher prospective returns than are likely from local diversification in underdeveloped economies. Thirdly, management literature suggests that a large firm is likely to have better information about its domestic markets, where its main decision makers are located, than about peripheral markets.[6]

Differential access to information is also linked to differential risk. Countries where the main decision makers have relatively little information are assigned a higher risk premium than countries with which they are more familiar. These high risk premiums for underdeveloped countries would tend to be above those applied by local firms since, by the same argument, the decision makers in the local firms would have better information about the local situation than would the international firm's central managers. There might also be differential risks between the two on account of their nationality. Local firms might be considered less likely to be nationalized, for instance, than foreign firms. It is interesting that in cases where foreign firms have been drawn to underdeveloped countries as their

[5]B. Chinitz, 'Contrasts in Agglomeration: New York and Pittsburgh', *American Economic Review, 51*, May 1961.

[6]Y. Aharoni, *The Foreign Investment Decision Process*, Cambridge, Mass., Harvard Business School, 1966.

main production areas because of cheap labour (i.e., where there is little substitution between developed and underdeveloped countries as areas of productive accumulation) these firms have tended to diversify their plants in different underdeveloped countries in order to minimize their dependence on governments with whom they have a less secure relationship than would local firms.[7]

Finally, international firms might prefer to provide materials from outside the underdeveloped country (or to use its output abroad) in order to ease profit remittance via transfer-pricing. Such an incentive would not be open to the same extent to domestic firms who lacked integrated subsidiaries overseas.[8]

What these points amount to is that investment opportunities appear differently to local and foreign firms. If there existed a perfect market, then capital—whatever its nationality and whatever its range—would tend to be attracted to the same areas. But given economies of scale, imperfect information and the existence of states linked to rival capitals, then there are reasons to expect different patterns of growth and diversification between local firms and international subsidiaries operating in underdeveloped countries.

HISTORY OF THE CHANDARIA ENTERPRISES

The Chandaria group is a most interesting case against which to examine these points. This is a family firm of Kenyan Asians who expanded their business first in Kenya and then abroad until today they could be called a Kenyan multinational. Their experience, therefore, appears to be not merely that of a local firm, but a local firm made good (i.e., a multinational) whose base remains in Kenya.

The family has now been in Kenya for three generations (see the family tree, Figure 7.1). The grandfather, P.P. Chandaria, moved to Kenya from India in 1914 and began business as a hawker. Since that time the business has developed in six main stages.

[7]Y. Cheng, UNITAR Studies on the Transfer of Technology.

[8]Not that it is impossible for national firms to move funds through transfer-pricing by arrangement with the foreign trader. Indeed it is quite common in steel trading, for example. The point here is that it is often easier for international firms when they control both ends of the trade flow.

1. 1917–1940: The Build-up of Trading

During this period the line of development ran from hawking, to retailing, to semi-wholesaling, and then during the 1930s to wholesaling. The family did invest in some elementary processing in the late 1920s, in tanning and wattle in Thika, in cotton ginning in Sagana, and in a small aluminium factory in Mombasa called Kenya Aluminium, which was started in 1929 by five Indian families on the basis of a simple machine. However, the Chandarias' investments in these other operations were purely financial, and were seen as a limited way of diversifying their assets. The bulk of their resources and all their managerial time remained in trade.

2. 1940–1948: The Abortive Return to India

In 1940 the Chandarias amalgamated their business with another Kenyan Indian family, the Shahs, whom they had helped out during the Depression and with whom they had intermarried. The main members of the two families then moved to India to extend their operations. With some Indian businessmen they started a small textile mill and established a brokerage business in connection with the stock exchange, speculating in silver futures (successfully) and groundnuts and oil extracts (disastrously). The Chandarias independently started a dhow passenger service between Jamnagar in India and Mombasa, and in 1946/47 were granted a monopoly on the distribution of grain in the State of Jagarnat. The family thus remained concentrated primarily in circulation and distribution. This proved an inadequate basis for international expansion—the brokerage firm was not a success, the dhow service lost out to competition with the return of steam ships at the end of World War II, and the grain monopoly ended in 1948. The leaders of both families accordingly decided to return to Kenya.[9]

3. 1948–1958: The Development of Manufacturing

Having failed to diversify internationally in trade and distribution, the Chandarias now took an explicit decision to move their financial

[9]On the early history of the Chandarias see R. C. Gregory, 'Kenya's Commercial Relations with India, 1930–50', paper presented at the Cambridge Conference on the History of Kenya, June 1975.

and managerial resources in Kenya into manufacturing. The country had experienced a sustained increased in money demand as the result of the war. A large number of Italians were held as prisoners-of-war in Kenya following the Ethiopian campaign, and they were joined by Polish refugees. This influx of people contributed to an increased demand for a particular type of consumer goods. Import substitution was encouraged by the shortages of shipping, as well as by government measures. In 1947, there had also been an inflow of people and finance into Kenya in connection with the Tanganyikan groundnut scheme, and this served to sustain local demand at a time when the number of prisoners-of-war and refugees was decreasing.[10] Thus the Chandarias' decision to enter manufacturing was taken at a time of significant industrial expansion.

They were also influenced, it seems, by the expansion of the family. P. P. Chandaria, his two brothers, C. P. and M. P. (who had stayed as a trader in India but was closely linked to the family in Kenya), and his first two sons, D. P. and R. P., had all been brought up as traders. But it was reckoned that trade offered a more limited scope than manufacturing for the younger sons, who were shortly to enter the family business. They were accordingly sent for training in the U.S. and Britain—three in engineering and the fourth in commerce.[11]

This was the background to the decision to expand into manufacturing in 1948. This marked a clear break for the family in Kenya which had previously traded mainly in provisions and textiles. However, those who had remained in Kenya during the war had set up the first manufacturing operation, Pure Food Products, to make pasta for the Italian prisoners-of-war (pasta had proved almost impossible to import). D.P. initiated the project with the women of

[10]These, and most of the other background details on the Kenyan economy and society are taken from Colin Leys's excellent book, *Underdevelopment in Kenya: The Political Economy of Neo-Colonialism*, London, Heinemann, 1975. See in this case pp. 40–41.

[11]This factor has a certain (but not exact) parallel with a reason given to Colin Leys by a successful African trader for his consideration of a shift into manufacturing:

> When my children leave school they will prefer to work ordinary hours; they will want to play tennis, to go to a club. I don't mind about going to a club, or working to ten o'clock at night. But if you have a factory there are various satisfying jobs for your children. Leys, op. cit. pp. 168–9.

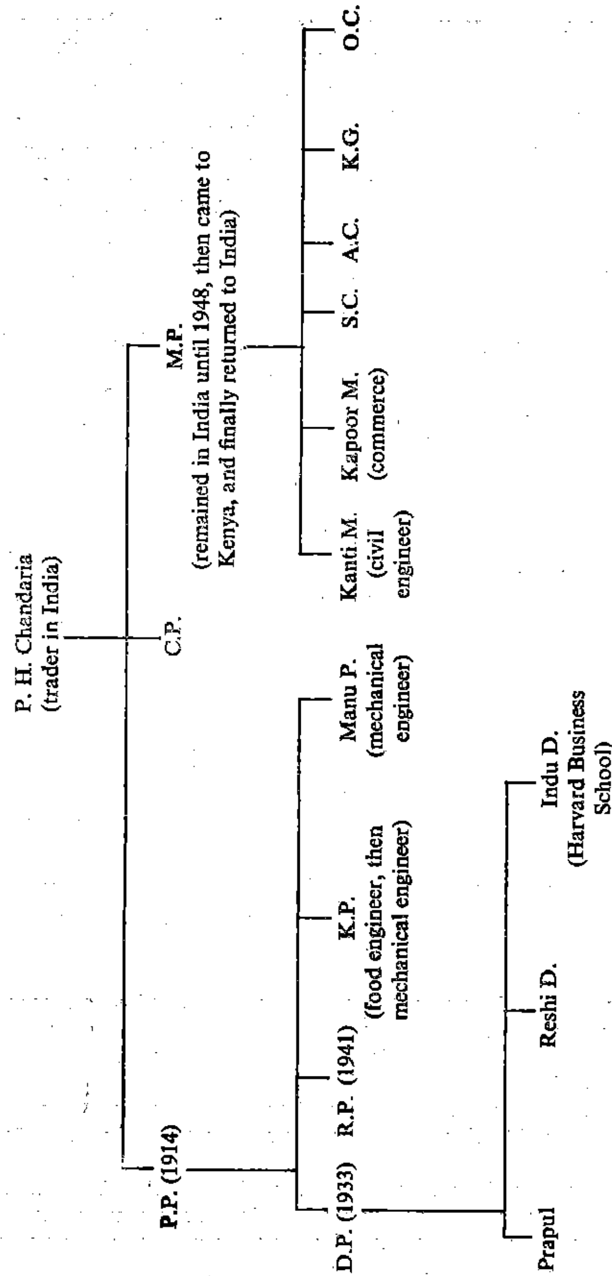


Figure 7.1. The Chandaria Family

Source: Indu Chandaria, 1975.

the family making the pasta in their houses until production increased sufficiently to justify a move to a factory. Later, five released Italian prisoners-of-war were employed to improve the quality of the product, and the factory also started to make sweets, sodas and juices. We can see this enterprise, however, as a further step in the backward integration of the traders.

The result of the 1948 decision was that the family sold Pure Food Products in order to concentrate on their chosen line of expansion, Kenya Aluminium. Their minority financial interest in this firm was now increased to 60 per cent. Within four years the business had expanded from 25 to 750 employees, manufacturing a whole line of aluminium products from household utensils to wire products, primus stoves and hurricane lamps (the last involved 150 different processes, all of which were carried out on what was by this time a mini-industrial estate).

The raw materials in the form of aluminium sheets and circles were bought from abroad. In the early 1950s the company put up a small hand rolling mill. Alcoa, Alcan and Kayser had all said a rolling mill in Kenya was out of the question, but the Chandarias bought the hand mill in Italy, where two of them spent two months being trained to operate it. They were later joined by an Italian technician.

During this period, therefore, the Chandarias developed Kenya Aluminium both horizontally and vertically. They also instructed Kanti to set up simple aluminium rolling mills in the Congo and Burundi in the early 1950s, but this was the limit of geographical diversification. Locally, the only other business in which they were active was flour milling, perhaps because of K. P. Chandaria's training as a food engineer, a training initially intended to develop Pure Food Products. With this exception, the family's financial and human resources were concentrated on Kenyan Aluminium.

4. 1958–1970: Products Diversification and Expansion in Africa

During the 1950s, the gradual decline of British colonial authority during the Emergency and the growing prospect of African independence brought into question the long-term role of the Asians in Kenya. Neither the potential African leaders, nor the settler com-

mercial and industrial interests (who were to form the New Kenya group in 1959) were potential allies of the Asians. Indeed, to both groups the Asian experience, application and commercial power posed a threat. The Chandarias were aware of this: they saw trade as the economic activity most vulnerable to new government-protected African involvement and industry as the least likely to be immediately affected. Accordingly, they took a decision in 1958 to diversify their industrial interests—making them less dependent on any one product, and more difficult to replace—as well as to expand abroad.

The process of diversification in Kenya can be traced in the list of Chandaria companies and the date they were formed or taken over (see Table 7.1). The two main expansions were into wire products, for which they developed an integrated steel plant which encompassed all operations from the furnaces to rolling and finishing, and into the production of matches, where they took over a liquidated European company in 1959, East Africa Match Co. However, these two developments were to be the only attempts at diversification for nearly ten years. The political situation, with the New Kenya group urging an alliance between Europeans and Africans at the expense of the Asians, made all undertakings appear risky.[12] Writing in 1963 one of the young Chandarias summarized the economic position of the Indian community in Kenya as follows:

> The profits in industry were generally high, ranging from fifteen per cent to fifty per cent on total investment. In industries where duty protection existed they were especially good. A large part of the profits were [sic] usually reinvested in industry. . . . New industries were established with the earnings from the existing industrial organization. This trend has changed slightly in the last few years as political uncertainty in Kenya has increased, and the position of the immigrant community has become unclear. Some of the earnings are transferred abroad, mainly as short term deposits which can be returned as soon as stability is attained. Some of the profits are used to establish industries in other countries, other parts of Africa and sometimes, in India and Pakistan.[13]

In the case of the Chandarias, all diversification between 1959 and 1970 (with the exception of a joint venture with Johnson's Wax in Kenya in 1970) took place abroad.

At first they concentrated on the East African market. Between 1959 and 1961 they negotiated and set up a modern aluminium rolling mill in Tanzania of the type which the major aluminium companies had refused to set up in Kenya in the early 1950s. This was initiated with the technical assistance of the French aluminium firm, Pechiney, and was to serve the whole of the East African market (Tanzania, Uganda and Kenya). They also set up, in 1961, an integrated process for galvanized roofing in Tanzania. One part of the process had been operated at Kenya Aluminium for two years, but the Tanzanian plant represented a backward integration, importing only the sheets from Japan and zink from the world market. Finally, together with M. K. Shah, a relative whose Kenyan firm, East Africa Stationery, was supported by the Chandarias, the family established Paper Products Ltd. in Tanzania in 1962, producing exercise books, etc. for what was seen as the expanding, post-independence educational market.

Table 7.2 gives the details of further expansion outside East Africa into neighbouring Ethiopia, Zambia and Uganda, and rather later, in 1970 to Nigeria and Morocco. In each case the expansion started with aluminium processing (mostly the manufacture of simple products on the lines of the 1929 Kenya Aluminium plant) and steel galvanizing. Often these were later developed into

[12]Leys, op. cit., p. 45.
[13]I. D. Chandaria, 'The Development of Entrepreneurship in Kenya', B. A. thesis, Harvard College, 1963, pp. 25–6, quoted in Leys, op. cit., p. 45.

Table 7.1. Chronology of Chandaria Group's Development in Kenya

1.	Premchand Brothers	Early 1920s. Incorporated 1941. Trading Co.
2.	Distributors Ltd.	1941. Agents and distributors. Initially held jointly with Shah family.
3.	Pure Food Products	c. 1943. Pasta, sweets, soda. Sold 1948.
4.	Kenya Aluminium	1948. Takeover of company founded in 1929. Aluminium final products, later aluminium rolling.
5.	Atta	1956. Flour milling. Sold to a local Asian, 1973.
6.	Associated Nail Manufacturers	1957. Selling organization.
7.	Steel Holdings	1958. Wire products, with integrated steel plant from furnaces to rolling and finishing. Later merged with Indian competitor.
8.	Prembro Sales	1958. Centralized group marketing, with 15 branches in East Africa. Later return to decentralized marketing.
9.	East Africa Match	1959. Takeover of liquidated European

		firm in the white highlands. Moved plant to Mombasa in 1961. Jointly owned with another Indian family, who left for India in 1968. Made a private company in 1971. Produces matches.
10.	Galsheet Sales	1962 (1961). Centralized group marketing. Now dormant.
11.	Eslon Plastics	1968 (1966) Plastic products, P.V.C., pipes, blow-moulding. Public Company.
12.	Comcraft Services	1968 (1965). Managerial services organization, centred in London, also registered in Kenya.
13.	Ideal Casements	1969. Window frames. Takeover from British firm started in 1954.
14.	Mabati	1969 (1961). Galvanized roofing.
15.	East Africa Stationery	1969. Takeover from M. K. Shah, a relative of the Chandarias who had run a small press with their backing since 1949, and who 20 years later returned to India.
16.	East Africa Wire	1969. Wire products. Now dormant.
17.	Kenya United Steel	1969 (1966). Wire products.
18.	Kaluworks	1969. Took over aluminium products from Kenya Aluminium which became a holding company.
19.	Johnson's Wax E.A. Ltd.	Partnership with Johnson's Wax International (based in Switzerland) (60 percent), International Finance and Development Co. (Jersey) (24 per cent) and Premchand Bros. (16 per cent).
20.	Specialist Secretarial Services	1970. Kenyan subsidiary of Comcraft Services, providing secretarial services to the group.
21.	Booth Manufacturing	1973. Takeover of U.K. firm. Plastics.
22.	Galaxy Paints	1973. Takeover from local firm. Paints.
23.	Juhudi Investments	1974. Property development. Residential and office blocks.

Note: Dates in brackets indicate year when company was first registered.

Table 7.2. Chronology of Chandaria Group's Overseas Expansion

Africa

1952	Congo (now Zaïre)	Simple aluminium products manufacture.
	Burundi	Simple aluminium products manufacture.
1959–61	Tanzania	Aluminium Africa.[a] Large rolling mill to serve whole East African market. Mabati Ltd. (1961). Galvanized roofing. Paper Products Ltd. (1962). Joint with M. K. Shah.
1964	Zambia	Zambia Aluminium (simple aluminium products). Steel Co. of Zambia. (1967) galvanized steel.
1964	Ethiopia	Ethiopia Aluminium.[a] Simple aluminium products. Steel Co. of Ethiopia (1967).[a] Galvanized steel.
1965	Uganda	Steel galvanizing.[a] Uganda Baate. Initially aluminium products, then expanded.
1970	Nigeria	Bought British company, Midland Aluminium. Tower Galvanizing Products, then Tower Aluminium, Tower Metal Products.
1970	Morocco	Promegal. Steel galvanizing. Started production in 1972.

Europe

Since 1967–68, 15 plants in Western Europe including 2 plants in France, 1 in Italy, Belgium, the Netherlands, Spain and Switzerland (Geneva), and in Britain 8 plants in Inverness, Edinburgh, Glasgow, Newcastle, Sunderland, London and Jedburgh (making plastic coat-hangers). Companies in Britain are: Brown and Glags, Ditchburn Manufacturers, Steel Stockholders, Stratford Metals and Mitechino.

Asia

Since 1974–5, 7 or 8 plants established in Malaysia, Indonesia, Singapore, Philippines, Papua New Guinea and Australia.

Notes:

[a] Indicates that the company has been sold.

Dates in brackets indicate year when company first registered.

more sophisticated processes (in Zambia steel galvanizing was developed backwards in 1967), or the products diversified (in Tanzania the group developed production of steel, wire products and matches).

5. 1966–1974: Product Diversification and Expansion in Europe

In 1966 the company took a fourth major decision, to diversify into Europe. While successful operations had been established in some African countries and were expanding through their own earnings, there was still surplus left over and expansion into other African countries with these earnings had proved abortive (Malawi,

Mozambique and Rhodesia). Accordingly the direction of investment switched to Europe. Two of the senior members of the family went to live in London (D. P. and R. P.) and from 1967, fifteen manufacturing plants were established, eight of them in Britain, two in France, the others in Belgium, Holland, Italy, Spain and Switzerland. Usually existing firms were taken over, and a range of goods was manufactured in the areas with which the Chandarias were already familiar—metals, building products, and later plastics.

As we have seen, this move into Europe did not mean that expansion in Africa stopped, merely that the rate of growth in Europe was higher. In Kenya, there was a new wave of expansion coinciding with the favourable climate for foreign investment which was being fostered by the Kenya government in the late 1960s and early 1970s. This expansion implied, because of the limited size of the market and resulting limitations on growth in the family's traditional product lines, a diversification to a greater range and extent than took place in 1958–9. The new products were still associated with materials and building—plastics and plastic products in 1968 and 1973, window frames in 1969, galvanized roofing (a feed-back from Tanzania) in 1969, paper products (when Dr. Shah returned to India in 1969), an expansion in wire products in 1969, paints in 1973, and finally, when business conditions and the role of Asian manufacturing were again being called into question, into real estate in 1974.

6. 1974: Expansion in Asia

More recently, the main focus of accumulation has again been hifted, this time to Asia. In 1974 and 1975, eight plants weres established in different countries in the group's traditional lines of manufacturing.

The group now has plants in at least 22 countries. Its main focus remains Africa, which accounts for about 50 per cent of its total assets. It currently has about 200 engineers employed in the African plants, and is planning a further 10 to 12 new projects in Africa between 1975 and 1978. However, expansion outside of Africa has been faster. Europe now accounts for some 40 per cent of world assets, and Asia nearly 10 per cent. The Kenyan companies had shares valued at £3.2 million (sterling) in 1974 (see Appendix One) which constituted about 8 per cent of the group's assets. Overall, the Chandarias controlled approximately £40 million in assets world wide, and, given a share capital to sales ratio of 1:3—a figure derived from Eslon in Kenya, and probably an underestimate—were responsible for about £120 million in sales.

DISCUSSION OF THE ENTERPRISES

I have divided the development of the Chandarias into stages according to decisions that the family saw as major. For the purposes of our discussion, however, there is one principal turning point, the move to expand into manufacturing overseas in 1959. Prior to that time, with the exception of the abortive Indian excursion, the enterprise developed very much according to the pattern suggested for national firms in the discussion in the first part of this chapter. As traders, the family integrated backwards from hawking, to retailing, to semi-wholesaling and finally to wholesaling, with profits accumulated locally. The development of Pure Food Products during World War II was a further step in this direction. This development followed a line of market information, although, as the Pure Food Products case shows, the family sometimes had to learn the technical skills involved.

The shift to manufacturing in 1948 certainly was a discontinuous shift to a field where the family had very little previous experience. Yet it still represented the local accumulation of capital, and once it was established, we find a pattern of reinvestment of profits according to horizontal and vertial intergration as before. Relatively little appears to have been ploughed back for research and development. Instead the technology was imported, together with foreign technicians for an initial period, while members of the family were trained so that they could successfully apply this technology.

It is difficult to know how different this path of growth was from that of the multinational firms which operated in Kenya at the time. The fact that by 1961, on the eve of independence, the Asians probably owned three-quarters of private non-agricultural assets in the country according to Leys's calculation, suggests that they were particularly alert to local opportunities. The long-established international trading companies, Baumann, Mitchell Cotts and Dalgety, significantly did not move out of trading into manufacturing until the new African government took measures to

reserve trade for Africans and thus threatened the old multinationals directly. The multinationals responded some fifteen years later than the Chandarias. The case of the aluminium rolling mill, and the success of the Chandarias in making it profitable in spite of the reservations of the major multinational aluminium firms, also point up the contrast in business behaviour. This was also a case of a local firm employing a labour-intensive technique profitably where multinationals would only consider capital-intensive methods (though it is significant that the Chandarias themselves moved to a more capital-intensive process as soon as the market was large enough).

The Chandarias' local knowledge (of the economy, of particular markets and increasingly of local conditions of production), together with the fact that Kenya was the group's sole area of operation while it was a marginal area for the multinationals, are two factors which appear to distinguish a typical case of capitalist development by a local firm rather than by multinationals.

After 1959, however, the pattern changed. In spite of their advantages in Kenya as established manufacturers, the Chandarias expanded abroad. The technical knowledge they had developed largely in Kenya during the 1950s gave them a material advantage which made them less vulnerable to the contingencies that had marked the Indian adventure. This time the expansion was permanent.

Most, but not all, of the overseas ventures involved products and processes which were introduced first in Kenya: matches, an integrated wire industry, plastics, windows and paints. There was clearly an element of capitalizing on managerial and technical know-how in the logic of this geographical expansion. It appeared relatively more profitable to establish tried processes in new countries, rather than new processes at home.

Equally clearly, a political factor was involved. The Chandarias had, if anything, a negative relationship to the state in Kenya. The policy of diversifying their operations for political reasons is shown by the fact that some of their developments in manufacturing took place outside the country. Thus the galvanized steel plant established in Tanzania was more advanced than Kenya's, and more backwardly integrated. The Tanzanian aluminium plant was also more advanced, and was designed to export most of its aluminium circle production to Kenya. The same applies to the Zambian steel

plant developed in 1967 to serve the East African market. In these cases the decisive points of accumulation for the firm were outside the home market.

This expansion in Africa revealed, however, that conditions could be as risky in other countries as they were in Kenya. Four of the Chandarias' firms have been nationalized in Africa, and a fifth was sold out. In Tanzania their know-how saved them from a 100 per cent nationalization, but the formula finally agreed on locked in their assets to a restructured firm and to a country in which they had limited scope and security for long-term expansion. Hence their shift to Europe, where nationalization of small firms and discrimination against expatriate capital were less common.

The law of gravity that pulls accumulation to the metropolitan countries in the case of multinationals thus appears to operate in the case of Kenyan-based firms as well. However, the causes, on the face of it, are different. The multinationals are more concerned with financing research and development and major international plants in the advanced countries than they are with local diversification in the Third World. For the Chandarias the most immediate factor appears to be avoidance of political vulnerability. The consequences for Kenyan accumulation, however, are the same.

Furthermore, we find that the Chandarias have become increasingly similar to the multinationals in their financing and organizational mechanisms as they have expanded. Their concern in Kenya and elsewhere is to travel light, so that they can pack their bags and leave with minimum losses when an expatriation order arrives. Thus they are concerned to avoid major equity commitment. Partnership is one method. A second is to expand through acquisition, taking over an ailing firm, offering the creditors a return from the restructured company, and contributing their managerial and technical abilities in return for equity. It is interesting that since 1959, five of the nine manufacturing expansions by the Chandarias in Kenya have been through takeovers, and three of the four others have involved partnerships. They have employed similar methods abroad, with takeovers in Tanzania, Nigeria, France and Britain.

Thirdly, they have tended to operate on a high gearing (i.e., debt/equity ratio) and have funded fixed assets out of loans and current liabilities. In Kenya, unfortunately, only one of their companies is required to file accounts, Eslon Plastics. As of 1973, the equity

contribution covered less than half the book value of the fixed assets, the balance being funded by loans, a bank overdraft and suppliers' credits. Elsewhere this policy is confirmed. In Ethiopia, share capital covered only 60 per cent of the book value of fixed assets, the major funds being provided by an intra-company foreign loan (of more than three times the share capital). In Tanzania, the company started with long-term loans from the London market, but on the advice of Sir Ernest Vasey (who has been closely involved with the family's Kenyan operations) they switched to using 180-day credits from the suppliers of steel sheets as the main source of finance.

The general minimization of risk capital by joint ventures, the takeover of devalued firms, the operation of high gearing with funds borrowed from the local market, from suppliers or from the firm's financial accounts abroad—all are features of the financial behaviour of multinational manufacturing companies in underdeveloped countries.[14]

Linked with this, the Chandarias removed their financial and managerial headquarters from Kenya in the latter part of the 1960s. The financial re-organization was based on a series of tax haven companies in which the ownership of the productive companies was vested. Eslon Plastics, which started operations in 1968, has its holding companies in Jersey and Bermuda. The holding of Kenya Aluminium was switched from individual members of the Chandaria family to a family company in Bermuda in 1970. A similar switch affected the other Kenyan holding company, Premchand Brothers, at about the same time, as well as East Africa Stationery (held by a Jersey Company from 1970). The ownership structure of the Chandarias' firms in Kenya is shown in Appendix Two. From this it can be seen that at least two of the non-Kenyan companies on which we have evidence were similarly controlled by tax haven companies.

Organizationally, the managerial requirements of the expanding international group were co-ordinated by a new London company, Comcraft Services. The Chandarias set this firm up in the mid 1960s 'to carry on business as suppliers of and contractors of and for the services of executives, investigators, specialists, technicians, experts, consultants, advisers, etc.' Most of the group's managers and technicians are on Comcraft contracts, including the Chandarias themselves, and it seems that Comcraft also handles much of the group's international purchasing.

[14]For more satisfactory evidence on the patterns of growth of multinational subsidiaries in Kenya, we will have to await the publication of a study on the subject by Steven Langdon.

This organizational development was itself a part of the new financial structure. Comcraft Services charges the group affiliates a service fee; by the beginning of the 1970s these fees averaged £0.5 million per annum, and the surplus derived from them appears to have been used to buy property in London and to lend to other parts of the Chandaria group (outstanding loans from Comcraft to client companies totalled £220,000 in 1971). Such a system had two advantages. First, Comcraft's charges for services—both through fees and commissions—were a way in which funds could be moved internationally through exchange controls. Thus in Ethiopia, for example, in the face of a restriction on dividend repatriation of 15 per cent of capital invested, and with high local profits, the steel subsidiary paid 10 per cent of its profits to Comcraft as a service fee (in addition to overpricing its imported intermediates of sheet steel).[15] Secondly, the funding of operations from company loans from London was clearly a more flexible and safer means of financing an affiliate in Africa than tied investment in equity.

Thus it is not only the tendency to expand abroad that likens the Chandarias to the multinationals as they operate in Kenya. There is also the limitation of the capital commitment in local firms and the development of an international financial structure which, as one of the Chandarias confirmed in conversation, makes the movement of funds more flexible for the financial needs of the family's expanding international operations. Tax haven companies, service fees and overpriced intermediates are all devices which have come to be associated with multinationals, and which have made multinational affiliates so difficult to control in terms of capital flows and taxation. However, the fact that the Chandarias began their business activities in Kenya—that they are a Kenyan multinational—may still differentiate their behaviour from that of the subsidiaries of foreign multinationals in Kenya. They have continued to diversify in Kenya whenever the economic climate was suitable (in the late

[15]Bank of Ethiopia actually charged the company E$547,000 in 1971 for overpricing during a three-year period. See R. Murray, 'The Steel Company of Ethiopia: A Study in International Financial Management', unpublished paper, 1973.

1960s and early 1970s). Yet in the end the crucial point is that, in spite of their local knowledge of Kenya and its conditions, their capital, like that of the multinationals, has tended to flow out.

THE CHANDARIA EXPERIENCE AND THE POTENTIAL FOR AN EMERGING NATIONAL BOURGEOISIE IN KENYA

In the last section of this chapter I want to relate the Chandaria experience to the question of what potential exists in Kenya for the development of a relatively autonomous national bourgeoisie. Leys at one point says that 'the Indian trading community . . . had produced the prototype of a national industrial bourgeoisie',[16] and the discussion of the Chandaria family's activities implies that if the Kenyan state had protected rather than threatened, then perhaps the Chandarias would have continued to expand locally to an even greater extent than they have done. Put another way, our discussion so far implies that the same potential growth exists for African industrialists who will be supported by their local state. The very failure of the Chandarias' experience in accumulation in Kenya, according to this view, points to the prospect for successful autonomous African capitalist development.

This issue has particular bearing on Leys's view concerning the direction of Kenyan underdevelopment. He argues that state policy after independence has given rise to 'an "auxiliary bourgeoisie" tightly linked to foreign capital'.[17] For a time it was possible to adopt 'populist' measures, softening class conflict between Africans at the expense of settler, large-farm capital and Asian commercial capital by such strategies as settlement schemes on former Europeans large farms. This possibility, Leys suggests, is now exhausted. The dependence of the African auxiliary bourgeoisie on foreign capital will prevent further populist policies being pursued at the expense of foreign capital, and instead what appears more likely is:

> a policy of wage controls and of land distribution which would as far as possible redistribute income between different sections of the 'industrial peasantry', rather than between the middle classes as a whole, and workers and peasants as a whole. In that case, there would be a gradual intensification of the exploitation of labour with the risk of a growing politicization of the masses.[18]

[16]Leys, op. cit., p. 44.
[17]Ibid., p. 257.
[18]Ibid., p. 272.

The term 'auxiliary' can usefully be applied to two sections of a local bourgeoisie. The first are rentiers, in function and attitude. They seek returns from privileges they possess such as land rights, political access, local information, and sometimes simply 'nationality' or colour. Their economic perspective is that of a finance capitalist concerned not with concrete production, but with abstract returns. Just as the finance capitalist moves his capital to the highest returns, so the auxiliary rentier moves his allegiance and influence to the areas of highest monopoly rent. Like bankers, these are the men who sit on numerous boards of local firms. What capital they accumulate, they invest according to the same dictum, commonly in property. They are an unproductive class—they produce no surplus value, but merely circulate that produced by others. In a subordinate economy such as Kenya's, a good deal of the surplus value is derived from foreign capital, or more precisely, the international circuit of capital.

The second auxiliary section are those who are lodged in the international circuit of capital in a more direct way. They are local distributors or operators (and often owners) of factories producing small-scale inputs for foreign capital or transforming foreign intermediates in the final stages of the import-substituting process. Their operations (if not they themselves) are productive—they have direct relations with labour, but their activities are tightly bounded by the requirements of international capital. They are dependent on the intermediates, the brand-names and the know-how which foreign capital supplies. They are manufacturers 'under licence', or franchised by some international firm.

In both cases, these 'auxiliary' sections are highly dependent on continued good relations with international capital, and from the evidence which exists, most African businessmen in the non-trading sector fit into one of these two categories. The fact that they are formally independent makes little difference. The significant factor is their relation to the international circuit of capital.

Now it is clear from the Chandaria history that this family's activities fit into neither of these groups. At first they were traders, in their case go-betweens in the international circuit of capital at the level of circulation rather than production. When this circulation was interrupted by World War II, their entrepreneurial attention switched to brokerage and shipping in India, and in Kenya to small-scale import substitution—a field still dependent on the international

market, but with a relatively greater autonomy from international capital than the auxiliary producers discussed above. The Chandarias have not dealt in foreign trade-marks or brand-names. They have not been dependent on foreign licences, franchises or patents. They have imported foreign technicians, but gradually replaced them with their own employees or family members. Their inputs are purchased from the world market but are not specific (as Coca-Cola essence would be). They are standard products for which some relatively competitive suppliers' market exists—steel sheets, aluminium ingots and so on. For the most part, they have not had to yield their high local profits to foreign technology suppliers, but have instead used them for their own chosen path of diversification. It is for these reasons that we speak of relative autonomy, and it is autonomy in this sense that underlies the notion that we can speak of the Chandarias as 'the prototype of a national industrial bouregoisie'.

It must be pointed out, however, that the type of autonomous activity described here is very restricted in a peripheral economy such as Kenya. There are only certain sectors and products for which this type of autonomy can be achieved, particularly where there is a small local market. These are the sectors which locational literature suggests are most decentralized in developed economies because of low scale economies and high transport costs: bricks, printing, newspapers, soft drinks, beer, construction, food processing, timber, bread-making, small-scale engineering, and so on. Some of these operations may be carried out by multinationals, particularly where there are managerial economies (Lonrho's conglomerate interests in Africa are pertinent here), but the relatively simple processes and low scale economies do make them open to small local capitalists. It is interesting that the Chandaria operations in Britain consist of these simple processes, and a number are located in 'underdeveloped' regions of the country—Newcastle and Sunderland, the Cheviots, Inverness and so on.

The Chandarias in operating such processes have restricted themselves primarily to metals and construction materials. They no doubt could have diversified into other similar areas, sometimes competing against multinationals such as Lonrho or Unilever, and furthering local accumulation in the process. But the point is that opportunities in these fields are restricted. In many of them, local Asians or in some cases European expatriates are already

active. The opportunity for the local development of these products is the basis for sharp growth rates in the early phases of import substitution. But development in these fields quickly runs up against the international law of value, the discipline of the international market which reflects the more advanced technology and scale economy already established in the metropolitan countries.

Moreover, quite apart from the question of political risk, it is interesting that the Chandarias have found it as easy, if not easier, to use their spare managerial capacity to expand the same lines internationally rather than to diversify locally. Geographical and product diversification are of course two lines of advance which can (and in the case of the Chandarias did) proceed simultaneously. But given the narrow market in Kenya, and given that product diversification for the most part proceeds into related fields, then there is a limit on the extent to which rapidly expanding capital can be accumulated in one country, particularly when it has proved so easy to accumulate it in other countries. This argument is an application at the micro level of the macro explanation of the export of capital due to surplus capital, linked in this case to the relative technical economies of geographical diversification in the same branch, as against the development of new lines of production in the home market. It suggests that there would have been pressure for international expansion, regardless of the factor of political risk, or, putting it another way, even had the group been Kenyan African rather than Kenyan Asian.

The history of the Chandarias does indicate that there are areas in which a relatively autonomous national African bourgeoisie could develop, if need be at the expense of the Asians. It is interesting that in Uganda, Ethiopia and Tanzania, Chandaria subsidiaries have been nationalized with some such shift to 'national' development in mind. But at the same time the international expansion of the Chandarias also suggests that the bounds of this autonomy are relatively narrow, that capital even when it is locally controlled does tend to find its way back to metropolitan countries, and that the contradiction in Kenya (as argued by Leys) can at the most be only temporarily suspended (and might in some circumstances even be hastened) by the consideration of potential relative autonomy.

Appendix One: The Share Capital of the Chandaria Group in Kenya as of April 1974

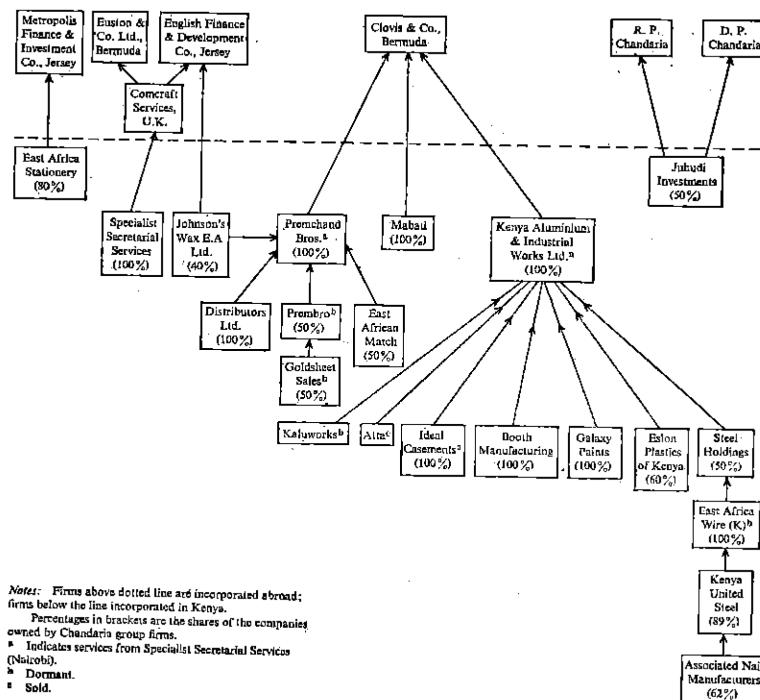
Paid Up Shareholding [in '000 KShs]

	Company	Nominal Capital	Paid up Issued Capital	Paid in Considerations Other than Cash	Cash	% Chandaria Holdings
1.	Premchand Bros.[a]	4,891	944	3,947	4,891[b]	100[b]
2.	Distributors Ltd.	138	6	132	138	100
3.	Kenya Aluminium[a]	18,422	2,380	16,042	18,422	100
4.	Associated Nail Manufacturers	100	100	—	62	62[c]
5.	Steel Holdings	2,800	800	2,000	1,400	50
6.	Prembo Sales[d]	500	100	400	500	100
7.	East African Match	5,067	2,491	2,576	5,067	100
8.	Galsheet Sales[d]	1,400	1,000	400	700	50
9.	Eslon Plastics[a]	2,400	1,600	800	1,440	60
10.	Comcraft Services	n/a	n/a	n/a	n/a	n/a
11.	Ideal Casements	6,500	1,000	5,500	6,500	100
12.	Mabati	1,200	1,200	—	1,200	100
13.	East Africa Stationery[a]	500	286	214	500[b]	100[b]
14.	East Africa Wire[d]	3,000	1,040	1,960	3,000	100[c]
15.	Kenya United Steel	5,770	4,236	1,534	5,135	89[c]
16.	Kaluworks	n/a	n/a	n/a	n/a	n/a
17.	Johnson's Wax E.A. Ltd.	2,000[e]	2,000[e]	1,000[e]	400[e]	40
18.	Specialist Secretarial Services[a]	32	32	—	32	100
19.	Booth Manufacturing	200	200	—	200	100
20.	Galaxy Paints	600	200	400	600	100
21.	Juhudi Investments	1,000	1,000	—	500[b]	50[b]
	Total	56,520	20,615	36,905	46,687	

Notes:
[a] Not held by any other Kenyan company on the list.
[b] Estimate.
c Indicates company held by a firm in which the Chandarias have less than 100 per cent shareholdings.
[d] Indicates company dormant.
[e] The figures for Johnson's Wax E.A. Ltd. are for 1977.

There may be an element of double counting in adding the shares of the holding company and those of the subsidiaries. While a Chandaria company may have 100 per cent of the subsidiary, if there is less than 100 per cent share in the holding company, then the figures in the last column will be overstated. Taking only those companies marked 'a', we have total shareholdings of KShs 27,245,000 and a Chandaria share of KShs 25,745,000.

Appendix Two: The Structure of Chandaria Holdings in Kenya



Notes: Firms above dotted line are incorporated abroad; firms below the line incorporated in Kenya.
Percentages in brackets are the shares of the companies owned by Chandaria group firms.
[a] Indicates services from Specialist Secretarial Services (Nairobi).
[b] Dormant.
[c] Sold.

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