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KENYA TRADE WEEK AND EXPOSITION BREAKFAST: LAUNCH OF UK-KENYA TRADE REPORT

Event report

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On 20th July 2018, the Kenyan Export Promotion Council (EPC) hosted a breakfast event to launch the Overseas Development Institute (ODI)'s latest report, *Kenya-UK trade and investment relations: taking stock and promoting exports to the UK*. The event also served as an opening to the EPC's Trade Week, a week-long programme of trade-related seminars and meetings to celebrate 25 years of promoting Kenyan exports globally.

The ODI and EPC were honoured to welcome to the event representatives from the Ministry of Industry, Trade and Cooperatives including Dr Chris Kiptoo, Principal Secretary at the State Department for Trade, Chairman of the EPC Jaswinder Bedi, and senior figures representing the domestic private sector.

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SUMMARY

- President Kenyatta's 'Big Four' agenda lays out ambitious goals for Kenya's industrialisation in the coming few years, with increasing Kenya's regional and global exports a key tool for achieving them.
- Kenya and UK have a long-standing trade relationship. The UK is a key investor in Kenya's agro-processing, food and beverages, garments and financial services sectors.
- However, while the UK remains Kenya's fifth biggest export market, Kenya's share of UK imports has been declining since 2009, and it is losing competitiveness to other countries on key export products including tea and coffee, fresh flowers and vegetables.
- ODI research, developed in partnership with the EPC, has analysed Kenyan export products and UK demand to identify four categories of products to help guide Kenya's export strategy: 'sunrise', 'cash cows', 'laggard' and 'intermittent'.
- In order to reverse the decline in the value of Kenyan exports to the UK, Kenya must concentrate on improving the competitiveness of its core exports (the cash cows) and diversify into products where demand in the UK is on the rise (sunrise products).
- The Government must also implement policies that support its exports, including taking advantage of existing trade agreements, such as AGOA, and ongoing negotiations, including Brexit, as well as investing in trade- and manufacturing-related infrastructure, such as special economic zones (SEZs).

OPENING PRESENTATIONS

WELCOME FROM PETER BIWOTT, CEO, EXPORT PROMOTION COUNCIL

Peter Biwott, EPC

Peter Biwott opened the event by welcoming attendees, including representatives of ODI, the Ministry of Industry, Trade and Cooperatives, and all those involved in promoting Kenyan exports.

Trade Week is fast approaching, and everyone has been brought together here for a forward look, as well as to launch the new ODI-EPC study on how to further develop Kenya-UK trade relations for a win-win outcome – supporting Kenya to take advantage of the UK market, and UK investors to take advantage of new opportunities in Kenya emerging from President Kenyatta's 'Big Four' agenda.

The key question we are here to discuss is, how can we enhance exports with a view to achieve the objectives laid out in the Big Four agenda? This study by ODI is just the beginning; going forward, we plan to do similar studies for Kenya's other global trading partners, to identify where the greatest opportunities lie for Kenyan exports.

RACHEL MUTHOGA, CEO, KENYA PRIVATE SECTOR ALLIANCE (KEPSA)

Rachel Muthoga thanked attendees and welcomed the study of Kenya-UK trade relations.

As CEO of KEPSA, it is important to remember that the Preisdent's Big Four agenda is not just about action by Government. 70% of Kenyan employment is within the private sector, so it falls to the private sector to undertake an important role in the coming jobs challenge.

From l-r: Jaswinder Bedi, EPC; Rachel Muthoga, KEPSA

JASWINDER BEDI, CHAIRMAN, EPC

Jaswinder Bedi opened by stating that Kenya regional and national markets are expanding, due to both multilateral and bilateral agreements. The recently ratified African Continental Free Trade Area represents a huge market opportunity and will bring new dynamics to be adjusted to.

African continental trade represents a market of 1.2 billion people. There is a real willingness across the continent to capitalise on this, but there is a great deal to do, given that compared with other continents, African cross-regional trade is low, at just 11%.

New global opportunities are also emerging, such as the possibility of a new trade agreement with the United States, but this will take some time, and is not a quick fix. Europe remains an important market, but its importance for Kenya is declining. Crucially, 60% of Kenya's trade is to a few select countries – we need to diversify in markets, but also move away from just trading raw products.

Areas of focus for the EPC in the coming years including technology, where Kenya has been a leader in the past – it was the first country to implement mobile money, for instance. Improving data and information sharing, compliance to international standards and regulations on health and safety and rules of origin are other priority areas.

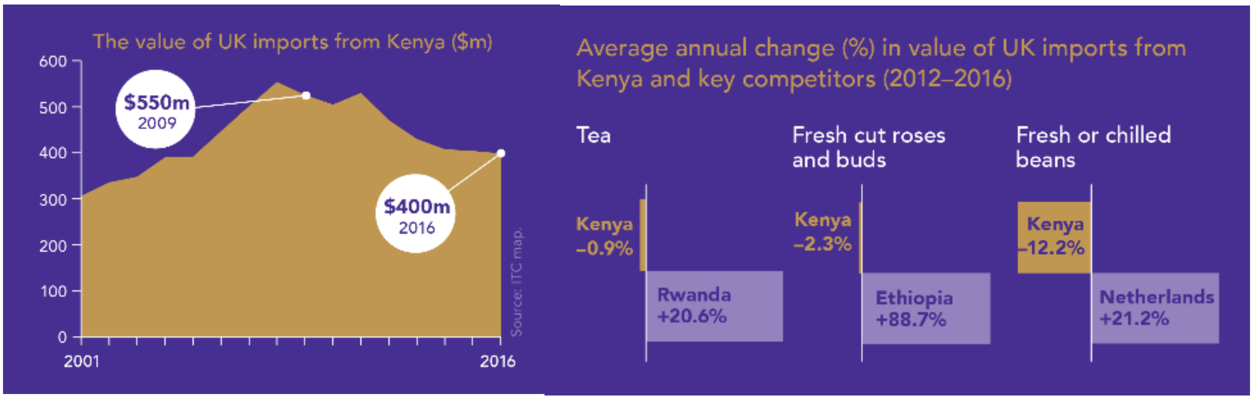
The challenge we are presented with is that Kenya needs to grow by 36% each year until 2022. Trade is a dynamic area where the only constant is change – we must embrace that change to move forward.

LAUNCH OF ODI-EPC REPORT

PRESENTATION FROM DR DIRK WILLEM TE VELDE, HEAD OF INTERNATIONAL ECONOMIC DEVELOPMENT GROUP, ODI, AND DIRECTOR, SET PROGRAMME

Dr te Velde began his presentation by stating that there are long-standing trade linkages between Kenya and the UK, with the UK a key investor in Kenya's agro-processing, garment and financial services sectors. However, in real terms, the value of Kenya's exports to the UK have been declining since 2009, and Kenya's share of UK imports has also been in decline, from 16% in 2001 to 7% in 2016.

Further, when it comes to some of Kenya's top export products – tea, fresh cut flowers, fruits and vegetables such as green beans – Kenya has been losing competitiveness to other countries, such as Rwanda and Ethiopia.



What can Kenya do to regain competitiveness and take advantage of the UK market? The ODI study computes export specialisation value (ES) for each product and analyses the UK market demand in each, to develop a 2*2 matrix with four categories:

- 'Sunrise' products: new products with relatively high stability and ES index and growing UK demand
- 'Cash cow' products: older products with high stability and ES scores and where UK demand is growing
- 'Intermittent' products: new products, highly volatile, whose sale is more sporadic, with low ES and low stability, but where UK demand is growing
- 'Laggard' products: old products with low stability and ES scores and UK demand is falling.

Kenya's competitive advantage and future trade relationship with the UK rely on the strategy the Government and private sector adopt regarding 'sunrise' and 'cash cow' products. In the case of the former, Kenya should expend resource on diversifying into these products, and in the latter, regaining competitive advantage by enhancing the marketing and quality of products will be crucial.

Services remain important; service exports to the UK increased 3.6 times in value terms between 2001 and 2012. However, the challenge is the lack of available reliable data, with much remaining unmeasured in this area.

Dirk Willem te Velde, ODI

A number of issues are constraining Kenya's exports:

- Investment climate issues, including
    - Regulatory environment such as taxation, work permits, land acquisition
    - Infrastructure, particularly the cost of energy
    - Access to finance
    - Security and counterfeiting
    - Poor firm management, weak firm linkages
- Trade-related issues, including
    - Tariffs and external trade negotiations such as issues around the African Growth and Opportunities Act (AGOA), Brexit
    - Addressing standards
    - Logistics and storage issues.

How can these issues be addressed? Firstly, Kenya must diversity its export offer to the UK. Secondly, it must promote policies that support its exports: (i) taking advantage of trade negotiations elsewhere that impact on Kenya's future trade, such as retaining market access to the US through AGOA and increasing access to the UK and the European market in the wake of Brexit; (ii) investing in infrastructure to address standards, and logistics and storage infrastructure; and (iii) leveraging the Big Four agenda to invest in the development of special economic zones and industrial parks to overcome domestic and international market-access issues, and logistical constraints on the manufacturing sector.

To conclude, while UK-Kenya trade linkages remain strong, the downward trends of the last decade need to be reversed. Greater focus on 'sunrise' products and investment in infrastructure related to trade and manufacturing will help ease constraints and support Kenya to achieve its industrialisation goals.

CLOSING REMARKS

DR CHRIS KIPTOO, PRINCIPAL SECRETARY, STATE DEPARTMENT OF TRADE

Chris Kiptoo, State Department of Trade

Dr Kiptoo began by thanking ODI for the study, positing that it is precisely the kind of analysis the EPC should be doing to understand where Kenya's opportunities to increase its exports lie.

Trade and investment relations between Kenya and the UK can, and should be, mutually beneficial. Overall, this trade relationship is well-balanced, but improvements can still be made. 'Sunrise' products, as identified in the ODI study, should be focused on, but additionally, Kenya must strengthen its skills and capacity to negotiate beneficial trade agreements.

As Kenya seeks to renew its export strategy, we will be working with both President Kenyatta and with the Bureau of Statistics, to discuss how we can strengthen and improve our collection of data on trade. Much needs to be done to improve our trade balance in both services and goods – the latter in which we have a significant deficit ($11bn).

Going forward, Kenya needs to seize existing opportunities such as AGOA, on which Kenya will be producing a new strategy. Improving competitiveness will also be a key focus.

Where we used to talk about the three 'I's: infrastructure, infrastructure and infrastructure. Now we have a new focus: implementation, implementation, implementation.

MEDIA LINKS

'Government urges exporters to rebrand products', KBC Channel, 20 July
'Kenya's share of UK market shrinks by 13.2 per cent', Mediamax Network, 20 July
'Kenya's UK export slack opens door to regional rivals', Citizen Digital, 20 July
'Rwanda, Ethiopia edge out Kenya in UK trade', The Star (Kenya), 21 July
'Kenya loses market share to Rwanda, Dar', Rwanda Today, 23 July (also printed in Business Daily Africa)
'Kenya losing her UK-market to neighbouring countries', Soko Directory, 23 July

'Kenya's export value to UK declining', Kenyan Citizen TV (via YouTube)
'Brexit offers Kenya an opportunity to negotiate beneficial trade deals', Business Daily Africa (via YouTube)

SET is an applied research and advisory programme at the ODI, funded by DFID. The programme's reports, dialogue sessions and events cover four dimensions of a country's experience in economic transformation: (i) what is happening? (ii) why is it happening? (iii) what should be done? and (iv) how to make it happen. For more information, visit set.odi.org*.*