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KENYA-UK TRADE AND INVESTMENT RELATIONS
TAKING STOCK AND PROMOTING EXPORTS TO THE UK



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Presentation at SET-EPC launch workshop
Nairobi, 20/7/2018

INTRODUCTION

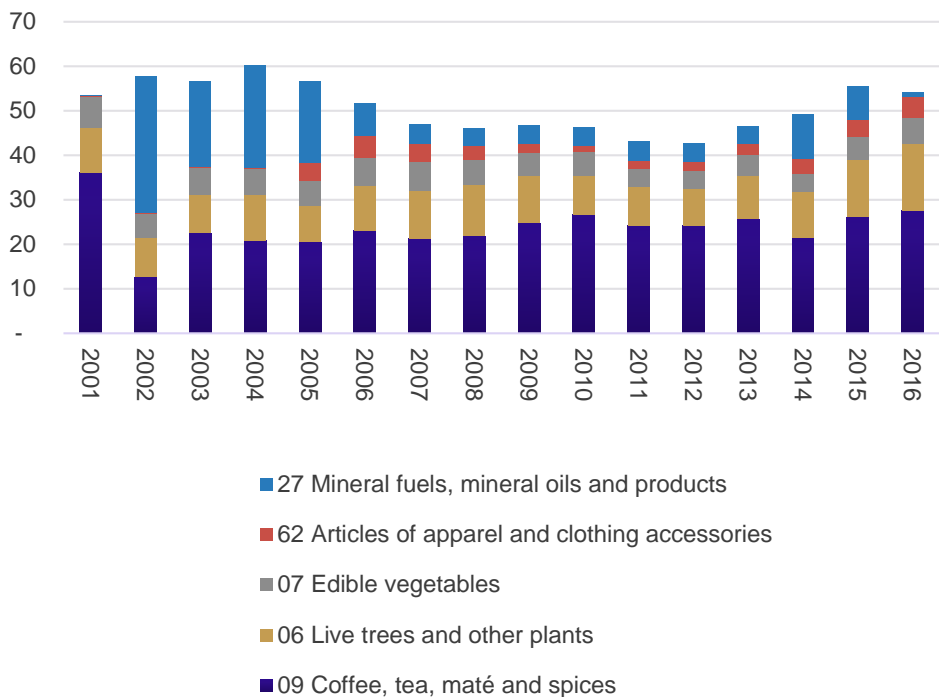
- ODI's Supporting Economic Transformation (SET) programme (funded by UK DFID) supports governments and private sector associations in their efforts to promote economic transformation
- Kenya: ODI/SET has worked with Vision 2030 (Services) in 2015, with KAM on manufacturing in 2016/2017, with EPC in 2017/2018 and with the Office of President (MSMEs/SEZs) in 2018, and on digitalisation in manufacturing
- Study with EPC: analysing and understanding trade and investment relationships between Kenya and the UK, to inform future policies, with a focus on trade
- Informed by detailed statistical analysis, selected firm interviews and policy engagements (paper with Aarti Krishnan & Anzetse Were and support from Peter Biwott and Paul Otung)

KEY FINDINGS

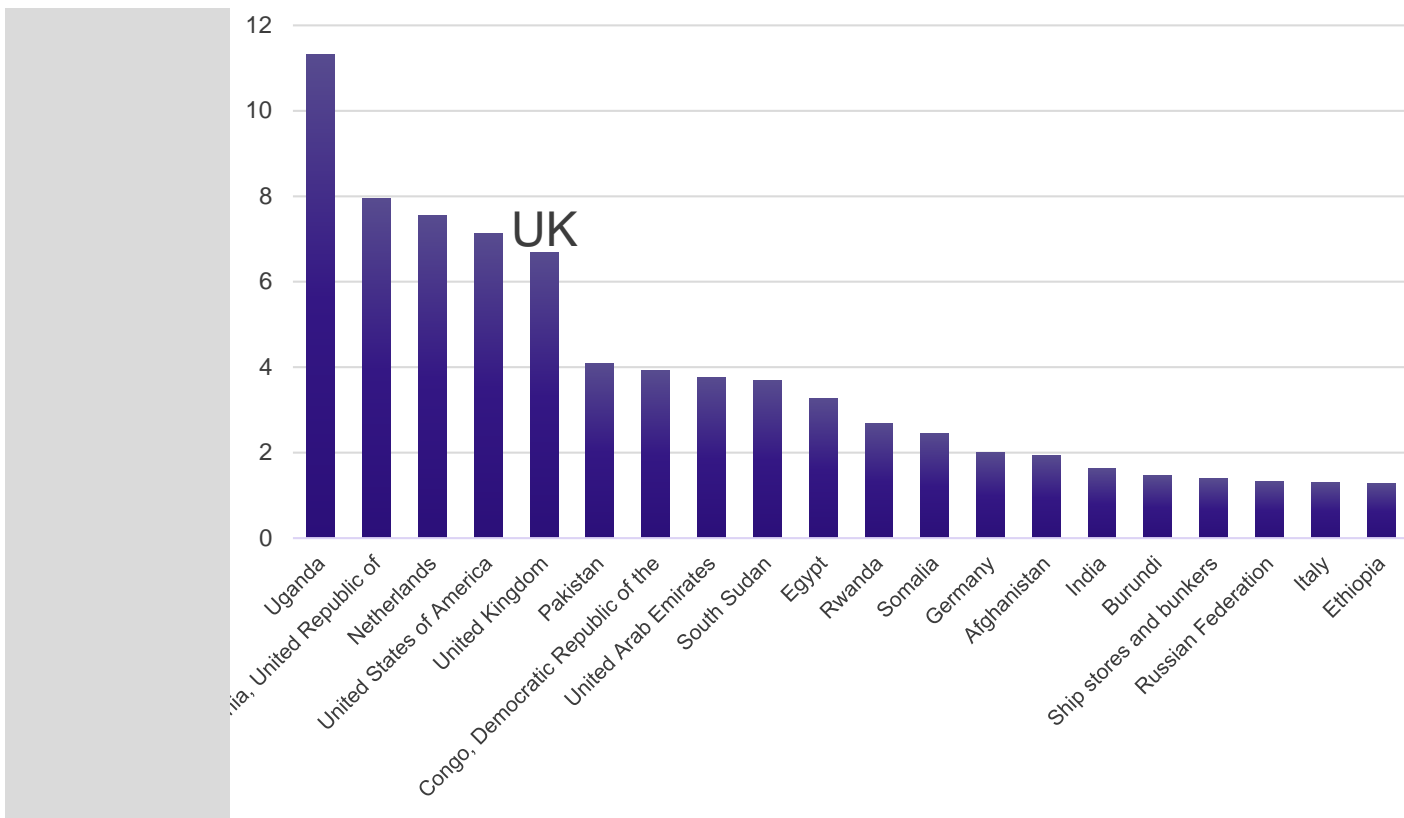
- Longstanding trade and investment linkages between Kenya and the UK
- UK is a key investor in Kenya, in sectors such as agro-processing, food and beverages, garments and financial services
- UK is 5th export destination for Kenya (2014), but value of exports to the UK, concentrated in few products, has declined 2008-2016, losing its competitiveness
- Kenya should add value to “Cash Cows” and diversify into “Sunrise” products
- Policies to support exports (to UK/generally) include:
 - Expand / maintain international market access, in UK/EU, US, Asia and regionally;
 - Develop trade infrastructure; and
 - Invest in inclusive economic zones to boost manufacturing.

KENYA'S GOODS EXPORTS STRUCTURE (BY PRODUCT / COUNTRY)

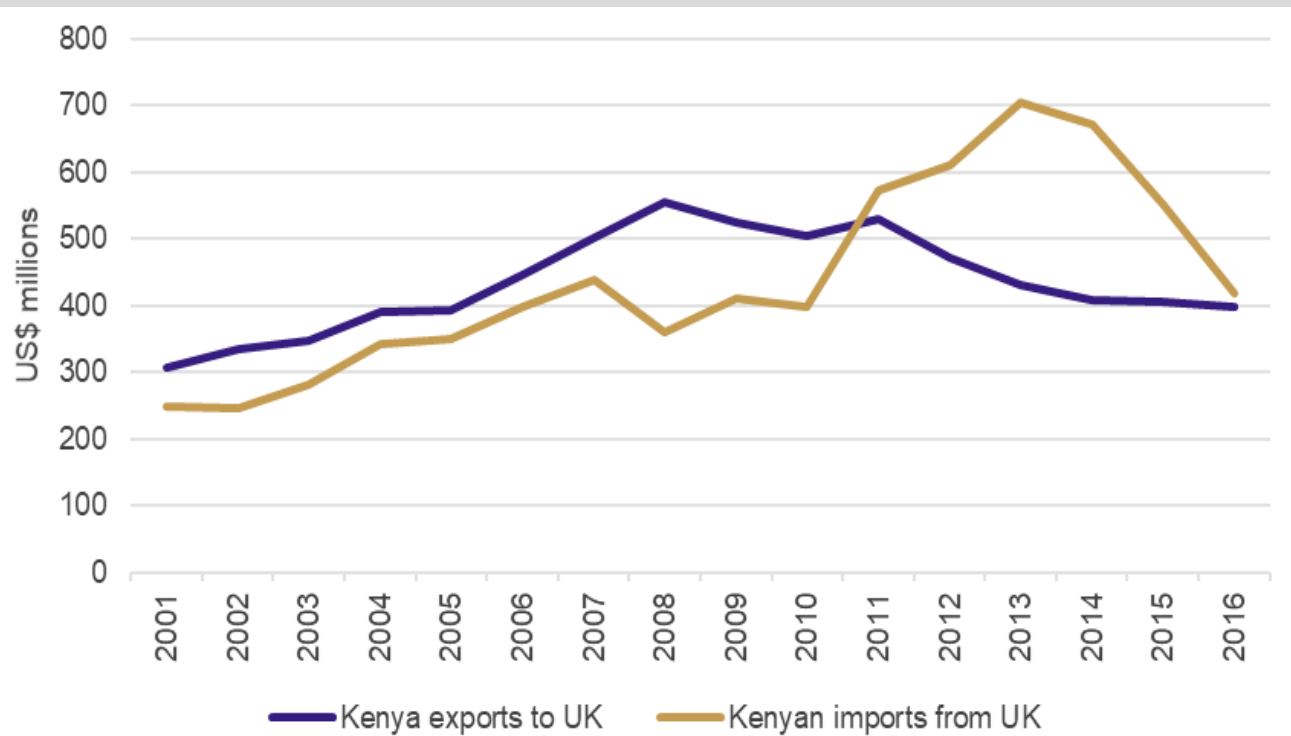
Share of top 5 exports represent 50%



UK is 5th export destination



KENYA-UK GOODS TRADE



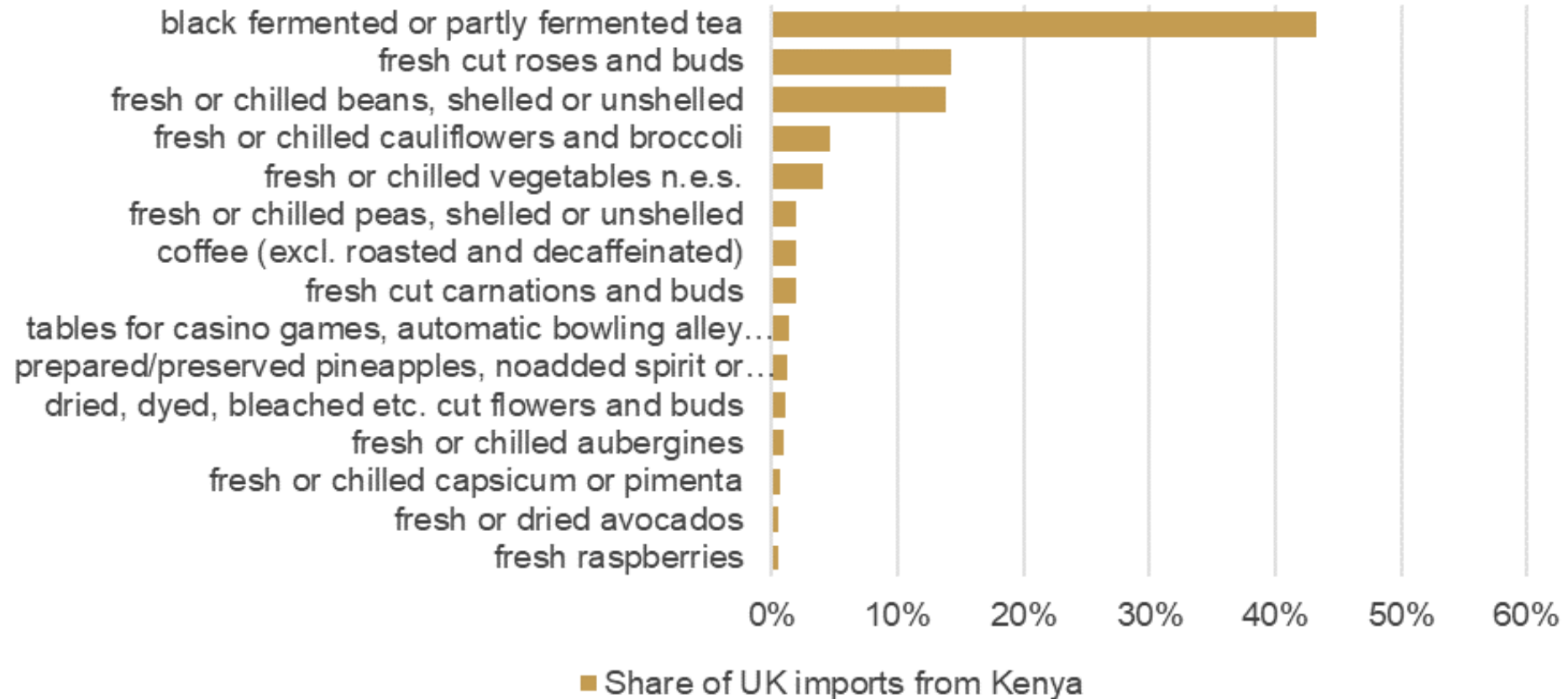
Source ITC

- ❑ Kenyan exports to the UK have decreased in value terms from \$550mn in 2008 to \$400mn in 2016
- ❑ Reasons: standards/regulations, competitiveness, exchange rate
- ❑ Share of the UK in Kenya's total exports fell from 16% in 2001 to 7% in 2016
- ❑ UK exports to Kenya has also declined since 2012

KENYA'S TOP 10 EXPORTS TO UK (90% IN 3 CATEGORIES)

HS Chapter	2001 (% of total exports to UK)	2014 (% of total exports to UK)	2014 (\$ million)	Change 2001– 2014 (%)
07 Edible vegetables and some roots and tubers	33.3	31.3	127.6	59.6
09 Coffee, tea, maté and spices	45.3	29.6	120.7	10.8
06 Live trees and other plants; bulbs and roots	12.7	26.3	107.3	251.0
08 Edible fruit and nuts; peel of citrus fruit or melons	0.3	2.9	12.1	1602.1
95 Toys, games and sports requisites; parts and accessories thereof	0.2	1.7	6.9	1722.3
20 Preparations of vegetables, fruit, nuts or other parts of plants	4.2	1.2	4.8	-52.0
27 Mineral fuels, mineral oils and products of their distillation	0.1	1.1	4.5	2826.0
24 Tobacco and manufactured tobacco substitutes	0.9	1.0	4.1	87.9
14 Vegetable plaiting materials; vegetable products	0.2	1.0	3.9	760.6
74 Copper and articles thereof	0.1	0.9	3.7	3305.5

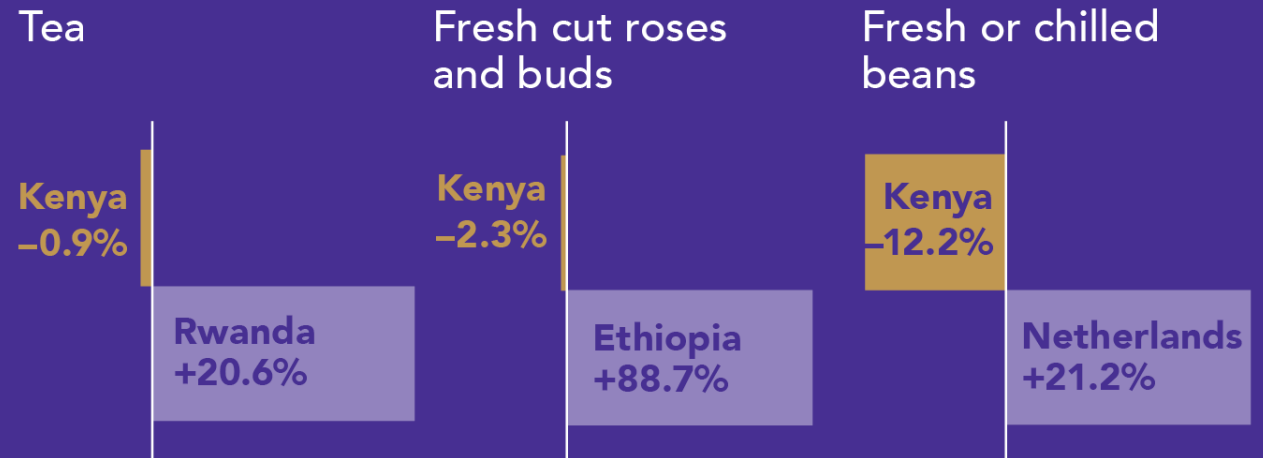
KENYA IS KEY SOURCE OF UK IMPORTS OF TEA, FLOWERS AND BEANS



KENYA-UK TRADE: CHALLENGES

Kenya is losing competitiveness.

Average annual change (%) in value of UK imports from Kenya and key competitors (2012–2016)



Read more: set.odi.org/uk-kenya-trade



IS KENYA SPECIALISED IN THE “RIGHT” PRODUCTS IN ITS EXPORTS TO THE UK

- We compute export specialisation value for each product
 - Ratio of the share of a product in a country’s total exports to the share of this product in imports to specific markets or partners. This means a country has an ES in a particular product if Kenya exports more than its ‘fair’ share to a specific market (the UK).
- We examine UK import trends in those products
- We then divide products into a 2*2 matrix
 - **Products where both Kenyan ES and UK demand is growing.**
 - Products where Kenyan ES is growing but UK demand is falling.
 - **Products where Kenyan ES is falling but UK demand is rising.**
 - Products where both Kenyan ES and UK demand are falling.

CATEGORISING KENYA'S EXPORTS: PRODUCTS TO WATCH

	UK demand strong	UK demand weak
Kenya's export specialisation up	<ul style="list-style-type: none"> • Black fermented tea and partly fermented tea • Fresh or chilled beans • Nuts, fresh or dried, • Live insects (excluding bees) • Pineapples, prepared or preserved • Crude fixed vegetable fats and oils, • Fresh or chilled aubergines ('eggplants') • Fresh or chilled cauliflowers and headed broccoli • Unrooted cuttings and slips (excluding vines) • Fresh tamarinds, cashew apples, lychees, jackfruit and sapodilla plums 	<ul style="list-style-type: none"> • Crude beeswax and other insect waxes • Greasy wool, including fleece-washed wool • Fruit stones and kernels, and other vegetable products • Live ornamental fish (excluding freshwater) • Waste and scrap of alloy steel • Motor vehicles for the transport of goods (engines) • Mixtures of guavas, mangoes, mangosteens, papaws 'papayas' and tamarind • Electronic instruments and appliances used in geodesy or topography
Kenya's export specialisation down	<ul style="list-style-type: none"> • Data-processing machines, automatic or digital • Parts of turbojets or turbo propellers • Machines, apparatus and mechanical appliances • Electrical machines and apparatus, • Data-processing machines, automatic and portable • Instruments and appliances used in medicine • Parts of electric sound or visual signalling equipment • Wooden furniture • Men's or boys' trousers and breeches of cotton denim 	<ul style="list-style-type: none"> • Parts of aeroplanes or helicopters • Banknotes • Instruments and appliances for aeronautical or space navigation • Statuettes and other ornaments • Fresh or chilled courgettes • Parts and accessories of printers, copying machines and facsimile machines • Parts of machines and mechanical appliances with individual functions • Fresh cut chrysanthemums and buds • Parts and accessories for machine tools for working metal

CATEGORISING PRIORITY PRODUCTS FOR EXPORTS TO THE UK?

- **Sunrise** are products with relatively new (exported post 2007), relatively high stability and export specialisation with high UK demand. Sunrise products promising for maintaining competitiveness of Kenyan products in UK.
- **Cash cows** are older products that Kenya has been exporting to the UK (since 2001). These have high stability and ES scores compared to other products, and critical for Kenya's long-term competitive advantage.
- **'Intermittent'** contains products that are volatile, whose sale is more sporadic, with low ES and low stability even though they are new. Kenya should approach exports of these products with caution.
- **'Laggards'** represents old products with low stability and ES indices, such as those without long-term potential and that we believe have 'run their course'

CATEGORIES OF KENYA'S EXPORT PRODUCTS TO UK

Sunrise

Vegetable dyes

Leather shoes and accessories

Cotton T-shirts, boys trousers

Light manufacturing of small mechanical apparatus

Cash cow

Tea and coffee

Flowers (roses)

Fresh vegetables

Fresh fruit

Intermittent

Women's aprons/ clothing

ICT hard - infrastructure parts

Parts small apparatus

Worked semi-precious stones

Laggards

Footwear soles

Linen, kitchen and bathroom

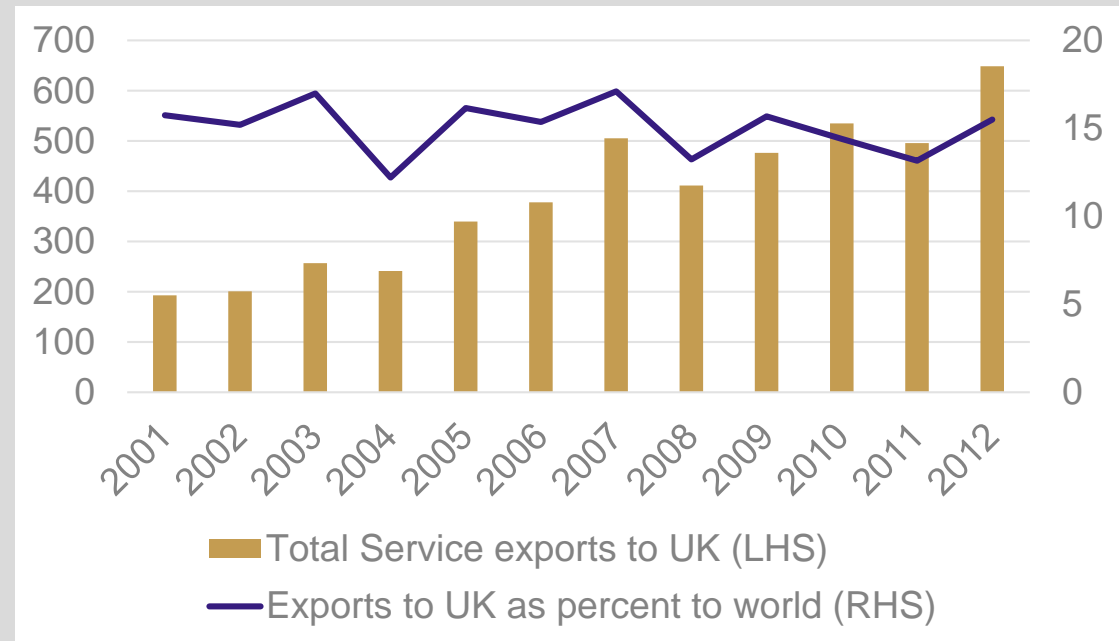
Prepared food cereals

Printed items – books

EXPORTS OF SERVICES: KENYA-UK

- **Service exports to the UK increased 3.6 times in value terms between 2001 and 2012.**
- Transportation / travel services 86% of services to the UK, followed by insurance and then financial and government services.
- Growth in financial and insurance services, software, and hardware ICT faster than transportation and travel.
- Data issues: much remains unmeasured

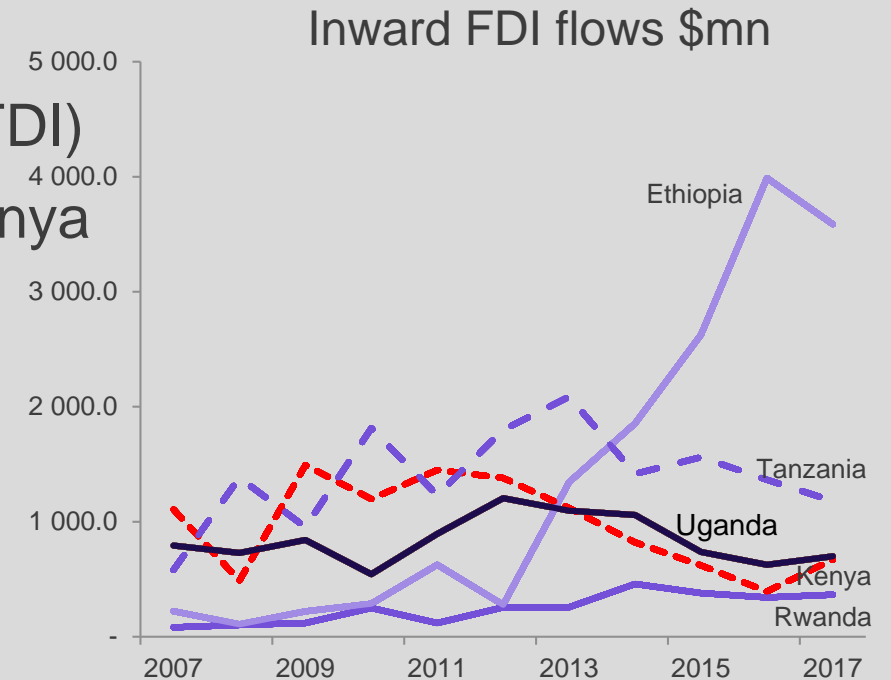
Kenyan exports of services (and UK share in total Kenyan exports)



Source: EBOPS – OECD/WTO

INWARD FDI (INCL. FROM UK)

- Inward FDI to Kenya increasing in 2017
- But much lower than eg Ethiopia (e.g. garments FDI)
- UK responsible for 40% of inward FDI flows in Kenya
- Major UK companies providing jobs and taxes in
 - Financial services
 - Agro-processing / agricultural
 - Manufacturing (e.g. garments, beverages)

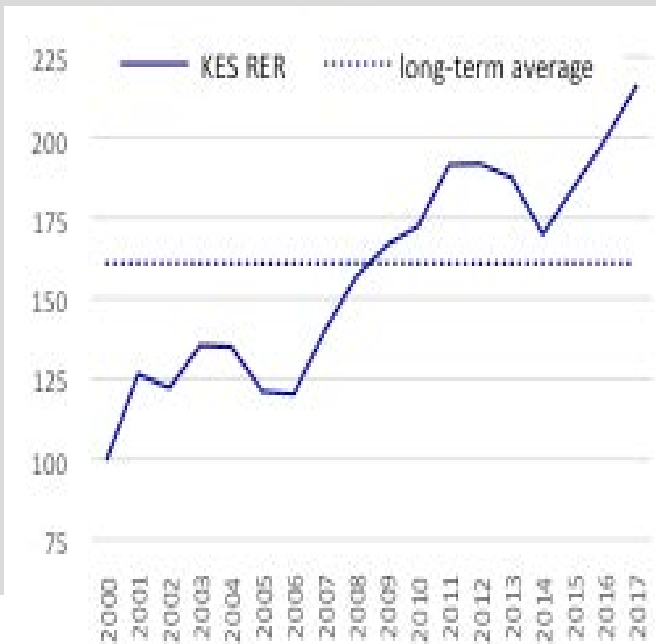


Source: UNCTAD

POLICY CONSTRAINTS CONSTRAINING KENYAN EXPORTS

- Investment climate issues
 - **Regulatory environment** improving, but challenges remain (tax, custom procedures, work permits, land acquisition),
 - **Infrastructure**. Transport and ICT infrastructure improving, but energy still relatively costly
 - Access to **finance** improving, but SMEs / manufacturing firms underserved.
 - Security, **counterfeiting**, piracy, corruption undermine manufacturers
 - Poor **management of firms**, old technology and weak firm linkages
- Trade related issues
 - **Tariffs** and other trade negotiation issues remain important for Kenya (AGOA, CFTA, Brexit)
 - Addressing **standards** / non-tariff barriers crucial
 - **Logistics** and storage (including blockchain relating to traceability)
- Monitor appreciation in real effective exchange rate

Shilling Real Effective Exchange Rate



TOWARDS SOLUTIONS TO INCREASE KENYAN EXPORTS (INCLUDING TO THE UK):

- Diversify and add more value
- Focus on three policy areas
 - trade negotiations
 - developing trade infrastructure,
 - leveraging economic zones / Big Four agenda

KENYA-UK TRADE: SOLUTIONS

Kenya should diversify its offer to the UK.

'Sunrise' products: Kenya's opportunity to increase value capture



Read more: set.odi.org/uk-kenya-trade

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POLICIES TO PROMOTE EXPORTS (INCLUDING TO THE UK)

(1) *TRADE NEGOTIATIONS*

- Maintain access in the UK / EU (post-Brexit)
- Keep AGOA access in the US (2026 and after?)
- African Continental Free Trade Area / EAC negotiations, access to Asia

POLICIES TO PROMOTE EXPORTS (INCLUDING TO THE UK)

(2) *DEVELOPING TRADE INFRASTRUCTURE*

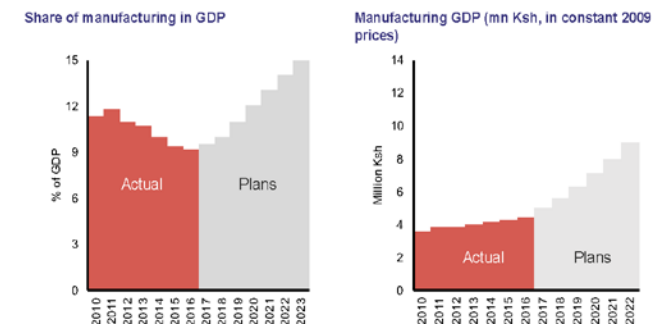
- Investment in infrastructure to address standards, especially those linked to SPS requirements and other food, labour and sustainability standards, and to improve quality and re-brand / re-market products.
- Invest in logistics and storage infrastructure (rail carriages, cold storage vehicles and high-quality warehouses)

POLICIES TO PROMOTE EXPORTS (INCLUDING TO THE UK)

(3) *INVESTING IN ECONOMIC ZONES / INDUSTRIAL PARKS AND LEVERAGING THE BIG FOUR AGENDA*

- Big Four agenda of the Presidency includes a focus on manufacturing
- Building special economic zones/ industrial parks/ export processing zones can be effective tools for exports, industrialisation, and economic transformation (especially if they link well to the local economy)
- Developing such zones/parks can overcome some of the domestic and international market access issues and can facilitate exports and promote industrialisation in a targeted / co-ordinated way.
- Promising sectors for UK exports (leather shoes, garments) overlap with Kenya's priority sectors.
- Now is the time to industrialise, but window closing

Figure 1: Setting ambitious plans to kick-start manufacturing production



Source: Kenya Economic Survey, Kenya National Bureau of Statistics:
http://www.knbs.or.ke/index.php?option=com_phocadownload&view=category&id=107

Note: Planned increases from 2017 onwards.

CONCLUSIONS

- Trade and investment relationships between Kenya and the UK are long-standing, but they are also changing
- Export values of Kenya to the UK have fallen since 2008; this needs to be reversed (in addition to increasing exports elsewhere)
- Kenya needs to diversify into sunrise products and add more value. It can do this by
 - Continuing to focus on trade negotiations
 - Investing in trade infrastructure
 - Pursue the big four agenda and build inclusive economic zones (with supportive ecosystems) to support garments and leather sectors

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The Supporting Economic Transformation (SET) is an ODI programme funded by DFID UK to support countries in their quest for economic transformation through data and policy analysis and convening. The views expressed are those of the researchers and do not necessarily represent the views of ODI or DFID.

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SUNRISE CASE STUDY: LEATHER TO THE UK

- The UK has a very large market for leather-finished products with imports in 2016 standing at about \$3,500 million
- Kenya can potentially get a large share!
- But policies need to be right

	2006–2011	2012–2016
Products exported	90% processed 10% raw	98% processed 2% raw
Hides and skins		
- Production of hides and skin (million pieces)	8.25	8.65
- Processed leather (million sqf)	75 hides 65 skins	90 hides 70 skins
- Key markets: hides and skin	International - 80% Local - 20% Major markets: India, Pakistan, China	International - 75% Local - 25% Major markets: India, Pakistan, China
Tanning		
- Number of Tanneries (in operation)	13	15 – 16
- Key markets for wet blue, crust and finished	International (93%) and local (7%) Major markets: China	International (90%) Local (10%) Major markets: Pakistan, China
Footwear		
- Number of footwear factories (in operation)	14	15-15
- Footwear production (million pairs)	1.9	2.4
- Key markets	Local - 100% Major markets - local population	Local - 98% International - 2% major markets - Local population, minimal to China and Europe
Leather goods		
- Leather good units (in operation)	47	200
- Cottage units (in operation)	24	>30
- Key markets	Local 100% Major markets – tourist	Local 100% Major markets – tourist
Total Earnings from leather and accessories (\$, million)	69	140
Total Employment in leather and accessories	16740	22000