SET SUPPORTING ECONOMIC TRANSFORMATION

epc Inspiring Global Trade

BRIEFING PAPER

UK-Kenya trade and investment relations

Aarti Krishnan, Anzetse Were and Dirk Willem te Velde

July 2018

Key messages

- Kenya's share of exports to the UK is declining. Kenya is facing competition from Rwanda, Ethiopia, Tanzania and Cote D'Ivoire among others, due to wages, marketing systems and standards compliance.
- Detailed trade analysis can help to prioritise export products from Kenya to the UK into 'sunrise' (such as leather shoes and t-shirts), 'cash cow' (tea, coffee, flowers, fresh fruit and vegetables), and other products.
- Continued attention to improving international market access to firms in UK, EU, US, Asia, investing in trade-related infrastructure, and strengthening domestic policies in relation to development of economic zones, can improve Kenya's investment climate and export performance.

Introduction

This briefing discusses the current state of trade patterns and investment flows between the UK and Kenya, develops tools to help identify key products and promising sectors for export, and proposes a selected range of policy measures to support these sectors and to increase trade and business linkages between Kenya and the UK. It has been drafted jointly with the Kenyan Export Promotion Council (EPC) in support of the national export development and promotion strategy for Kenya 2017-2022.

Kenya-UK trade and investment relations

There are established trade and investment relationships between Kenya and the UK. High value horticulture (which includes fresh vegetables, flowers and fruit) and beverages (coffee and tea) are responsible for 90% of total Kenyan exports to the UK. However, the UK's share in Kenyan exports fell from 16% in 2001 to 7% by 2014, as vegetables and flowers lost competitiveness to countries such as Rwanda and Ethiopia.

Kenya has a small share in the stock of UK foreign direct investment (FDI) to Africa, which itself is only 2% of the total UK FDI stock (2015). Conversely, when looking at Kenya's inward flows of FDI, the UK is a major source, contributing 40% of Kenya's total FDI inward flows (2012).

Prioritising products for export to the UK

Using detailed trade statistics, we categorise export products from Kenya to the UK (Table 1). This categorisation can help the Kenyan government to prioritise support for products and sectors. It takes into account the revealed comparative advantage (or export specialisation (ES)) and the newness of products as well as possibility of generating stable export revenues.

Table 1: Kenya's export products to the UK

Sunrise ***(relatively stable products with high export specialisation, emerging after 2007)***	**Cash cow** ***(relatively stable products with high export specialisation, "old" products)***
Vegetable dyes Leather accessories T-shirts and synthetic fibres boys clothing Light manufacturing of small mechanical apparatus	Tea and coffee Flowers (roses) Fresh vegetables Fresh fruit
Intermittent ***(unstable products with low export specialisation, emerging after 2007)***	**Laggard** ***(unstable products with low export specialisation, "old" products)***
Women's aprons/ clothing ICT hard infrastructure parts Parts small apparatus Worked semi-precious stones	Footwear soles Linen, kitchen and bathroom Prepared food cereals Printed items – books

Competitor analysis

We analyse the competitiveness of Kenya in the UK by comparing the shares of all countries selling Kenyan 'cash cow' products to the UK. The top 20 products were responsible for an average of 86% of total export earnings for Kenya in the UK between 2006-2016. This lack of diversification has reduced Kenya's export competitiveness, and given rise to significant competition from other African countries (Rwanda, Ethiopia, Tanzania and Cote D'Ivoire), all gradually eating into Kenya's market share in the UK. These countries compete on wages (in the case of Ethiopia), better marketing systems (Fairtrade coffee in Cote D'Ivoire). In some cases, Kenya is unable to comply with EU maximum residue limit requirements e.g. in beans).

Table 2: Kenyan's top 10 exports to the UK (% of total)

Kenya's top product exports	Avg. annual change (%) in value of UK imports from Kenya (2012–16)	Fastest growing: change in value of UK imports from Kenya's competitor (2012–16)
Black fermented tea	-0.9%	Rwanda (20.6%)
Fresh cut roses and buds	-2.3%	Ethiopia (88.7%)
Fresh or chilled beans	-12.2%	Netherlands (22.9%) Tanzania (17%)
Fresh or chilled vegetables	-5.4%	Honduras (95.5%)
Fresh or chilled peas	-8.7%	Zimbabwe (28.1%)
Coffee	-7.8%	Côte d'Ivoire (360.8%)
Fresh cut carnations and buds	-16.6%	Turkey (31.8%)
Pineapples, prepared or preserved	45.7%	Germany (213%)
Dried, dyed, bleached, impregnated cut flowers and buds	-17.3%	Colombia (18%)
Tables for casino games and automatic bowling alley equipment	32.9%	USA (12.7%)

Source and note: Derived from ITC Trademap data. Top 10 products responsible for 89% of Kenyan exports to the UK.

Policy recommendations to increase Kenyan exports

International and domestic policies can improve Kenya's investment climate and export performance:

1. **Expanding international market access should remain a key focus** of Kenya's trade policy. Internationally, unilateral trade preferences and other trade initiatives allow for international market access (e.g. through the African Growth and Opportunity Act (AGOA) with the US or Economic Partnership Agreements with the EU). However, these can be insecure or incomplete. AGOA might expire in 2026 and the UK is discussing a rollover of a deal with Kenya after Brexit. Access to regional markets is incomplete; the African Continental Free Trade Area still needs ratification by African member states. Global market access, especially in the EU, is constrained by rules of origin.
2. **Complementary policies are crucial**. Trade policies have much greater effect when complemented by other factors. Infrastructure can overcome non-tariff barriers, especially those linked to SPS requirements and other food, labour and sustainability standards. Re-branding Kenyan products can increase value-addition. Investment in logistic and storage infrastructure (e.g. more rail carriages, cold storage vehicles and high-quality warehouses) can support more containers for transport within the country to port areas and airports for export.
3. **Invest in economic zones and industrial parks.** If Kenya is to build on promising sectors and its recent policy emphasis on manufacturing (e.g. the Presidency's Big Four agenda), it will need to invest more in special economic zones (SEZs) and industrial parks, including for leather and textiles. Developing zones can help overcome some of the domestic and international market-access issues and will facilitate exports and promote industrialisation in a targeted way.

Other recommended policies in the analysis include: improving backward linkages by using more inputs such as seeds, cotton and pesticides, reducing the cost of electricity in Kenya and improving access to finance for manufacturers.

References

Krishnan, A., Were, A. and te Velde, D.W. (2018) *UK-Kenya trade and investment relations: taking stock and promoting Kenyan exports to the UK.* SET report. London: Overseas Development Institute.

ODI would like to thank the Export Promotion Council and KenInvest, in particular Peter Biwott and Moses Ikiara, for their invaluable support of this work.

UKaid
from the British people