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Econometric Study On The Kenya-U.S. Free Trade Agreement

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ABBREVIATIONS

AfCFTA	African Continental Free Trade Area
AGOA	African Growth Opportunity Act
AU	African Union
CET	Common External Tariff
COMESA	Common Market for Eastern and Southern Africa
EAC	East African Community
FDI	Foreign Direct Investment
FSS	Financial Sector Services
FTA	Free Trade Agreement
GATS	General Agreement of Trade in Services
GATT	General Agreement on Trade and Tariffs
GDP	Gross Domestic Product
GOK	Government of Kenya
GSP	Generalized System of Preferences
HS	Harmonised System
ITC	International Trade Centre
MFN	Most Favoured Nation
MSMEs	Micro Small and Medium Enterprises
MTP	Medium Term Plan
PPP	Public Private Partnership
REC	Regional Economic Communities
SADC	Southern Africa Development Corporation
SAM	Social Accounting Matrix
TFTA	Tripartite Free Trade Agreement
US	United States
USD	United States Dollar
USMCA	United States Mexico Canada Agreement
WDI	World Development Indicators
WTO	World Trade Organization

EXECUTIVE SUMMARY

This study sought to respond to the Kenya Government's initiative for joint negotiations with the United States (U.S.) on a Free trade agreement (FTA), by undertaking and econometric study to guide the proposed FTA negotiations between Kenya and the U.S.The study will assist the Kenya Government in all aspects of the issues under negotiations. The document also endeavours as much as possible to respond to all issues tabled by the U.S. Kenya- US FTA Negotiations.

The Kenya-U.S. FTA commenced in June 2020 and both parties released their negotiations objectives. The U.S. produced the "United States-Kenya Negotiations: Summary of Specific Negotiating Objectives" while Kenya released "Proposed Kenya – United States of America Free Trade Area Agreement: Negotiation Principles, Objectives and Scope". Both parties have set out to negotiate a full FTA, which is reciprocal in nature. Kenya's trade, under current arrangement with U.S., indicates that only 373 out of 6,883 tariff lines were in use in 2019. In 2018, the number was much lower, 296 out of 6,883 tariff lines were in use. These tariff lines had trade volume ranging from USD 1- 68,000 thousand. Furthermore, Kenya had a negative trade balance with the US, in 2019; this was valued at USD -82,000. Kenya largely exports textiles, clothing, fruits and vegetables to the US, while the US is exporting high valued manufactured products to Kenya.

Empirical evidence shows that when the U.S. Gross Domestic Product (GDP) and market size grows, Kenya's exports to the US will increase. With this evidence, Kenya should not negotiate an FTA with the U.S. Secondly, the U.S. economy is 290 times bigger than that of Kenya; negotiating a reciprocal FTA with Most Favored Nation (MFN) and national treatment (NT) clauses is risky, since Kenya does not have the ability to compete with such a large market. The Kenya Government should improve the challenges associated with the uptake of the African Growth and Opportunity Act (AGOA) preferences and the minimal use of most tariff lines.

Development Priorities

Kenya's economic priorities are well articulated in the economic blueprint "Kenya Vision 2030: A global Competitive and Prosperous Kenya". This is being implemented under the five-year rolling medium term plan, (MTP) the current one is the MTP III 2018-2022. Vision 2030 and the MTP III 2018-2022 provide detailed priorities and flagship projects that the country needs to implement in order to achieve its development objectives. Any policy that the Government of Kenya (GOK) embarks upon should be supportive of Vision 2030 and add value to the strategies presented in the medium term plan MTP III 2018-2022.

The Economic pillar of MTP III has set out several objectives that are likely to be affected by the US-Kenya FTA negotiations.

1. Agriculture value addition initiatives in the MTP III 2018-2022 seek to raise incomes in agriculture, livestock and fisheries. Some of the initiatives that will raise agricultural value addition include: improved access, affordability, and suitability of fertilizers; adoption of new technologies in agricultural mechanization, improving dairy value chains, creation of sustainable self-employment for the women and youth in agricultural sector and agricultural insurance to manage post-harvest losses. Some of the target sectors include livestock, fish, poultry and piggery. Opening up the agricultural and livestock sector to competition from products in the US, which are more advanced will hamper the agricultural value addition initiatives already taking place, and more so the development of the livestock sector, which has so much potential.

2. The manufacturing sector is expected to facilitate an economic growth rate of 10% and further support the creation of jobs, the generation of foreign exchange, and attract foreign direct investment (GOK, 2007). GOK expects to achieve these initiatives through: increasing investments in the textile and apparel industries as well as the manufacture of leather and leather products. Value addition in the following sectors: agricultural, fisheries and livestock. The targeted products include: tea, coffee, nuts, legumes, cereals, fruits, vegetables, roots and tubers, animal feeds, dairy and meat; expand Kenya's competitiveness through development of special economic zones and formalization of Micro Small and Medium Enterprises (MSMEs) in the informal sectors. The manufacturing sector grew by 3.2% in 2019, and contributes 7.5% to GDP. The Kenya Vision 2030 requires a 10% sustained growth of manufacturing up to 2030, in order for the country to achieve an industrialized country status. Opening up the manufacturing market to competition from the US manufactured products will not help in achieving the vision.

3. Services sectors seek to develop the following key sectors: wholesale and retail trade, financial services and business process offshoring. In the wholesale and retail sector, the government seeks to move towards greater efficiency in the country's marketing system by lowering transaction costs through the development of retail and wholesale hubs and legal and institutional framework for a national commodities exchange. The government also seeks to make Kenya a business process outsourcing (BPO) hub by developing the ICT sector that will attract youth employment. (GOK, 2007). A key project is the Konza Technopolis, which is a smart sustainable city and an innovation ecosystem that is expected to contribute to Kenya's knowledge-based economy. The Financial Services Sector (FSS) is critical for the achievement of the 10% annual GDP growth rate, jobs and mobilize savings to finance Kenya's investment needs. This will be done through institutional reforms and development of digital financing plus strengthening capital markets authority operations. Such initiative will necessitate protection of the services sector, in order to incubate it for external competition, when the sector is well developed. If signed, he Kenya-U.S. FTA opens the service sector to aggressive and unsustainable competition.

Kenya's Regional Trade Performance

A summary of Kenya's top trading commodities with partners and RECs is presented as follows:

1. Kenya's exports to the East African Community (EAC), Common Market for Eastern and Southern Africa (COMESA) vis-à-vis Africa have been much higher than imports, resulting in a positive balance of trade, for the period 2005 to 2019. However, Kenya's average annual growth rate for exports was 2%, while import growth rate averaged 18%.

2. For COMESA, the average growth rate for exports was 1.3%, while imports from COMESA on the other hand have been gradually increasing and averaged 13% between 2005-2019. For the African Continental Free Trade Area (AfCFTA), the average export growth rate was 2% while imports grew by 7%.

3. Kenya largely exports more manufactured products to the EAC, COMESA, Tripartite Free Trade Area (TFTA) and AfCFTA than agricultural commodities. Secondly, the exports to the various trading blocs as a percentage of Kenya's total exports range from 21%-38%. In the EAC, COMESA, AfCFTA and TFTA there is increased trade in both raw materials and intermediate goods among African countries. . These exports are a reflection of Kenya's priority by taking advantage of the potential to manufacture or assemble machineries given her strategic location in the EAC and COMESA as stated in the MTP III 2018-2022. Furthermore, the increased exports in steel and iron resulted in the efforts to support import substitution in the industry as

outlined in MTP III 2018-2022.This has been done through a project where the Numerical Machine Complex (NMC) has been identified as the focal point for promoting the development of iron and steel industry. Manufacturing increases regional trade and consequently increasing the value of trade compared to trade in raw materials.

Summary of Kenya's Trade Partner/Country Top Commodities

Partner/Country	Top 5 Imports	Top 5 Exports	…As a proportion in Kenya's Trade with World
EAC	1) Dairy produce (HS04) 2) Wood and articles of wood (HS44) 3) Cereals (HS10) 4) Tobacco (HS24) 5) Sugars and sugar confectionery (HS17)	1.Animal /vegetable fats and oils (HS15) 2.Iron and steel (HS72) 3.Soap, organic surface-active agents (HS34) 4.Plastics and articles (HS39) 5.Vehicles (HS87)	Exports – 21.4% Imports – 3.6%
COMESA	1. Sugars and sugar confectionery (HS17) 2. Dairy produce (HS04) 3. Essential oils and resinoids; (HS33) 4. Wood and articles of wood (HS44) 5. Mineral fuels (HS27)	1.Coffee, tea (HS09) 2.Animal /vegetable fats and oils (HS15) 3.Iron and steel (HS72) 4.Plastics and articles (HS39) 5.Pharmaceutical products (HS30)	Exports – 24.4% Imports – 6.6%
US	1. Machinery, mechanical appliances, (HS84) 2. Aircraft, spacecraft, and parts (HS88) 3. Electrical machinery and equipment (HS85) 4. Plastics and articles (HS39) 5. Cereals (HS10)	1. Articles of apparel and clothing (62) 2. Articles of apparel and clothing accessories (61) 3. Ores, slag and ash (26) 4. Edible fruit and nuts; (08) 5. Coffee, tea, (09)	Exports - 8.7% Imports - 3.4%
AfCFTA	1. Coffee, tea, (09) 2. Iron and steel (HS72) 3. Animal /vegetable fats and oils (HS15) 4. Machinery, mechanical appliances, (HS84) 5. Pharmaceutical products (HS30)	1. Iron and steel (HS72) 2. Sugars and sugar confectionery (HS17) 3. Mineral fuels, (HS27) 4. Dairy produce; (HS04) 5. Cereals (HS10)	Exports – 37.5% Imports – 12.7%

TFTA	1. Iron and steel (HS72) 2. Sugars and sugar confectionery (HS72) 3. Mineral fuels, mineral oils (HS27) 4. Dairy produce (HS04) 5. Cereals (HS10)	1. Coffee, tea, (HS09) 2. Iron and steel (HS72) 3. Animal /vegetable fats and oils (HS15) 4. Plastics and articles (HS39) 5. Machinery, mechanical appliances, (HS84)	Exports – 34.2% Imports – 12.5%

Kenya's imports from the U.S. have been growing at an annual average rate of 6%, while exports grew at an annual rate of 0.3%. Kenya's export to the U.S. account for 9% of the Kenya's total exports to the world. Kenya's imports from the U.S. are largely skewed towards manufactured products, which are likely to hinder the development of the manufacturing sector in the country. The exports of agricultural commodities such as coffee and tea that is unprocessed to the U.S. will not help improve the goal of agricultural value addition for commodities such as tea and coffee.

Bilateral Investment Trends with the US

Kenya's Foreign Direct Investment (FDI) inflows from the U.S. are sporadic, with years when both inflows and outflows are negative. Comparing Kenya to Morocco, Morocco has much higher FDI inflows from the United States. This implies that for there to be increased FDI inflows to Kenya, the government must attract investment through initiatives that reduce the cost of doing business and increasing profitability as well as transparency and elimination of corruption. Empirical evidence further shows that a 1% increase in total FDI inflows to Kenya will result in the country's exports to the US decreasing by 0.1%. This implies that with increased FDI, Kenya is likely to diversify its exports to other destinations or increase its domestic consumption.

Political Economy Implications of Regional Trade Agreements

Only 39% of African countries enter into FTAs for economic reasons. The other 61% enter into agreements for political, geographic, cultural and/or historic reasons. The AfCFTA does not explicitly discourage entering into agreement for political reasons, the agreement allows member countries to enter into agreements with third parties as long as they accord all other members of the AfCFTA similar or better treatment that is accorded to the third party. This clause seems to be a deterrent from entering agreements for political reasons, since reduction of tariffs has negative implications on total national revenues. At the regional level, the new AfCFTA Secretary General H.E W. K. Mene, equally reiterates that for political expediency, countries are discouraged from signing other agreements before the conclusion of the AfCFTA in order to achieve the political objective of integrating and consolidating the African market first.

The EAC has 1.2% of tariff lines defined as sensitive. These tariff lines are meant to protect the partner states from subsidized export (mainly agricultural products from industrial countries) and second-hand items from import competition. However, empirical evidence shows that protection given to the list of sensitive products since 2005 has not been effective in achieving the intended goals, since the imports of the same products from outside the region had increased, thus creating a huge negative trade balance. The arguments for protection in order to develop the sectors are weak and in most cases remain a tool for political expediency. The high tariffs imposed in the sensitive list of products have not helped in developing the strategic sectors.

Econometric and Multiplier Analysis

In general, the results show that if GDP of partners' GDP (EAC/U.S./AfCFTA/COMESA/TFTA) economies goes up, Kenya's exports to these economies go down. Increased national incomes implies that the country has a higher marginal propensity to import, however, the inverse relationship with Kenya's trade implies that Kenya does not have an enhanced product diversification and quality framework to deliver quality good to meet the needs of the export market. Therefore, when incomes increase these countries buy goods from other destinations. At the same time, a 1% increase in Kenya's GDP (economy size) will result in a 0.12% decline in Kenya's trade export with these economic blocs.

The disaggregated analysis for the U.S. shows that an increase in the US population (market size) by 1% will result in Kenya's export increasing by 16%. With a U.S. average annual population growth rate of 0.5%, by 2030, Kenya's export would almost double without the existence of any U.S. FTA. This means that Kenya does not need to negotiate an FTA with the US since there is a guaranteed market. Secondly, GDP increase by 1% in the U.S.will lead to Kenya's export increasing by 0.8%, implying that by 2030, Kenya's exports to the US will almost triple based on U.S. cumulative GDP growth. In order for Kenya to take advantage of the guaranteed market, country's focus should be on developing the textile and clothing sectors in order to take full advantage of the existing export market in the U.S. This will require a well-developed industrial development policy plus strategy for improving the quality of value-added products and also diversifying the products exported to the U.S. market. A caveat is that the gravity model used here is based on historic data and existing trade arrangements.

Kenya's development priorities should focus on sectors with increased output, employment, and income multipliers. In the agricultural sector: the following crops have potential for greater returns since all the three multipliers are high: cereals, roots & tubers, pulses and oil seeds, fruits, vegetables, sugarcane, coffee, tea and tobacco. The following livestock have potential for improving in output, employment and value added (i.e. incomes): beef; dairy; poultry; sheep/goat; other livestock and fishing. Investing in these sectors is likely to result in economic growth that creates job opportunities and higher incomes in Kenya. The U.S. FTA is unlikely to promote the development of Kenyan Small and Medium Enterprises (SMEs) in these sectors, since U.S. companies are likely to set up in these sectors on order to meet the market demand, which will be at the expense of Kenyan SMEs. Manufacturing has a much lower potential for increasing multiplier and backward linkages. However, meat (i.e. processed beef products), milling, beverage/tobacco have higher output. Even though the output is generally low sectors such as beverage / tobacco, grain milling and sugar bakeries have potential to create more employment opportunities.

POLICY RECOMMENDATIONS

1. Any FTA, including the Kenya-US FTA should be motivated by economic considerations that ensure there are tangible economic gains for the nation.
2. The government of Kenya should not take part in a Kenya-USFTA negotiations agenda, which includes issues not resolved at the WTO such as digital trade, e-commerce, state owned enterprises competition policy, and fisheries subsidies.
3. The AGOA utilization rate has been very low with just 0.05% of tariff lines being utilized; negotiating a new FTA will not solve the challenges associated with the low utilization rate. The focus should be on how to improve the utilization rate to a higher level.

4. Consider alternatives for reducing the scope of negotiations. The main commodities exported to the US from Kenya are clothing and textiles. With the market opportunities arising from the US population and GDP growth, the GOK should focus on phased negotiations with the US in order to take advantage of the clothing and textile export demand, for these products (HS 62 and 63), so that an agreement could be reached by 2024 at the earliest.

5. Increase trade relationships with other markets, in particular in Africa. The RECs such as EAC, COMESA and the AfCFTA provide an opportunity for Kenya to produce and export manufactured products and also have positive trade balance with Kenya. The GOK should give priority to RECs that promote exportation of value added products in order to promote industrial development.

6. GOK should develop an industrial development strategy that enhances products diversification and quality through high value addition in agriculture and manufacturing. This is in order to meet the consumer taste or preferences for quality goods and services delivery. It should be used to ensure product diversification of Kenyan exports as well as quality products that will ensure sustainable export demand.

7. The livestock sub-sector has strong output forward and backward linkages. GOK should invest in value addition, in order to export these products to most of Africa..

8. The country does not have the capacity to compete with American commodities on a reciprocal basis given the weak industrial base and less diverse export products.

9. The following key sectors should be protected from any reciprocal trade tea, coffee, vegetables, roots and tubers, tobacco, fruits, other cereals, maize, and livestock sectors. This is especially since they are marked for value addition.

10. The sensitive list of products already negotiated at the EAC could be used as a guide for any other FTA negotiations.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF ANNEX TABLES

1 INTRODUCTION

The GOK and the U.S. jointly announced their intentions of negotiations of a free trade agreement (FTA) in the month of February 2020. One of the expected outcomes of the FTA is to increase overall trade for both nations. The negotiations process kicked off in July 2020 and is expected to confer special protection and preferences to a special category of sensitive goods and services, promote increased exports to the United States, increase FDI to Kenya, and create decent jobs and sustainable livelihoods. The negotiations come against Kenya's development agenda under the economic blue print "Kenya Vision 2030: A global Competitive and Prosperous Kenya", which foresees increased demand of products in the world market by 2030 due to increasing population estimated to reach 8.5 billion in 2030 (GOK, 2007). Secondly, the proposed Kenya – U.S. FTA reinforces Kenya's foreign policy that seeks to achieve increased market access; capital in-flows and enhanced technological advancement[1].

1.1 Overall Objective

In response to the Kenya Government's initiative for joint negotiations with the United States for a FTA, Econews Africa developed a comprehensive study to guide the proposed FTA negotiations between Kenya and the U.S. The study will assist the Kenya Government in all aspects of the issues under negotiations. The document would also endeavour as much as possible to respond to all issues tabled by the U.S.

1.2 Specific Objectives

1) Review Kenya's economic priorities in the development of the broad economic sectors, namely: agriculture, manufacturing and services.
2) Review the historical cooperation relationship between Kenya and the U.S. highlighting the key areas of cooperation, i.e.,:
    a) Evaluate and analyze Kenya's relationship with the U.S. the African Growth Opportunity Act (AGOA), trade and sectoral economic performance and the opportunities and challenges.
3) Review Kenya's trade performance under the EAC and COMESA, i.e.,
    a) Identify the sensitive products for Kenya under EAC and COMESA its implication on the proposed Kenya- U.S. FTA
    b) Examine Kenya's engagement under TFTA and AfCFTA negotiations and its implication on the proposed Kenya- U.S. FTA
4) Examine the political economy implications of trading under EAC, COMESA and negotiations under TFTA, AfCFTA and the Kenya- U.S. TFA.
5) Analyze the U.S., Mexico, Canada Agreement (USMCA) FTA which the U.S. has proposed as the template for negotiations with Kenya, highlighting benefits and challenges

[1]GOK (Government of Kenya), Kenya Foreign Policy, Ministry of Foreign Affairs (MFA), November 2014, https://www.mfa.go.ke/wp-content/uploads/2016/09/Kenya-Foreign-Policy.pdf

6) Undertake an analysis (using appropriate models and data) of the implications of the proposed sectors for negotiations on the Kenyan economy in terms of.

    a) Trade creation and diversion effects for Kenya, EAC, COMESA, and AfCFTA

    b) Sectoral multiplier and welfare effects for Kenya

    c) Socio-economic impact of investments in the key sectors of interest under the Kenya-U.S. FTA.

    d) Identification of sensitive products to be excluded from the Kenya- U.S. FTA negotiations

7) Provide actionable policy recommendations for negotiations under the Kenya-U.S. FTA:

    a) By sector and products

    b) Sensitive sectors/products

    c) Trade and investment opportunities

8) Examine all issues on the agenda and prepare briefs on each of them ensuring their compatibility with WTO disciplines.

1.3 Scope

The study focused on Kenya and the United States free trade agreement and how it is likely to affect other regional agreements that Kenya is party to such as EAC, COMESA and AfCFTA.

2 KENYA'S DEVELOPMENT AGENDA

Kenya's economic priorities are presented in the economic blueprint "Kenya Vision 2030: A global Competitive and Prosperous Kenya". The implementation of the vision is done under the five-year rolling medium term plan (MTP), for which the current plan is the MTP III 2018-2022. (GOK, 2007). MTP III outlines three key pillars in the plan, namely: economic, social and political. The economic pillar aims to achieve an average economic growth rate of 10 percent per annum and sustaining the same until 2030. In order to achieve this growth, there are several sectoral priorities that have been outlined in the Kenya vision 2030, with details articulated in the MTPs, these sectors are: agriculture, manufacturing and services.

Agriculture Value Addition

The GOK seeks to raise incomes in agriculture, livestock and fisheries through value addition initiatives. GOK will achieve this through promotion of innovative commercially oriented strategies in modern agriculture, livestock and fisheries sector. These initiatives are expected to increase crop yields, increase smallholder specialization in cash crops and utilization of both cultivated and uncultivated land. In monetary terms, these initiatives are expected to increase agricultural sector contribution to GDP by Kshs. 80-90 billion. The strategic objectives include (GOK, 2007):

i.) Reforming institutions by transforming key organizations, such as cooperatives, regulatory bodies and research institutions, into complementary and high-performing entities that facilitate growth in the sector;

ii.) Increasing productivity through provision of widely accessible inputs and services to farmers and pastoralists;

iii.) Transforming land use to ensure better utilization of high and medium potential lands;

iv.) Developing arid and semi-arid areas for both crops and livestock;

v.) Increasing market access through value addition by processing, packaging and branding the bulk of agricultural produce. This will in part entail proactively exporting value-added goods to regional and global markets.

The MTP III 2018-2022 (GOK, 2018c) has outlined detailed programmes for the year 2018-2022 that will help achieve the strategic agricultural sector goals. Examples of the goals that seek to directly improve agriculture value addition include:

i) A fertilizer subsidy program that would ensure increased agricultural productivity by ensuring improved access, affordability, and suitability of fertilizers. The government further seeks to collaborate with private sector players in order to explore opportunities for local manufacturing of Ammonia, Urea, Di-Ammonium Phosphate (DAP) and Nitrogen Phosphate Potassium (NPP) fertilizers.

ii) An agricultural mechanization program that is expected to improve adoption of agricultural technology by supporting counties to provide affordable agricultural modernization services to small-scale farmers. The GOK anticipates collaborating and partnering with countries of origin and the end-users of the technologies.

iii) Value chain support program aimed at improving the dairy value chain infrastructure; standardization of hides and skins processing through improving capacity of research factories.

iv) Promotion of youth and women empowerment in modern agriculture in order to create sustainable and gainful self-employment.

v) Managing risks and losses of smallholder farmers through agricultural insurance programmes that will ultimately increase crop productivity plus livestock production.

vi) Provision of evidence-based policy training in order to enhance the research and capacity building for the agricultural sector.

vii) Development of new crop varieties and distribution of assorted seeds to farmers to diversify the food production base.

viii) Large scale production through public private partnerships (PPPs)

ix) Targeting more SMEs in order to increase smallholder productivity and agro-processing for livestock, fish, poultry and piggery.

x) Support to agro-processing and reduction of post-harvest losses through the development of agricultural technology.

xi) Enhancing market access by providing an enabling environment through policy, legislations and regulations, model guidelines for improved market infrastructure plus improved access to information.

xii) Attracting investment in agriculture, development by transfer of tools and technologies

Manufacturing

The manufacturing sector is expected to facilitate an economic growth rate of 10% and further support the creation of jobs, the generation of foreign exchange, and attract foreign direct investment (GOK, 2007). This can only be achieved if the manufacturing sector achieves operational efficiency. The key projects outlined in the MTP III 2018-2022 (GOK, 2018c) that would improve economic growth and create jobs include:

i) Development of industrial clusters aimed at increasing investments in the textile and apparel industries as well as the manufacture of leather plus other leather products.

ii) Value addition in the following sectors, namely: agricultural, fisheries and livestock. The targeted products include: tea, coffee, nuts, legumes, cereals, fruits, vegetables, roots and tubers, animal feeds, dairy and meat.

iii) Development of special economic zones (SEZs) to increase Kenya's competitiveness as an investment destination. This would be through infrastructure provision, simplification of business regulations, value chain integration and clustering, expanded market access for SEZ goods and services, and reduced taxation.

iv) Promotion industrial dispersion and balanced economic development in the country in collaboration with the private sector, through the development of industrial parks plus SME support programmes.

v) Development of micro, small and medium enterprises (MSMEs) that will formalize the large number of informal enterprises; support their growth from micro and small to medium enterprises; and eventually into large firms.

vi) Exploit the available potential to manufacture/assemble machineries and equipment used in agricultural product value addition, some of which are imported. This is in order to make use of competitive advantage available in skilled labour, market, raw materials and strategic location in the EAC and COMESA regions.

vii) Operationalization of electronic assemblies that involves manufacturing of tools and accessories, tablets, laptops and other electronic equipment to support the Digital Learning Programme (DLP).

viii) Production of automotive parts and components to lay the foundation for a globally competitive steel production industry plus support establishment of an automotive industry in Kenya.

ix) Support import substitution in the iron and steel industry though the NMC.

x) Investing in research, innovation and knowledge management to facilitate capability accumulation and technological upgrade.

Services

The focus sectors for development of services include: wholesale and retail trade; financial services; and business process outsourcing. In the wholesale and retail sector, the government seeks to move towards greater efficiency in the country's marketing system by lowering transaction costs through institutional reforms (GOK, 2007). Integration of the informal sector to the local and global markets through infrastructure development is a key priority. This is expected to raise the market share of products sold through formal channels and further contribute an additional Kshs. 50 billion to the GDP.

The business process outsourcing (BPO) involves providing business services through the internet to companies outside the country. The 2030 vision for business process outsourcing is for Kenya to "quickly become the top BPO destination in Africa" (GOK, 2007). The use of ICT is largely attractive to young people; therefore the development of this sector will attract youth employment. Under BPO, the MTP III 2018-2022 (GOK, 2018c) outlines some of the key projects as:

i) Konza Technopolis, which is a smart sustainable city and an innovation ecosystem that is expected to contribute to Kenya's Knowledge-based economy.

ii) Digital learning programme that seeks to integrate teaching and learning in primary schools using ICT.

iii) Skills development program that will cultivate a critical pool of local high-end skills personnel, to meet the needs of the Information and Communications Technology (ICT) industry and the entire economy, by enhancing the skills of ICT graduates for gainful employment.

MTP III 2018-2022 (GOK, 2018c) include:

i.) Making Kenya a major regional centre for financial services in the Sub-Saharan Africa (SSA) by operationalizing the Nairobi International Financial Centre (NIFC).

ii.) Establish a Financial Services Authority (FSA), whose aim is to enhance the effectiveness of prudential oversight of the non- bank financial sub-sectors and improve the overall efficiency of the regulation structure.

iii.) Establish Kenya's lead in digital financing that will enhance retail infrastructure for cashing-in and cashing-out of digital money. It will also lead to the development of new universal national payments systems.

iv.) Capital markets deepening which includes implementation of a new derivatives market; diversification of capital market products; strengthening capital markets infrastructure and institutions; promoting cross border trade and supporting infrastructure financing by counties and national government through the capital markets

The Kenya Vision 2030 and the MTP III 2018-2022 provide detailed priorities and flagship projects that the country needs to implement in order to achieve the vision goal of transforming Kenya into an industrialized middle income country, offering a high quality of life to all its citizens by the year 2030. Any development programmes that the GOK embarks on should ensure that they work towards achieving the goals of Kenya vision 2030 and also add value to the strategies presented in the medium term plan.

3 METHODOLOGY

3.1 Literature and Secondary Data Review

The secondary data review consisted of desk literature review from already published sources and quantitative data analysis from existing data sets. The literature reviewed ensured all aspects of trade with the EAC, COMESA, TFTA, AfCFTA and U.S. were reviewed and discussed. In order to be systematic; the following broad categories guided the analysis:

i) Trade performance between Kenya and EAC, COMESA, potential AfCFTA and U.S.

ii) Political economy issues

iii) Econometric analysis using gravity models and multiplier analysis

From existing regional and national government research reports plus trade databases, the following was done:

i) Review and discussion of Kenya's trade performance between Kenya and EAC, COMESA, TFTA, AfCFTA and U.S.

ii) Review and discussion of political economy issues relating to EAC, COMESA, TFTA, AfCFTA and U.S.

iii) Econometric analysis using gravity models and multiplier analysis using the Kenya social accounting matrix 2018.

3.2 The Gravity Model

Several theories have been put forward to explain trade, (Smith, 1776) in his book "The Wealth of Nations", which was first published in 1776 proposed the theory of absolute advantage in trade. Adam Smith states that countries should specialize in the production of goods in which they have absolute advantage and then proceed to trade with others without these goods in order to gain. David Ricardo, who answered the question why certain countries that did not have absolute advantage continued to benefit from trade, further improved this theory. Ricardo postulated that comparative advantage of, "A nation, like a person, gains from trade by exporting the goods or services in which it has its greatest comparative advantage in productivity and importing those in which it has the least comparative advantage" Later, two Swedish economists Eli Hecksher and Bertil Ohlin extended Ricardo's theory by developing the Heckscher-Ohlin (H-O) model, which states that nations will export products for which the production uses abundant factors intensively and import products of which the production use scarce factors intensively. In their model, included land and capital to labor (Krugman and Obstfeld, 2003).

As can be seen, the trade theories have developed overtime, with David Ricardo; bringing improvements to the trade theory by Adam smith, where instead of focusing on trade where there is absolute advantage, the focus was on areas of comparative advantage. The H-O model further improved on Ricardo's theory by introducing factor intensity. The gravity model, which has been widely used to explain bilateral trade, owes it origin to the "Law of Universal Gravitation" by Isaac Newton in 1687, where he stated that an attractive force between to objects is subject to the two masses, distance and gravitational constant. Krugman and Obstfeld (2003), apply this logic in their study so that the common gravity model for trade activities is given as:

$$T_{ij} = A\frac{Y_i Y_j}{D_{ij}^2}$$

Where

T_{ij} is the total trade flow from origin country i to destination country j

Y_i, Y_j are the economic size of two country i and j, measured by the GDP

D_{ij} is the distance (using the capital cities) between two country i and j; A is a constant term.

Several authors have applied variations in the gravity model in equation (1) to investigate the effect of trade, for example, Shinyekwaand Othieno (2013) analyzed the trade diversion and creation effects relating to the EAC. Dinh, Nguyen, and Hoang (2011) also applied the gravity model to analyze trends on trade for Vietnam while (Oparanya, Mdadila, and Rutasitara (2019) used the same model to establish the determinants of bilateral trade in East Africa Community.

This study proposes a variation in the gravity model by (Krugman and Obstfeld (2003) and similar to (Dinh et al., 2011), as follows:

$$LogT_{ijt} = \alpha_0 + \alpha_1 Log\left(Y_{it}\right) + \alpha_2 Log\left(Y_{jt}\right) + \alpha_3 Log\left(N_{it}\right) + \alpha_4 Log\left(N_{jt}\right) + \alpha_5 Log\left(D_{ij}\right) + \alpha_6 Ex_{ijt} + \alpha_7 Log(FDI_{it}) + \alpha_8 P_{ijt} + \varepsilon_{ijt}$$

Where:

i - Kenya

j - 2, 3, 4 (U.S., EAC, COMESA and AfCFTA- the countries are overlapping for each bloc)

t - 2001, 2001, 2002… 2019

T_{ijt}- Kenya's trade (export or import) with country j in year t

Y_{it}- Kenya's GDP in year t

Y_{jt}- GDP of country j in year t

N_{it}- Kenya's population in year t

N_{jt}- Population of country j in year t

D_{ij}- Distance in kilometers between Kenya and country j

t- Exchange rate between Kenya and country j in year t

FDI_i- Net FDI inflow for Kenya

P_{ijt}- Strategic partner dummy variable for the strategic partnership between Kenya and country j in year t

E_{ijt}- Error term

The dependent variable is annual trade (exports) of Kenya and partners; this was obtained from the trade map database of the International Trade Centre (ITC), the period from 2001 to 2019. The GDP of Kenya and partner countries was used to measure economic size; the data was obtained from the World Development Indicators (WDI) database of the World Bank. Population was used to estimate the market size of each country, which is a factor affecting international trade. Distance presents the transportation costs and this was calculated by obtaining the distance from the capital Nairobi to capitals of the other countries. Dinh et al., (2011) stated that the strategic partner variable is a qualitative variable representing the political and economic relationship with partners, who are considered to have a significant impact on security, economic and international status of the country. A value of 1 was set for countries that signed strategic partnership agreement with Kenya and 0 was set for the rest. The partners included EAC, COMESA, AfCFTA and the U.S. Table 1 provides a summary of the statistics of variables used in the model. While the partnership variable was included in the model, it was dropped due to multicollinearity issues.

Table 1: Data Summary and Descriptive Statistics

Variable	Obs.	Mean	Std. Dev.	Min	Max
Kenya's total Trade (billion USD)	76	1,834.64	1,192.78	48.25	4,634.77
GDP of Partner Country/Group (billion USD)	76	4,459.55	6,422.39	36.25	18,300.39
GDP Kenya (billion USD)	76	42.16	11.85	27.19	65.06
Exchange Rate (USD - local currency)	76	84.57	11.47	67.32	103.40
Population of Partner Country/Group (million)	76	459.03	345.32	79.98	1,250.25
FDI Kenya (million USD)	76	612.89	577.94	5.30	1,625.92
Population for Kenya (million)	76	42.29	6.12	32.85	52.57
Distance between Capital Cities (km)	76	4068.2	4745.222	273.3	12135

Source: Authors calculations

3.3 Sectoral and Multiplier Analysis

The sectoral and multiplier effects were derived from the study done by Vigani, Dudu, Ferrari, and Mainar (2019):

- **Income multipliers:** The income multipliers assist in assessing how injection such as increased demand will affect the different labour skills that a country such as Kenya has. This approach will enable the country to establish the effects of opening up sectors in Kenya through the Kenya U.S. FTA.
- **Backward linkage multipliers:** These are significant in selecting the fastest growing sectors of the economy, as they show the level of integration of one sector with the rest of the economy. Sectors found to be important can be opened to investments in the economy because they are integrated to other sectors and will result in growth.

4 KENYA'S REGIONAL TRADE AGREEMENTS AND PERFORMANCE

4.1 The East Africa Community (EAC)

The EAC owes its existence to a long-term relationship between Kenya and Uganda, which commenced with the construction of the East African Railways in 1917. The two countries then created a customs union in 1917, Tanzania then joined 10 years later, and they formed a customs union in 1927. After its formation, the customs union broke up in 1977 due to political reasons. Later in 1996, the three countries signed an agreement that established the permanent tripartite commission for the East African Cooperation. This agreement resulted in the revival of the EAC and the launch of the secretariat in Arusha on 14 March 1996. There have been several milestones that have marked the full establishment of the EAC. On 7 July 2000, the treaty establishing the EAC came into force. In March 2004, the three heads of states signed the protocol establishing the EAC Customs Union (CU0. Currently, there are six members of the EAC: Kenya, Uganda, Tanzania, Rwanda, Burundi and South Sudan. The CU came into force on January 1, 2005. Further regional integration is to be achieved through the following (EAC Secretariat, 2006):

a) A Customs Union:

    a. To remove all taxes on goods between the countries of the community

    b. To have the same import tax on all goods from outside East Africa

b) A Common Market: In addition to (a) and (b), there will be free movement of persons, labour services, capital and right to live anywhere in the partner states

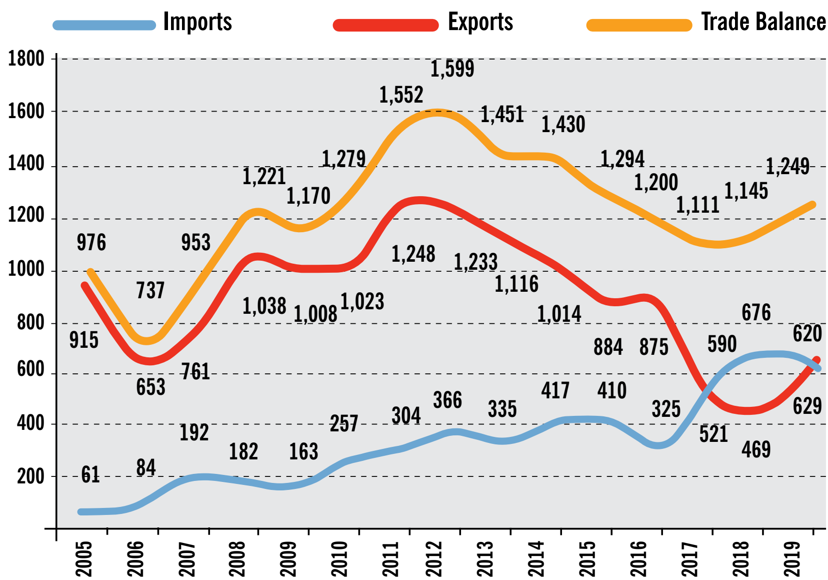
c) A Monetary Union: countries of the Community will have the same economic polices and use the same currency.

d) Political Federation: This final stage includes having common foreign and security policies.

Kenya's total trade performance within the EAC is presented in Figure 1. Kenya's exports to the EAC have been much higher than imports from the same region. For the period 2005 to 2019, Kenya's average annual growth rate for exports was 2%, while import growth rate averaged 18%.

The EAC has had positive trade balance from 2005-2019; the highest exports to the EAC were in 2012 and 2014. In 2012, the increase in exports to the EAC was due to increase in export of plastic products (HS39); pharmaceutical products (HS30) and paper products (HS48)[2]. In 2014, the increase was due to exports of lime and cement and other salt products (HS25), plastic products (HS39) and soap, organic surface-active agents, washing preparations, lubricating preparations (HS34). Kenya's import from the EAC was highest in 2019, and this was due to increased imports of dairy produce (HS04), wood products (HS44) and sugar and confectionary (HS17)[3],. The top three exports in the same year were: animal or vegetable fat (HS15), iron and steel (HS72) and soap and organic surface agents (HS34).

Figure 1: Kenya's Trade Performance under the EAC (USD Million)



Source: Authors working from Trademap database

[2]For details see Annex Table 2

[3]See Annex Table 3

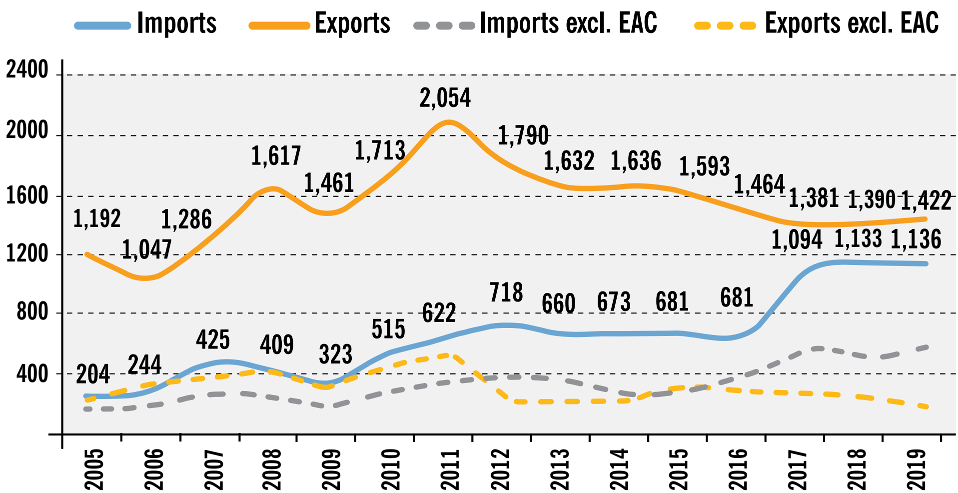
4.2 The Common Market For Eastern and Southern Africa (COMESA)

COMESA replaced the former Preferential Trade Area (PTA) in 1994; the PTA had been in existence since 1981. The COMESA treaty defines its objective 'as an organization of free independent sovereign states which have agreed to co-operate in developing their natural and human resources for the good of all their people'. COMESA sought to form a large economic and trading unit that is capable of overcoming some of the barriers that were faced by individual states. As such it has a wide-ranging series of objectives which include attaining sustainable growth and development of the member states by promoting a more balanced plus harmonious development of its production and marketing structures, (COMESA, 1993). In its current strategy, COMESA's mission is "To endeavour to achieve sustainable economic and social progress in all Member States through increased co-operation and integration in all fields of development particularly in trade, customs and monetary affairs, transport, communication and information, technology, industry and energy, gender, agriculture, environment and natural resources" (COMESA, 2015).

The COMESA market is made up of 21[4] member states with a population of 583 million people. The total annual GDP is 805 billion. COMESA global exports and imports are valued at USD 122 and 212 billion respectively. Intra COMESA trade in exports and imports is USD 10,874 and 11,241 million respectively; therefore, intra-COMESA exports and imports represent 9% and 5% of its total trade respectively. The trade figures between Kenya and COMESA when EAC is excluded are much lower as can be seen below.

Kenya's exports to COMESA, including the EAC countries have been on the rise and peaked in 2011, this has largely been driven by increased export performance of several commodities such as animal and vegetable

Figure 2: Kenya's Trade Performance under the COMESA (USD '000,000)



Source: Authors working from Trademap database

[4]Burundi, Comoros, Congo DRC, Djibouti, Egypt, Eritrea, Ethiopia, Rwanda, Swaziland, Seychelles, Kenya, Madagascar, Malawi, Mauritius, Sudan, Uganda, Zambia, and Zimbabwe

fat (HS15), iron/steel (HS72), plastic article (HS39) and mineral fuels (HS27) among others (Annex Table 4). After 2011, there was a steady decline in exports; hence the average growth rate for exports from 2005 to 2019 was 1.3%. Imports from COMESA on the other hand have been gradually increasing and averaged 13% from 2005 to 2019. The increase in imports from COMESA in 2017 was driven by increase in imports of Sugar (HS17) and essential oils (HS33) (Annex Table 5). In 2019, the top 3 imports were: sugar and confectionary (HS17), dairy produce 9HS04) and essential oils and resinoids (HS33). The top three exports were: coffee and tea (HS09), animal and vegetable fat (HS15) and iron and steel (HS72).

4.3 Kenya –U.S. Trade Performance

Kenya's cordial diplomatic relationship with the U.S. dating back to 1964 and has continued to date. The diplomatic ties improved after the 2002 general elections, following a more open civic space. Kenya has cooperated with the U.S. in the areas of security and economic matters. On economic matters, Kenya is a beneficiary of to the AGOA, which was signed into law by President Bill Clinton in May 2001. AGOA is a non-reciprocal trade preference programme that was introduced under the Trade and Development Act of 2000, to boost open and free markets for SSA beneficiaries. The Act provides for duty- and quota-free entry of eligible exports into the U.S. from eligible SSA countries, of which Kenya is one of them. AGOA is an extension of the U.S. Generalized System of Preference (GSP), which was established under the Government of the Unites States Trade Act of 1976 (GOK, 2018a). The objective of the programme was to promote economic growth in the developing world by providing preferential duty-free entry for up to 4,800 products from 104 independent countries, 17 territories and non-independent countries. Currently AGOA has 6,421 eligible duty free product tariff lines for AGOA-eligible countries.

AGOA has undergone several amendments: AGOA II. AGOA III and AGOA IV. AGOA II amendment was to allow for an expansion of preferential access for imports from beneficiary SSA countries, in order to increase their utilization capacity. President Bush signed the Trade Act in August 2002. It clarifies and narrowly expands the trade opportunities for SSA countries under AGOA and encourages more investment in the region. It allowed for eligibility of knit-to-shape articles to access the U.S. market, as long as the knit-to-shape components are from the U.S. or other beneficiary SSA countries. Secondly, it made eligible for preferences so called hybrid apparel articles, merino wool sweaters, and doubled the apparel cap plus merino wool sweaters under certain conditions.

President Bush signed the AGOA Acceleration Act of 2004 (AGOA III) in July 2004. There was an overall extension of the AGOA programme from 2008 to 2015. The agreement also extended third country fabric provision for three years, from September 2004 until September 2007, including a phase down in year three. The cap would remain at the current level available in the first and second year. In the third year, the cap would be phased down by 50 percent[5]. In December 2006, President Bush signed the AGOA IV. In this legislation, the third country fabric provision was extended for five years, from September 2007 until September 2012. Other additions to the legislation included abundant supply provision; designating certain denim articles as being in abundant supply and also allowing lesser developed beneficiary SSA countries to export certain textile articles under AGOA[6].

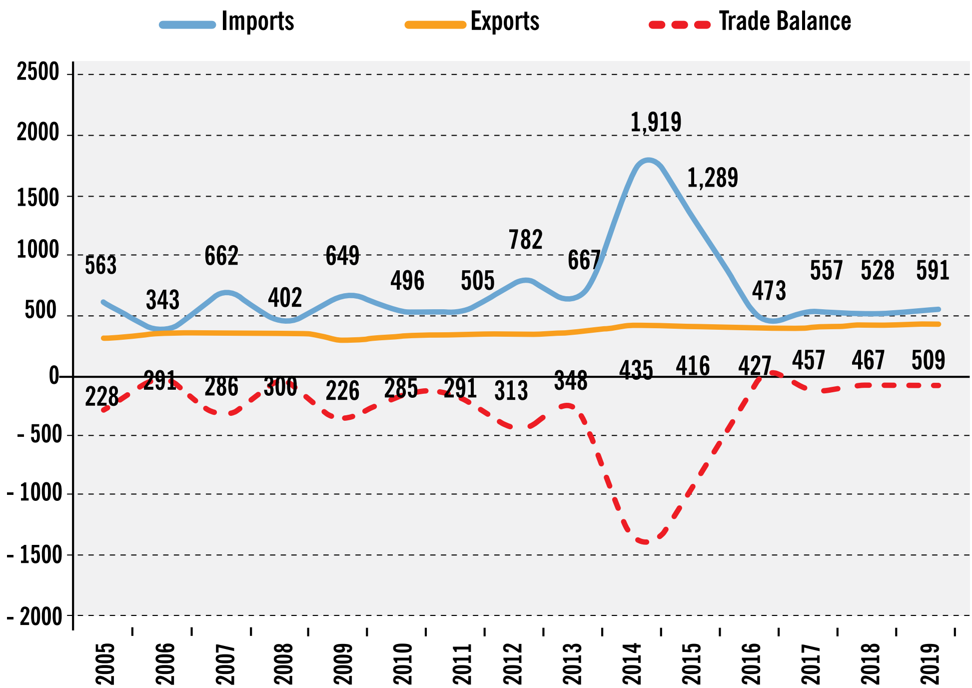
[5]https://legacy.trade.gov/agoa/legislation/agoa3.asp

[6]https://legacy.trade.gov/agoa/legislation/agoa4.aspdatabase

In June 29, 2015, President Obama renewed AGOA for another 10 years up to 30 September 2025. The agreement further reaffirmed the importance of deeper and expanded U.S. trade and investment ties with SSA Africa and promotion of greater regional integration. This agreement gave the U.S. Government the ability to withdraw, suspend, or limit benefits under the program if AGOA countries were not in compliance with eligibility criteria, including progress toward establishing market-based economies, policies that support poverty reduction, rule of law and efforts to fight corruption, and protect human rights, including internationally recognized worker rights (White House, 2015).

Williams (2015) noted that AGOA extends duty-free treatment to certain apparel and footwear products; however, there are some that are subject to quantitative limitations, which are not eligible under generalized system of preferences. There are around 10,500 tariff lines of products that can be exported to the U.S. from SSA. Products eligible under AGOA from exporting countries must meet certain rules of origin requirements in order to qualify for duty-free treatment. Onyango and Ikiara, (2016), note that the rules of origin allow beneficiary countries to source raw materials and inputs from other beneficiary countries. With the existing structures within EAC, production sharing among members of existing regional trading agreements provides opportunities for supporting both regional investments in trade as well supply to the U.S. market.

Figure 3: Kenya's Trade Performance with the United States (USD '000,000)



Source: Authors working from Trademap database

Kenya's trade performance from the period 2005 to 2019, is summarised in Figure 3. Kenya's exports to the U.S. have been growing at an average annual rate of 0.3%. The common products exported to the U.S. are apparels and clothing both knitted or not knitted (HS62) and (HS61) respectively as well as ore, slag and ash (HS26). These are products that fall within the manufacturing sector. Agricultural products included coffee, fruits, and animal fat. During the same period, Kenya's imports from the U.S. have been growing at an annual average rate of 6%. Annex Table 7, provides a list of the top products that Kenya imports from the U.S. most of these products are manufactured products: machinery and mechanical appliance (HS84), aircraft and spacecraft (HS88) and electrical machinery (HS85). Kenya's imports from the U.S. were highest in 2014, and this was valued at USD 1,919 million. The main product imported from the United States at this time was aircrafts and aircraft part, this coincided with the first Dreamliner airplane delivery in Kenya. In 2016 even though there was a decline in purchase, there were more purchases for smaller aircrafts and aircraft parts.

The U.S. economy is 290 times bigger than that of Kenya. Its population is equally much bigger than that of Kenya, even though the country's population growth rate (2.5%) is much lower than the U.S. (0.5%) (See Annex Table 13). The two economies cannot trade at the same level; therefore, reciprocity in trade should not be on any negotiation table. Annex Table 14 provides a summary of the U.S. imports from Kenya and the regime under which Kenya is exporting. The AGOA preference utilization rate is generally low for Kenya's exports to the U.S. First, only 10% of Kenya's exports went to the U.S. in 2014, of which 71% were under the AGOA regime. Out of the total textile and clothing exported by Kenya, 83% were exported to the U.S. Of those exported to the textile and clothing, 99% were under AGOA regime and MFN (1%). Of the 4% of total vegetable products that were exported to the U.S., 40% of these exports, were under AGOA, 58% MFN and 2% GSP. Most of the other products are exported to the U.S. under MFN and a few under GSP. From Annex Table 14, it is clear that AGOA or GSP preference utilization is very low. The U.S. has approximately 6,500 tariff lines at HS 8, which it accords duty-free quota free access for products exported to U.S. market. Kenya in 2019 only utilizes 25 tariff lines.

4.4 Potential under the African Continental Free Trade Area (AfCFTA)

Kenya's potential under the AfCFTA can be determined by looking at her trade partnerships with African countries. This is premised on the fact that during the 18th Ordinary Session of the African Union (AU) Assembly of Heads of States and Governments, a decision to establish an AfCFTA by the indicative date of 2017 was adopted. The objectives of the AfCFTA are to:

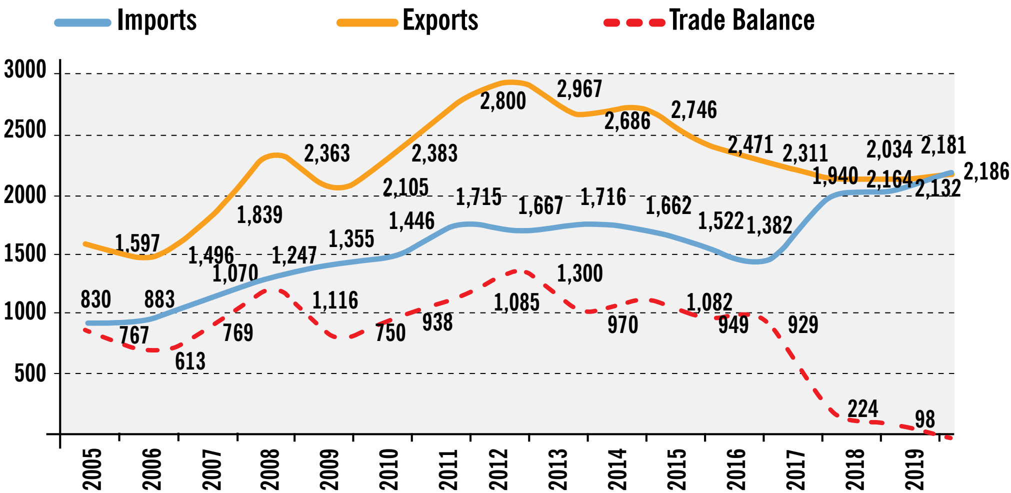
i. Create a single continental market for goods and services, with free movement of businesspersons plus investment
ii. Expand Intra-African trade through better harmonization and coordination of trade liberalization plus facilitation regimes or instruments across RECs
iii. Resolve the challenge of multiple overlapping memberships
iv. Enhance competitiveness at the industry and enterprise level.

The AfCFTA is made up 8 regional economic blocks in Africa: Southern African Development Corporation (SADC), COMESA, EAC, Economic Community of West African States (ECOWAS), Intergovernmental Authority on Development (IGAD), Community of Sahel-Sahara States (CEN-SAD), Economic Community of Central African States (ECCAS) and the Arab Maghreb Union. Following the Extraordinary Summit on the

AfCFTA held in Kigali in March 2019, it is expected that all the 54 AU member states will sign the AfCFTA Agreement, ratify, and eventually implement these agreements.

Figure 4 presents a summary of Kenya's trends in trade with all African countries, which is used as a justification for Kenya's trading under the AfCFTA. The average export growth rate is 2% while imports grew by 7%. Kenya's exports to Africa peaked in 2012 (USD 2,967 million). The increase in imports was largely driven by increase in coffee and tea (HS09), machinery and mechanical appliances (HS84) and pharmaceutical products (HS30) (Annex Table 8).

Figure 4: Kenya's Trade Potential Performance under AfCFTA (USD '000,000)



Source: Authors working from Trademap database

Kenya's imports from other African countries have been lower but increased sharply in 2017, by 2019, the imports and exports are almost at par i.e., USD 2,186 and 2,181 million respectively. The sharp rise in imports in 2019 was driven by imports of iron and steel (HS72), sugar and confectionary (HS17), dairy produce (HS04), cereals (HS10) and essential oils (HS33) (Annex Table 9). The top exports to Africa are: iron and steel (HS72); sugars and sugar confectionery (HS17); mineral fuels, (HS27), while imports are: coffee, tea, (09); iron and steel (HS72); animal /vegetable fats and oils (HS15).

4.5 The Potential Under the Tripartite Free Trade Agreement (TFTA)

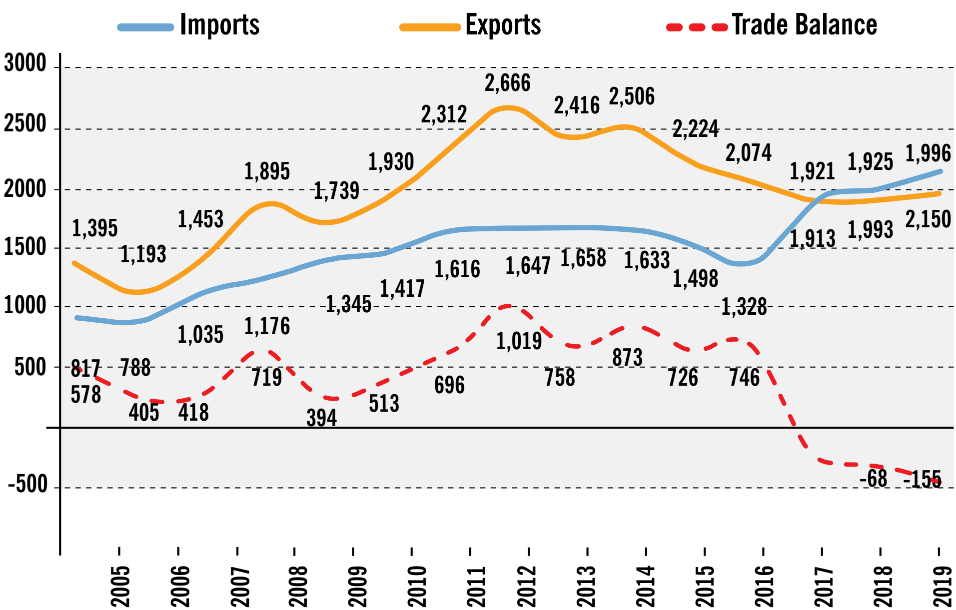
The TFTA is made up of the EAC, COMESA and South African Development Cooperation (SADC). The general objectives of the TFTA are:

1. To promote the rapid social and economic development of the region in order to eliminate poverty, hunger and disease.
2. To create a large single market with free movement of goods and services and businesspersons, and eventually to establish a customs union.
3. To resolve the challenges of multiple memberships and expedite the regional and continental

integration processes.
4. To build a strong people-based TFTA.
5. To promote close cooperation in all sectors of economic and social activity among the tripartite member states.

The objectives of the TFTA are: market integration through the removal of tariffs and non-tariff barriers, in order to reduce the costs of cross border trade; infrastructure development that ensures improved connectivity and efficiency in the eastern and southern Africa market; and industrial development that would deal with supply side constraints in order to take advantage of the market integration opportunities. The COMESA, EAC and SADC heads of states launched the COMESA-EAC-SADC Tripartite Free Trade Area (TFTA) on 10 June 2015. The TFTA covers 26 member states across the RECs. In order to establish potential performance of the TFTA, data was collected for 25 member states[7] . The analysis presented builds from Kenya's trade data already available with the member states who are part of the TFTA. An assumption is made that the data presented gives the minimum trade transactions that Kenya can undertake with the members of the TFTA once there is removal of tariff and non-tariff barriers and the other objectives of the TFTA are achieved. The progress in the TFTA negotiations have remained stagnant and it is likely to be overtaken by the AfCFTA.

Figure 5: Kenya's Trade Potential Performance under TFTA (USD '000,000)



Source: Authors working from Trademap database

[7]Egypt, Ethiopia, Malawi, Namibia, Sudan, South Sudan, Zimbabwe, Burundi, Comoros, Kenya, Seychelles, Tanzania, Mozambique, Rwanda, Angola, Botswana, DR Congo, Lesotho, Eritrea, Madagascar, South Africa, Swaziland, Uganda and Zambia.

The summary of Kenya's trade potential performance under the TFTA is presented in Figure 5. Kenya's exports have grown by an annual average of 3% for the TFTA countries, while imports have grown by an average of 7% for TFTA country imports. The top three commodities imported under potential TFTA are: iron and steel (HS72), sugar and confectionary (HS17) and mineral fuels (HS27) (See Annex Table 10). The top three potential exports for Kenya are coffee and tea (HS09), iron and steel (HS72) and animal and vegetable fats (HS15)[8]

4.6 Regional Trade Agreements Vs. the Kenya -U.S. FTA: Opportunities and Challenges

This section reviewed agreements to which Kenya is a party to under AGOA for which Kenya trades with the U.S. In general, the RECs i.e. EAC, COMESA, AfCFTA and the TFTA seek to promote regional integration by removing tariff and non-tariff barriers to trade, reducing the costs associated with regional trading by improving on regional infrastructure. The various RECs also seek to promote several aspects of cooperation beyond trade in goods and services. At different levels, the RECs seek to ensure free movement of persons and cross border investments. The U.S. under the AGOA framework largely focuses on market access, by providing duty fee and quota free access to selected commodities. The RECs encompass a broader development agenda within the trading framework compared to AGOA. Trading under the RECs presents the opportunity for development beyond tariff and non-tariff reforms. The challenge with the AGOA Act is that it is not negotiated; it is an offer from an Act and does not explicitly provide for development cooperation.

Table 2 provides a summary of Kenya's top trading commodities with partners and RECs based on the trends already seen. In the EAC, COMESA, TFTA and AFCTFA, Kenya largely exports more manufactured products to the region than agricultural commodities, and secondly, the exports as a percentage of Kenya's total exports range from 21%-38%. These exports are a reflection of Kenya's priority by taking advantage of the potential to manufacture or assemble machineries in order to capitalize on its strategic location in the EAC and COMESA as stated in the MTP III 2018-2022. Furthermore, the increase in exports in steel and iron results in the efforts to support the import substitution in the industry. Trading in the region therefore increases manufacturing in the domestic market. Exports to the U.S. market promote the development of the clothing and textile industry as well as ore, slag and ash. Kenya's export to the U.S. accounts for 9% of the country's total exports to the world.

In the EAC, COMESA, AfCFTA and TFTA, there is increased trade in both processed and agricultural commodities among African countries. For example, Kenya imports mineral fuels (HS27) from the COMESA region. At the same time, Kenya exports iron and steel (HS72), plastics and articles (HS39) and pharmaceutical products (HS30) to other African countries. Kenya's imports from the U.S. are largely skewed towards manufactured products, which are likely to hinder the development of the manufacturing sector in Kenya. The exports of agricultural commodities such as coffee and tea that is unprocessed to the U.S. will not help improve the goal of agricultural value addition for these commodities.

Kenya on the average has a positive balance of trade with most of the African trading partners. Under the AGOA market access conditions, the trade balances are negative. While this may be so for the U.S., the it remains an important export market for textiles and clothing under HS61-62. These two commodities

[8]See Annex Table 11.

constitute approximately 63% of Kenya's export to the U.S. AGOA provides trade preference, i.e. duty free and quota free access to U.S. market for approximately 6,500 tariff lines at HS8 digit level[9]. Kenya uses 11 tariff lines out of the 6,500 tariff lines.

A review of Kenya's export performance for the period 2010-2014 showed that exports to the U.S. constituted only 10% of total exports. Of these exports 71% were exported under AGOA preferences, 28% under MFN and 1 % under GSP. 99% of textile and clothing, which was the top exported products, were exported to the U.S. under AGOA while only 1% was under MFN. Vegetable products, which constitute 4% of total exports, were exported under MFN (58%), AGOA (40%) and GSP (2%) (Fundira, 2015).

Table 2: Summary of Kenya's Trade Partner/Country Top Commodities

Partner/ Country	Top 5 Imports	Top 5 Exports	…As a proportion in Kenya's Trade with World
EAC	1) Dairy produce (HS04) 2) Wood and articles of wood (HS44) 3) Cereals (HS10) 4) Tobacco (HS24) 5) Sugars and sugar confectionery (HS17)	1. Animal /vegetable fats and oils (HS15) 2. Iron and steel (HS72) 3. Soap, organic surface-active agents (HS34) 4. Plastics and articles (HS39) 5. Vehicles (HS87)	Exports – 21.4% Imports – 3.6%
COMESA	1. Sugars and sugar confectionery (HS17) 2. Dairy produce (HS04) 3. Essential oils and resinoids; (HS33) 4. Wood and articles of wood (HS44) 5. Mineral fuels (HS27)	1. Coffee, tea (HS09) 2. Animal /vegetable fats and oils (HS15) 3. Iron and steel (HS72) 4. Plastics and articles (HS39) 5. Pharmaceutical products (HS30)	Exports – 24.4% Imports – 6.6%
U.S.	1. Machinery, mechanical appliances, (HS84) 2. Aircraft, spacecraft, and parts (HS88) 3. Electrical machinery and equipment (HS85) 4. Plastics and articles (HS39) 5. Cereals (HS10)	1. Articles of apparel and clothing (62) 2. Articles of apparel and clothing accessories (61) 3. Ores, slag and ash (26) 4. Edible fruit and nuts; (08) 5. Coffee, tea, (09)	Exports - 8.7% Imports - 3.4%

[9] https://agoa.info/data/trade.html

AfCFTA	1. Coffee, tea, (09) 2. Iron and steel (HS72) 3. Animal /vegetable fats and oils (HS15) 4. Machinery, mechanical appliances, (HS84) 5. Pharmaceutical products (HS30)	1. Iron and steel (HS72) 2. Sugars and sugar confectionery (HS17) 3. Mineral fuels, (HS27) 4. Dairy produce; (HS04) 5. Cereals (HS10)	Exports – 37.5% Imports – 12.7%
TFTA	1. Iron and steel (HS72) 2. Sugars and sugar confectionery (HS72) 3. Mineral fuels, mineral oils (HS27) 4. Dairy produce (HS04) 5. Cereals (HS10)	1. Coffee, tea, (HS09) 2. Iron and steel (HS72) 3. Animal /vegetable fats and oils (HS15) 4. Plastics and articles (HS39) 5. Machinery, mechanical appliances, (HS84)	Exports – 34.2% Imports – 12.5%

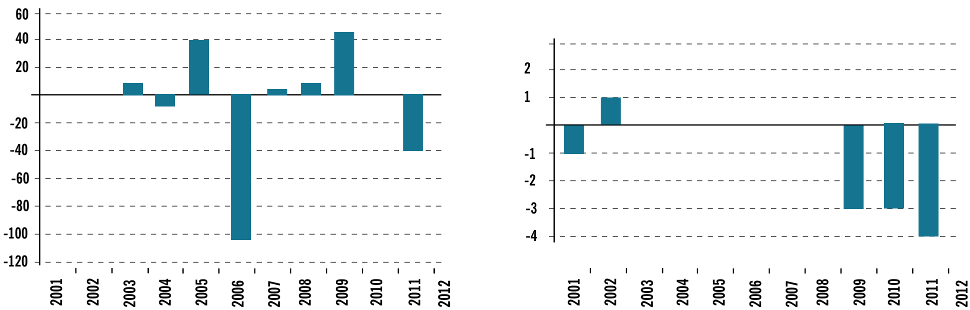
Source: Authors working from Trademap database

5 SELECTED BILATERAL INVESTMENT TRENDS

5.1 Kenya U.S. Investment Trends

FDI net inflows are the values of inwards direct investments made by non- resident individuals in a country. FDI net outflows provide the values of outward direct investment made by the residents of the reporting economy to external economies[10]. Figure 6 (a) and (b) present the FDI inflows trends from the U.S. to Kenya and outflows trends from Kenya to the U.S. respectively. Kenya's FDI inflows from the U.S. are sporadic, with years when inflows are negative, in 2006; there was a negative inflow of FDI worth USD 109 million, this implies disinvestments made by non-residents. FDI net outflows have been negative especially from 2009-2011, implying that Kenyan investments in the U.S. have been withdrawn.

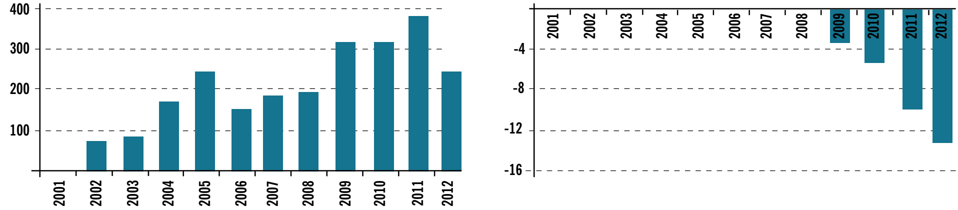
Figure 6: FDI Net flows Between Kenya and the United States (Million USD)



(a) Inflow (b) Outflow

[10]Some of these include: reinvested earnings and intra- company loans, net of receipts from the repatriation of capital and repayment of loans.

Figure 7: FDI flows Between Selected Countries and the United States (Million USD)



(c) Instock

(d) Outstock

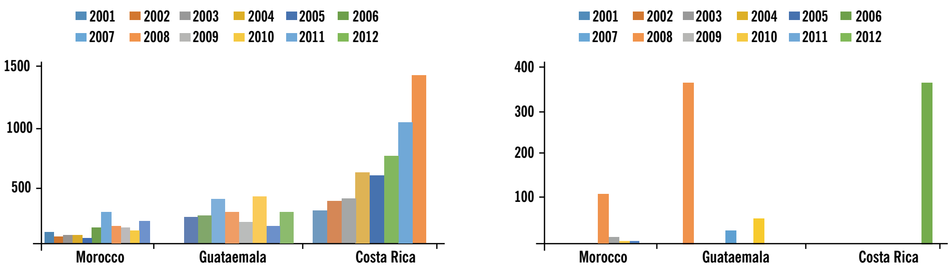
Source: UNCTAD Database[11]

FDI stocks measure the level of total direct investments, using equity and net loans. In the case of outward FDI stock, this is the value of resident investors' equity in and net loans of enterprises in foreign countries. Inward FDI stock in the value of foreign investor equity in and net loans to enterprises for residents in the reporting country. Figure 6 (b) and (c) indicate Kenya's FDI instock and Outstock respectively. Kenya-U.S. FDI instock has been on the rise and peaked in 2011 when it was valued at USD 390 million. Kenya-U.S. FDI Outstock on the other hand is declining and on the negative (Figure 6 (d)). A key limitation of the United Nations Conference on Trade and Development (UNCTAD) Bilateral FDI database is that it is dated even though it provides detailed FDI statistics.

5.2 Case Studies of U.S. Investment Trends with Other Countries

We proceed to make FDI comparisons of other countries that have signed FTAs with the U.S. Figure 7 provides FDI inflows (a) from the U.S. to three countries, Morocco, Guatemala and Costa Rica, and FDI outflows (b), from the same countries to the U.S. Morocco has much lower FDI inflows from the U.S. compared to Costa Rica. If anything the FDI inflows from the U.S. to Costa Rica have been steadily increasing. Guatemala equally has more FDI inflows from the U.S. compared to Kenya. The FDI outflows for the three countries are equally higher, implying that there are more investments being made in the three countries from the U.S., and unlike in Kenya, where the inflows are not negative. In case of Morocco inflows have actually increased since 2006, the average for 2006-2012 is higher than average 2001-2005, which are 44 and 115 million USD respectively.

Figure 8: FDI Stocks Between Selected Countries and the United States (Million USD)



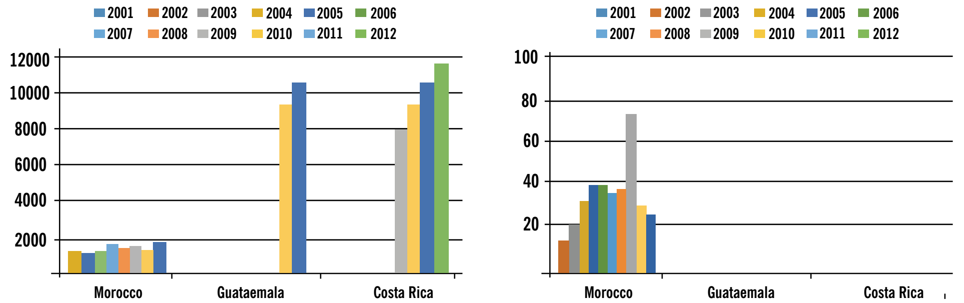
(a) Inflows

(b) Outflows

Source: UNCTAD Database[12]

[11]https://unctad.org/topic/investment/investment-statistics-and-trends

[12]https://unctad.org/topic/investment/investment-statistics-and-trends



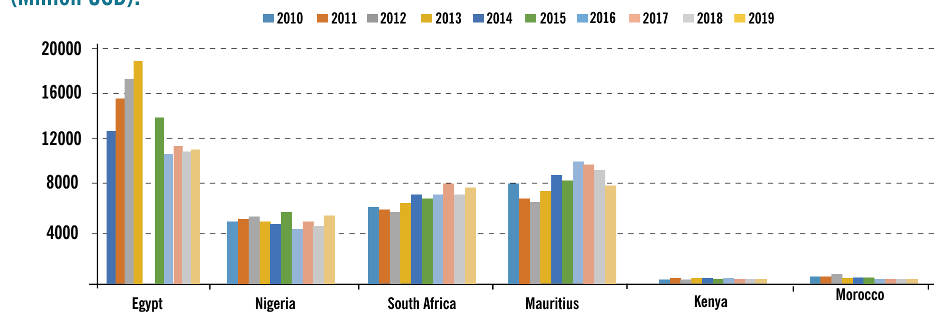
(a) Instock | (b) Outstock

Source: UNCTAD Database

Other countries FDI instock (a) and Out stock (b) are presented in Figure 8. Compared to Kenya, that has been trading with the U.S. under AGOA since 2001, Morocco has been trading with the U.S. under the Morocco-U.S. FTA that came into force on 1 January 2006. Morocco's FDI in stock has been less than USD 2,000 million, however, Costa Rica's FDI instock has been much higher. Some of the key sectors where the U.S. has investments in Costa Rica include: high-tech medical equipment, manufacturing and infrastructure sectors. One weakness of bilateral FDI flows analysis is the lack of adequate disaggregated bilateral data that can be used to establish the sectors in which other countries have invested. In Morocco, under the Prosper Africa project[13]. Some of the sectors of U.S. investment interest include energy, agriculture, healthcare, and expanding access to finance.

Figure 9 presents a summary of U.S. direct investment position for selected African countries from 2010-19. Direct investment position presents the outward direct investment by U.S. investors of at least 10 percent of a foreign business. The highest outward U.S. direct investment are in Egypt, however, the investment trend have declined since 2015. Both Morocco and Kenya have much lower direct investments, even though Morocco already has an FTA with the U.S. and Kenya is in the process of negotiating an FTA. U.S. investments in South Africa have been gradually rising, while in Nigeria, there were years of decline (2012 to 2014) and increase particularly in 2015.

Figure 9: U.S. Direct Investment Position in Selected African Countries on a Historical-Cost Basis (Million USD).



Source: Bureau of Economic Analysis (BEA)[14]

[13]Prosper Africa is a U.S. Government initiative that leverages the full suite of U.S. Government services to connect U.S. and African businesses with new buyers, suppliers, and investment opportunities. https://prosperafrica.dfc.gov/

[14]https://apps.bea.gov/iTable/iTable.cfm?reqid=2&step=1&isuri=1#reqid=2&step=1&isuri=1

FDI data consistency is a challenge especially where there are different source, in this case UNCTAD and BEA[15] , in certain instances; they do not have similar figures, and especially where there are common years of focus such as 2011 and 2012. The Bureau for Economic Analysis (BEA) data does not distinguish FDI inflows or stock.

6 POLITICAL ECONOMY OF REGIONAL INTEGRATION

6.1 Implications of Political Economy Issues for Kenya-U.S. FTA

A review of the EAC Customs Union Protocol Section 37, which focuses on Trade Arrangements with countries and organizations outside the customs union, indicates that each member states must inform all the other partners of any intentions to sign an agreement. A review of Article 4 a) to (e) provides the procedure that any EAC country shall follow before signing an agreement with any other country. It expected that Kenya has notified the other EAC member states of her intentions to negotiate with the U.S. Kenya has argued that this agreement is expected to replace AGOA which will end in 2025. EAC officials in Arusha contend that Kenya is potentially in breach of article 37[16]

a) A Partner State may separately conclude or amend a trade agreement with a foreign country provided that the terms of such an agreement or amendments are not in conflict with the provisions of this Protocol.

b) Where a Partner State intends to conclude or amend an agreement, as specified in paragraph 4(a) of this Article, with a foreign country the Partner State shall send its proposed agreement or amendment by registered mail to the Secretary General, who shall communicate the proposed agreement by registered mail to the other Partner States within a period of thirty days, for their consideration.

c) Where a Partner State notifies the other Partner States of its intention under paragraph 4(b) of this Article, the other Partner States shall make comments and proposals as they may deem appropriate, within ninety days from the receipt of the Secretary General's notification, before the conclusion or amendment of the agreement.

d) Following the receipt of the comments and proposals as specified in paragraph 4(c) of this Article, the Secretary General shall convene a meeting of the Council within a period of sixty days to consider the comments and proposals.

e) Where the Partner States do not submit comments and proposals within the period specified under paragraph 4(c) of this Article, the concerned Partner State may conclude or amend the said agreement.

Under the AfCFTA agreement, member countries can enter into agreements with third parties as long as they accord all other members of the AfCFTA similar or better treatment that is accorded to the third party[17], which implies that there must be reciprocity. Article 19 of the AfCFTA provides for interaction with other

[15]Bureau of Economic Analysis

[16]https://www.theeastafrican.co.ke/tea/news/east-africa/kenya-will-be-in-breach-of-eac-afcfta-rules-in-proposed-trade-deal-with-america-1436916

[17]https://www.un.org/africarenewal/magazine/may-2020/coronavirus/implementing-africa%E2%80%99s-free-trade-pact-best-stimulus-post-covid-19-economies

regional agreements, Article 19(1) notes that if there is any inconsistency with other agreements, the AfCFTA will prevail. Subsequently article 19(2) provides for situations where other RECs have reached a higher level of integration, in such a case the rules of the REC will apply, (African Union, 2018). The first secretary general of the AfCFTA Secretariat, Hon. Wamkele Mene however notes that while the law allows entering into such agreement, politically, countries are discouraged from doing so in order to achieve the political objective of integrating and consolidating the African market first. One of the key targets is to increase intra-Africa trade from the current 18% to 50%.

In his analysis, Lunenborg, (2019) shows that Article 19 implies that in order to reduce complexities under tariff negotiations, members of the AfCFTA should provide concession to other members with whom no existing preferential trade agreements exists. Secondly, existing preferences under other RECs can be integrated into the AfCFTA. There is growing consensus that there should be 90% tariff offer applicable to all member states. If Kenya therefore enters into an FTA with the U.S., then it must accord all countries under the AfCFTA the same treatment or even better, the other countries and should therefor also reciprocate the same. Tariff reduction has revenue implications for any country, in the case of Kenya, tax from international trade transaction and excise tax constitutes 21% of total tax revenues, (KNBS, 2020).

In a study under the Economic Commission for Africa (ECA) Osakwe, Nkurunziza, and Bolaky (2013) conducted a survey to establish reasons why African countries join regional economic blocs. They found that 39% joined for economic reason, 31% joined for political reasons, 19% geographic reasons, culture and history were 8% and 6% respectively. Joining a regional economic bloc for political reasons remains a key factor, and this could be a reason why Kenya is currently negotiating an FTA with the U.S. So, while most African countries can enter into other agreements, from a political perspective, entering into a FTA before the completion of the AfCFTA negotiations process would risk having Kenya being perceived as lacking political will, to fully participate in the AfCFTA.

6.1 Implications of Political Economy Issues for Kenya-U.S. FTA

Sensitive products are goods that a country considers to be important to achieve its national economic or development goals. In most cases, higher tariffs are set for these products. Karingi, Pesce, and Sommer (2018) noted that the EAC allows a list of sensitive items to have higher tariff lines than the maximum common external tariff (CET) rate of 25%. 1.2% of the tariff lines in the EAC are defined as sensitive. There are deviations from the CET that are approved by ministers in the respective partner states and last for several years. These tariff lines are meant to protect the partner states from subsidized export (mainly agricultural products from industrial countries) and second-hand items from import competition. Out of the 59 tariff lines designated as sensitive, 31 are agricultural lines (at HS8 level). The list of sensitive products under the EAC is provided in Annex Table 12 at HS level 4 and 6.

Shinyekwa, Munu, and Katunze (2016) found that the EAC made significant trade creation gains collectively totalling to USD 2.7 billion compared to trade diversion worth USD 50 million. In their study, they found that it was necessary to have a sensitive product list in order to ensure trade creation. However, they also found that the protection given to the list of sensitive products since 2005, that was intended to increase the EAC regional supply capacity to produce and reduce the importation of the same products from the rest of the world, was not achieved. They found that the imports of the sensitive products from outside the region increased more creating a huge negative trade balance.

This implies that the argument for protection in order to develop the sectors is weak, and in most cases remain a tool for political expediency. Generating a sensitive list was a necessary condition, but not sufficient to build the capacity to produce the same products regionally. The EAC citizens pay more for the same products imported from out of the region, which has negative welfare implications The high tariffs imposed in the sensitive list of products have not helped in developing the said sectors.

The sugar sector is another example of a productive activity that has received protection with minimal efforts to improve the local capacities. Kenya was granted another two year extension of sugar safeguard beginning March 2021 to February 2023, by the COMESA Council of Ministers. The GOK is expected to provide the COMESA Council of Ministers with a detailed roadmap on how to enhance the sugar sector competitiveness during the extended safeguard period, ensure the import permit issuance process is transparent, fast and efficient; and provide the projected deficit in January of each year based on production and consumption data from ISO[18]. The sugar sector in Kenya has been wrought with several challenges: agronomic, technological, economic, management and policy limitations, this has resulted in the production costs rising averaging USD 1007/tonnes in 2018. Over 80 percent of the sugar is grown rainfed by smallholder farmers mostly in western Kenya using low inputs, with consequent poor productivity, furthemore, area under sugarcane has expanded over the years to cover 220,000 ha, productivity is low achieving only 55 tonnes/hectare (Mati & Thomas, 2019).

7 ECONOMETRIC AND MULTIPLIER ANALYSIS RESULTS

7.1 The Gravity Model

Following the works of Krugman and Obstfeld (2003), the results of the gravity model are presented in Table 3. These are elasticities of changes associated with Kenya's total trade (sum of exports and imports as the dependent variables). The overall model 1 is the pooled data of trade with the U.S., EAC, COMESA and the AfCFTA. The results show that a 1% increase in the partners' GDP will result in a decline in Kenya's export to the partner country by 0.031%. Increased national income implies that a country has a higher marginal propensity to import from Kenya. However, the inverse relationship with Kenya's export trade implies that Kenya does not have an enhanced product diversification and quality framework to deliver quality good to meet the needs of the export market. A well-developed industrial development policy could address this challenge.

At the same time, a 1% increase in Kenya's GDP (economic size) will result in a 0.429% decline in Kenya's export trade with these economic blocks. Using the same principle as above, Kenyans will equally seek imports from other markets outside the RECs. There is therefore a need to investigate trade with other regions such as India, China and other emerging markets. As the economic performance of these countries improve, both parties are likely to trade with other partners and not trade under the existing/potential arrangements.

1% increase in exchange rate will result in 0.184% decline in export trade. This means that the terms of trade will worsen hence reduced trading. Population represents market size, which is an indicator of

[18]https://www.comesa.int/comesa-extends-kenya-sugar-safeguard-for-two-years/

potential for trade. A 1% increase in Kenya's population results in 1.2% increase in export trade, the increase in the partners GDP results in 0.068% increase in exports. While there is increased potential for trade by market size, the actual trading is likely to decline (partner country GDP) due to weak diverse and quality products. FDI equally increases trade but by a very small percentage. Distance was found not to be a significant determinant of Kenya's exports to partners/country.

Table 3: Results of the Gravity Model

Dependent Var. - Log of total exports	Coefficients	Robust Std. Err.
(Model 1) OVERALL		
Log of Kenya GDP	-0.429***	0.108
Log of GDP Country/Partner	-0.031***	0.005
Log of Exchange rate	-0.184***	0.048
Log of Population Country/Partner	0.068***	0.005
Log of Population of Kenya	1.162***	0.189
Log of FDI	0.002*	0.003
Log of Distance	-0.007	0.004
Constant	-6.922***	1.210
R-squared: 0.886		
(Model 2) EAC		
Log of Kenya GDP	-0.527***	0.132
Log of GDP Country/Partner	-0.015	0.042
Log of Exchange rate	-0.047*	0.027
Log of Population Country/Partner	-0.797	0.754
Log of Population of Kenya	2.087**	0.882
Log of FDI	0.006**	0.003
Constant	-5.948*	2.416
R-squared: .935		
(Model 3) COMESA		
Log of Kenya GDP	-0.510***	0.105
Log of GDP Country/Partner	-0.179	0.141
Log of Exchange rate	-0.172***	0.048
Log of Population Country/Partner	-0.254	0.373
Log of Population of Kenya	1.773***	0.387
Log of FDI	-	-
Constant	-5.388***	1.772
R-squared:0 .904		

(4) U.S.		
Log of Kenya GDP	0.521*	0.295
Log of GDP Country/Partner	0.801**	0.360
Log of Exchange rate	-0.161*	0.098
Log of Population Country/Partner	16.326***	3.101
Log of Population of Kenya	-5.779***	1.301
Log of FDI	-0.012**	0.006
Constant	-251.279***	45.448
R-squared:0 .941		
(5) AfCFTA		
Log of Kenya GDP	-0.312***	0.117
Log of GDP Country/Partner	-0.179	0.164
Log of Exchange rate	-0.114***	0.041
Log of Population Country/Partner	-2.375	0.755
Log of Population of Kenya	3.384***	0.876
Log of FDI	-	-
Constant	5.672***	3.649
R-squared: 0.950		

***1%; **5%; *10% Significance level

The data was further disaggregated to establish the effects of Kenya's trading under the various trade regimes. In model 2, an increase in partner's GDP does not explain variation in Kenya's total trade. In the case of U.S., COMESA, EAC and the AfCFTA, the results are similar. The exchange rates for the other models have the same inverse relationships implying that a 1% increase in exchange rate will result in less export trade; this means that the terms of trade will worsen hence reduced trading, on both imports or exports. Partners GDP largely explain Kenya's trade with the AfCFTA, but the relationship is negative; implying the increase in population size reduces Kenya's export trade. This can still be inference on weak industrial policies that result in lack of product diversification and quality enhancement.

Kenya's exports to the U.S. increase when Kenya and U.S. GDP increase by 0.5% and 0.8% respectively. 1% increase in exchange rate decreases Kenya's export to the U.S. by 0.16%. A percentage increase in the U.S. population size increases Kenya's export to the U.S. by 16%. This change is significant at 1%. This implies that the country has a guaranteed market for the exports products in the U.S. The magnitude of increase in Kenya's export to the U.S. due to an increase in the U.S. GDP is 0.8%. This is much lower than the increase in exports associated with U.S. population increase at 16%. On can deduce that the market potential in the U.S. has not been fully tapped by Kenyan exporters so that it translates to income opportunities associated with changes with GDP. An approach that would harness the available opportunities is to increase the productive capacity of the top U.S. export products, which are largely clothing and textiles. Furthermore, a 1% increase in Kenya's population will result in 5.8% reduction in Kenya's exports to the U.S. This means with Kenya's population increasing, more products will be diverted for domestic consumption. This still brings in the issue of increasing the production capacity to meet both local and export market demand.

7.2 Multiplier Analysis

A key priority for any government is to establish the potential of its sectors to generate growth and jobs. Multiplier analysis can provide a guide on the potential of sectors for an economy to generate output employment and value addition, as well as provide an opportunity to evaluate policies. They capture the total effects of any economic linkage in a given period. Backward production linkages are the demand for additional inputs used by producers to supply additional goods or services, while forward production linkages account for the increased supply of inputs to upstream industries (Vigani et al., 2019). Table 4 presents a summary of the multiplier and backward linkages for Kenya using the Kenya Social Accounting Matrix for 2014.

In interpreting the results, we seek to establish the sector with the largest effect when a Kshs 1 million investment or is made. In the agricultural sector, a one million injection in maize sector results in Kshs. 2.97 million increase in production of maize. For this Kshs. 1 million injection, 11.1 jobs will be created in the maize sector. Incomes (value added) will increase by Kshs. 1.85 million. The backward linkage shows that output in other sectors will increase by Kshs. 1.17 million because of a Kshs. 1 million injection in the maize sector. The increase in intermediate demand will result in the creation of 1.39 jobs and incomes (value added) will increase by Kshs. 1.25 million. Using a similar approach for the other sectors, the sectors with high outputs include: roots and tubers, fruits, vegetables, tea, beef, dairy, sheep, goat and other livestock and fishing.

If employment creation is a key policy objective, which is the case based on the Kenya Vision 2030 economic blueprint, then the livestock sectors create more employment as compared to the crop sector. For example, 17.58 jobs are created when Kshs. 1 million is injected in this sector. The livestock sector equally has much stronger backward linkages in output, employment and value-added (income) creation.

In the manufacturing sector, meat processing and the beverage and tobacco sectors have the highest numbers of job creation. In the services sector, trade (14.29) and other services (11.39) lead in job creation. From Table 4, Kenya has potential in developing the livestock sector and crop sector including maize, wheat, vegetables, coffee, and tea. Adequate investments and technological innovations should be given this sector to provide a higher level of output, employment and income generation. These sectors should not be opened up on a reciprocal basis since they are unlikely to compete with U.S. products that tend to receive production subsidies and export promotion schemes.

Table 4: Linear Multipliers and Backward Linkage Effects

		Multiplier Linkage		Backward Linkage		
	Output	Employment	Value Added	Output	Employment	Value Added
Agriculture						
Maize	2.97	11.10	1.85	1.17	1.39	1.25
Wheat	1.79	6.70	1.10	0.70	0.84	0.74
Rice	1.10	4.10	0.66	0.43	0.51	0.45

Other cereals	3.01	11.13	1.88	1.19	1.39	1.27
Roots & tubers	3.17	11.98	1.98	1.25	1.49	1.33
Pulses & oil seeds	2.16	8.38	1.35	0.85	1.05	0.91
Fruits	3.12	11.41	1.96	1.23	1.42	1.32
Vegetables	3.17	12.25	1.97	1.25	1.53	1.33
Cotton	0.92	4.16	0.59	0.36	0.52	0.40
Sugarcane	2.52	11.73	1.57	0.99	1.46	1.06
Coffee	2.74	12.29	1.72	1.08	1.53	1.15
Tea	3.07	13.16	2.02	1.21	1.64	1.36
Tobacco	2.04	11.71	1.19	0.80	1.46	0.80
Others crops	3.09	10.46	2.06	1.22	1.30	1.39
Beef	3.15	17.30	1.95	1.24	2.16	1.31
Dairy	3.15	16.13	1.94	1.24	2.01	1.30
Poultry	2.98	17.58	1.85	1.17	2.19	1.24
Sheep, goat,	3.08	16.78	1.88	1.21	2.09	1.26
Other livestock	3.12	17.10	1.90	1.23	2.13	1.28
Fishing	3.09	16.74	1.92	1.22	2.09	1.29
Forestry	2.86	12.43	1.95	1.13	1.55	1.31
Manufacturing						
Meat	2.99	10.51	1.43	1.18	1.31	0.96
Grain milling	2.77	9.01	1.33	1.09	1.12	0.89
Sugar & bakery …	2.52	9.99	1.50	0.99	1.25	1.01
Beverages/ tobacco	2.82	10.14	1.67	1.11	1.27	1.12
Other manuf. food	1.89	9.07	1.09	0.74	1.13	0.74
Mining	1.67	3.88	0.93	0.66	0.48	0.63
Textile & clothing	0.87	3.39	0.45	0.34	0.42	0.30
Leather & footwear	1.88	4.55	0.88	0.74	0.57	0.59
Wood & paper	1.91	5.27	0.89	0.75	0.66	0.60
Printing-publishing	1.47	3.66	0.67	0.58	0.46	0.45
Petroleum	0.54	1.25	0.22	0.21	0.16	0.15

Chemicals	0.51	1.50	0.24	0.20	0.19	0.16
Fertilizers	0.79	2.19	0.41	0.31	0.27	0.28
Metals and machines	0.53	1.46	0.22	0.21	0.18	0.15
Non-metallic products	1.98	4.32	1.19	0.78	0.54	0.80
Other manufactures	1.33	4.40	0.64	0.52	0.55	0.43
Non-metallic products	1.98	4.32	1.19	0.78	0.54	0.80
Other manufactures	1.33	4.40	0.64	0.52	0.55	0.43
Services						
Water	3.12	9.09	1.89	1.23	1.13	1.27
Electricity	2.49	4.54	1.43	0.98	0.57	0.96
Construction	2.70	5.70	1.38	1.06	0.71	0.93
Trade	2.74	14.29	1.57	1.08	1.78	1.05
Hotels	2.47	6.54	1.36	0.97	0.82	0.92
Transport	2.72	5.91	1.66	1.07	0.74	1.12
Communication	3.10	6.33	1.46	1.22	0.79	0.98
Finance	2.90	6.25	1.66	1.14	0.78	1.11
Real estate	2.51	4.62	1.79	0.99	0.58	1.21
Other services	2.82	11.31	1.78	1.11	1.41	1.20
Administration	2.71	5.74	1.59	1.07	0.72	1.07
Health	2.86	6.10	1.71	1.12	0.76	1.15
Education	3.03	7.04	1.84	1.19	0.88	1.24

Source: (Vigani et al., 2019)

8 KENYA'S NEGOTIATIONS AND SECTORAL PRIORITIES UNDER THE U.S. FTA

8.1 Kenya and U.S. Negotiations Objectives

Table 5 shows the U.S. and Kenya negotiation subjects. Kenya is getting involved in a full FTA negotiation which requires reciprocity, however, Kenya's perfromance under AGOA has been minimal with around 1% of tariff lines being utlized. The Kenya-U.S. FTA will require that the all goods from the U.S. be accorded MFN and national treatment principles, furthermore, other agreements such as USMCA, national treatment and market access to goods applies to regional levels of government. This means that all goods imported to Kenya, or all services procured by the county government will be open to competition from U.S. firms.

Table 5: Kenya U.S. -FTA Negotiations Objectives

	UNITED STATES	KENYA
WTO Compatible	1.Trade in Goods 2. Sanitary and Phytosanitary Measures 3. Rules of Origin 4. Technical Barriers to Trade 5. Good Regulatory Practices 6. Transparency, Publication, and Administrative Measures 7. Investment 8. Intellectual Property 9. Labour 10. Environment 11. Trade Remedies 12. Dispute Settlement 13. Anti-Corruption 14. Trade in Services, Including Telecommunications and Financial Services 15. Procedural Fairness for Pharmaceuticals and Medical Devices 16. Digital Trade in Goods and Services and Cross-Border Data Flows 17. Subsidies 18. Small and Medium-Sized Enterprises	1. Goods Market Access 2. Food and Agriculture/Sanitary & Phytosanitary (SPS) Measures 3. Technical Barriers to Trade (TBT) 4. Customs Procedures, Rules of Origin and Trade Remedies 5. Transparency and Legal Issues 6. Commercial Cooperation 7. Labour 8. Environment 9. Services, Digital Trade, and Investment 10. Intellectual Property (IP) 11. Textile and Apparel
WTO Plus	19. State-Owned and Controlled Enterprises 20. Government Procurement 21. Competition Policy	12. AGOA Utilization State Owned Enterprises 13. Government Procurement

8.2 Agricultural Sector

Agriculture value addition initiatives in the MTP III 2018-2022 seek to raise incomes in agriculture, livestock and fisheries. Some of the initiatives that will raise agricultural value addition include: improved access, affordability, and suitability of fertilizers; adoption of new technologies in agricultural mechanization, improving dairy value chains, creation of sustainable self employment for the women and youth in agricultural sector and agricultural insurance to manage post harvest losses. Some of the target sectors include livestock, fish, poultry and piggery.

Under the Kenya- U.S. FTA negotiations objectives, an area of concern is in agricultural biotechnologies where the US expects … commitments for products developed through agricultural biotechnologies, including on transparency, cooperation, and managing low level presence issues, and a mechanism for exchange of information and enhanced cooperation on agricultural biotechnologies… The USMCA under Article 2.14 expects partners to trade in products of agricultural biotechnology and also promote agricultural innovations. MTP III 2018-2022 does not mention agricultural innovations through agricultural biotechnology. It is not clear how agricultural biotechnology will be incorporated as part of Kenya's development agenda for agriculture, if the Kenya- U.S. FTA is to follow the USMCA FTA agreement.

Findings from this study show that some of the key crop production sub-sectors where increased investments will result in job creation include: tea, coffee, vegetables, roots and tubers, tobacco, fruits, other cereals and maize. In the Kenya U.S.-FTA negotiations, investment opportunities negotiated should be directed to the specified crop sub sectors since for each Ksh one million invested, at least 10 jobs would be created.

Tea and Coffee

These commodities are among the most traded commodities in the EAC and COMESA. Coffee from Kenya has special outlets in Europe and the U.S., where it is blended with other coffee varieties from around the world. The sector faces several challenges. According to GOK (2018a) some of these are : high cost of production, disease resistance by some coffee varieties, which has resulted in low production. Farmers equally face the challenge of lack of access to credit, coupled with leadership wrangles within their associations. The sector also has positive traits, and has a strong legislative framework and given that the Kenyan coffee is globally recognized, the sector has been able to export within and outside Africa.

The tea sector has been around and has a solid institutional framework for handling its operations. However, the sector suffers from low value chain innovations, coupled with increased cost of production and failure to penetrate the market with value added tea. There is also low consumption of tea, and in the U.S., since only around 87% of the millennials[19] consume tea. There is a growing trend of tea consumption since more consumers are becoming health conscious and are willing to pay for better quality tea (GOK, 2018a).

Fruits and Vegetables

The common export fruits and vegetables are pineapples, avocados, french beans, sugar snaps and passion fruits. This sector ranks second in foreign exchange earning for the country. It face several challenges, particularly high production costs due to high costs of energy and poor storage infrastructure resulting in poor quality products before shipment. There are increasing market opportunities for these products in the U.S. and China.

Livestock Production

In the livestock sub-sectors, the following have high potential for employment creation: beef, dairy, poultry, sheep, goat and other livestock and fishing, where for each 1 million shilling invested, 16-18 employment opportunities are created. Kenya has had minimal livestock products exports to the U.S., however, this sector has potential for greater investments.

[19]Young adults of the 21st century

8.3 Manufacturing Sector

The manufacturing sector is expected to facilitate an economic growth rate of 10% and further support the creation of jobs, the generation of foreign exchange, and attract FDI (GOK, 2007). GOK expects to achieve these initiatives through: increasing investments in the textile and apparel industries as well as the manufacture of leather and leather products.

Clothing and Textile

From the sectoral multiplier analysis, the textile and clothing sector has a very low output potential, with an injection of Ksh 1 million worth of investments in the sector, output will only increase by 0.87 million, this will translate to 3 employment opportunities being created and incomes will increase by 0.45 million. Clearly, this is a very unproductive sector. Opening up this sector to reciprocal trade with the U.S. will be detrimental to the sector. According to Msingi East Africa (2018) in their survey to establish the challenges of clothing and textile value chain addition they found that Kenya has 52 textile mills, of which less than 30% are operational. Those that are operational utilize less than 45% of their capacity. Out of the 23 ginneries in Kenya, only 8 are operational with an average of 14% capacity utilization. With this level of operation, the country is unable to produce quality lint to serve the needs of the apparel industry. Furthermore, cotton production is also wrought with challenges, such that an investment in the sector gives very low returns, where a Ksh 1 million investment in the sector will result in production of Ksh 0.92 million worth of cotton output, only 4 employment creation opportunities would arise, resulting in Ksh 0.59 million worth of income (Vigani et al., 2019).

The U.S. has a strong component on safeguards measures for textiles and apparels, it seeks to preserve the ability to enforce rigorously its trade laws, including the antidumping, countervailing duty, and safeguard laws. With reciprocal trading in the textile and apparel sector under the Kenya-U.S. FTA, Kenya is likely to struggle in accessing the U.S. market if Kenya's export to the U.S. becomes a threat.

Leather and Footwear

The leather and footwear industry has much better returns compared to the clothing and textile sector. From the output multiplier analysis, investing Ksh 1 million in this sector results in production of output worth Ksh 1.88 million, with only 5 employment opportunities being created, however, the incomes emanating from the sector activities are worth Ksh 0.88 million. (GOK, 2018b) acknowledges the challenges in this sector, in that …

> **" …While Kenya, home to the third largest livestock populations in Africa, leather represents a potential area for sustainable economic growth and employment. However, value addition in the leather sector has been minimal, and most of Kenya's exports have been in the form of unprocessed, raw hides and skins. The leather sector can contribute to economic growth through expanding exports of both semi-processed and finished leather goods. The development of the sector involves improving the raw material base (especially the quality of hides and skins), boosting the tanning subsector, producing leather goods, and marketing."**

The contrast in this sector is that the livestock sector is very productive, if an investor puts in Ksh 1 million in the sector, this would result in tripling of output and employment opportunities in the range of 16-18 persons employed for every Ksh 1 million invested. Incomes earned would be almost Ksh 2 million. The country has not invested in leather production hence the finished leather and leather products in the value chain is very low (approximately 2% and 4 % of quantity exported) (GOK, 2018b). This sector requires proper strategic planning for value addition and export market development. Negotiating a Kenya-U.S. FTA is likely to hamper the leather and footwear sector development.

Kenya's competitiveness can be enhanced through development of SEZs and formalization of MSMEs in the informal sectors. Formalization of MSMEs will require very concrete strategic direction since only 29% of MSMEs[20] are licensed and operating, the other 73% are informal.

8.5 Opportunities and Challenges

Attracting investments in the country will require active government strategy and planning by identifying which sectors should be prioritized for investments. The question is which industries in Kenya would be most likely to attract FDI from U.S.? From the Kenyan side, the livestock sub-sectors has both potential for increased output, employment and incomes, some of the sectors include: beef, dairy, poultry, sheep, goat and other livestock and fishing, where for each million shilling invested, 16-18 employment opportunities are created.

Government procurement and competition policy fell under the 'Singapore issues', which led to the collapse of the WTO. Both Kenya and the U.S. have included government procurement, which also included SOE also known as parastatals. Kenyan SOEs face several challenges as outlined by Njagi Ireri, (2016), these include poor legal framework and indebtedness, politicization of the appointment process, irregular appointment of board of directors, lack of diversity and gender mainstreaming in board appointment and stringent economic conditionality's especially the irregular appointment of Board of Directors (BOD) contributes to poor performance of SOEs. At the same time SOEs are commonly found in agricultural exports, transport and communications, manufacturing and agricultural trade. Their core objective is to meet the social costs that private sector is unable to meet. Sustainable strategic reforms that will make these entities become going concerns, are required before these institutions are included in the Kenya-U.S. FTA negotiations.

The MSME registration status shows that only 27% of MSMEs are licensed and operating. Therefore with 73% of enterprises operating in the informally, opening up this sector will not make Kenya gain. The government seeks to promote the growth of MSMEs through initiatives like providing 30% of its procurement to women, youth and persons with disabilities under the access to government procurement opportunities (AGPO) programmes. With national treatment and MFN clauses included as market access conditions in the Kenya-U.S. FTA, promotion of Kenyan MSMEs through AGPO and similar initiatives will constitute discrimination for potential U.S. firms. Secondly, the challenge of informality must be dealt with before the MSME sector is subjected to negotiations. Kenya should further interrogate its negotiations objectives to ensure vulnerable sectors are not exposed to competition from U.S. enterprises.

[20]Source: MSMEs 2016 database

9 RECOMMENDATIONS

The study sought to respond to the Kenya Government's initiative for joint negotiations with the United States on a Free trade agreement, by undertaking an econometric study to guide the proposed negotiations. The study draws several recommendations:

1. Any FTA, including the Kenya-U.S. FTA should be motivated by economic considerations that ensure there are tangible economic gains for the nation.
2. GOK should not take part in a Kenya-U.S. FTA negotiations agenda, which includes issues not resolved at the WTO such as digital trade, e-commerce, SOEs competition policy, and fisheries subsidies.
3. The AGOA utilization rate has been very low with just 0.05% of tariff lines being utilized; negotiating a new FTA will not solve the challenges associated with the low utilization rate. The focus should be on how to improve the utilization rate to a higher rate.
4. Consider alternatives or reducing scope of the negotiations. The main commodities exported to the U.S. from Kenya are clothing and textiles. With the market opportunities arising from the U.S. population and GDP growth, GOK should focus on phased negotiations with the U.S. in order to take advantage of the clothing and textile export demand, for these products (HS 62 and 63), an agreement could be reached by 2024 at the earliest. A mini trade agreement on textiles and clothing, and investments in developing the same sector would be the most appropriate.
5. Increase trade relationships with other markets, in particular in Africa. The RECs such as EAC, COMESA and the AfCFTA provide an opportunity for Kenya to produce and export manufactured products and also have positive trade balance with Kenya. GOK should give priority to RECs that promote exportation of value added products in order to promote industrial development.
6. GOK should develop an industrial development strategy that enhances products diversification and quality through high value added in agriculture and manufacturing, in order to meet the consumer taste and preferences for quality goods and services delivery. It should be used to ensure product diversification of Kenyan exports as well as quality products that will ensure sustainable export demand.
7. The livestock sub-sector has strong output and backward linkages. GOK should invest in value addition, in order to export these products in the African region.
8. The country does not have the capacity to compete with American commodities on reciprocal basis given the weak industrial base and less diverse export products.
9. The following key sectors should be protected from any reciprocal trade tea, coffee, vegetables, roots and tubers, tobacco, fruits, other cereals, maize and livestock sectors. This is especially since they are marked for value addition.
10. The sensitive list of products already negotiated at the EAC could be used as a guide for any other FTA negotiations.

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ANNEXES

Annex Table 1: Data for Gravity Model

YEAR	COU	IMPORT (Million USD)	EXPORT Million USD	TRADE Million USD	GDP_COUNTRY Million USD	GDP_KEN Million USD	EXR	POP_COUNTRY	POP_KEN	DISTANCE	PARTNER	KEN_FDI Million USD
2001	US	527	40	567	12,746,262	27,189	79	284,968,955	32,848,564	12,135	0	5
2002	US	211	20	231	12,968,263	27,338	79	287,625,193	33,751,739	12,135	0	28
2003	US	246	41	287	13,339,312	28,139	76	290,107,933	34,678,779	12,135	0	82
2004	US	-	48	48	13,846,058	29,576	79	292,805,298	35,635,271	12,135	0	46
2005	US	563	228	791	14,332,500	31,323	76	295,516,599	36,624,895	12,135	0	21
2006	US	343	291	635	14,741,688	33,350	72	298,379,912	37,649,033	12,135	0	51
2007	US	662	286	947	15,018,268	35,635	67	301,231,207	38,705,932	12,135	0	729
2008	US	402	300	702	14,997,756	35,717	69	304,093,966	39,791,981	12,135	0	96
2009	US	649	226	875	14,617,299	36,899	77	306,771,529	40,901,792	12,135	0	116
2010	US	496	285	781	14,992,053	40,000	79	309,321,666	42,030,676	12,135	0	178
2011	US	505	291	796	15,224,555	42,443	89	311,556,874	43,178,257	12,135	0	1,450
2012	US	782	313	1,095	15,567,038	44,380	85	313,830,990	44,343,410	12,135	0	1,380
2013	US	667	348	1,015	15,853,796	46,989	86	315,993,715	45,519,889	12,135	0	1,119
2014	US	1,919	435	2,355	16,254,258	49,506	88	318,301,008	46,699,981	12,135	0	821
2015	US	1,289	416	1,705	16,726,936	52,337	98	320,635,163	47,878,336	12,135	0	620
2016	US	473	427	901	17,000,896	55,414	102	322,941,311	49,051,686	12,135	0	679
2017	US	557	457	1,014	17,403,783	58,077	103	324,985,539	50,221,473	12,135	0	1,266
2018	US	528	467	995	17,913,249	61,747	101	326,687,501	51,393,010	12,135	0	1,626
2019	US	591	509	1,100	18,300,386	65,060	102	328,239,523	52,573,973	12,135	0	1,332
2001	COMESA	130	355	486	349,985	27,189	79	329,716,086	32,848,564	2,309	1	5
2002	COMESA	105	454	559	355,939	27,338	79	337,863,888	33,751,739	2,309	1	28
2003	COMESA	141	841	982	371,673	28,139	76	346,212,990	34,678,779	2,309	1	82
2004	COMESA	-	925	925	389,044	29,576	79	354,783,467	35,635,271	2,309	1	46
2005	COMESA	204	1,192	1,396	412,093	31,323	76	363,595,290	36,624,895	2,309	1	21

YEAR	COU	IMPORT (Million USD)	EXPORT Million USD	TRADE Million USD	GDP_COUNTRY Million USD	GDP_KEN Million USD	EXR	POP_COUNTRY	POP_KEN	DISTANCE	PARTNER	KEN_FDI Million USD
2006	COMESA	244	1,047	1,290	440,464	33,350	72	372,647,665	37,649,033	2,309	1	51
2007	COMESA	425	1,286	1,711	472,649	35,635	67	381,956,135	38,705,932	2,309	1	729
2008	COMESA	409	1,617	2,026	500,181	35,717	69	391,578,334	39,791,981	2,309	1	96
2009	COMESA	323	1,461	1,784	519,822	36,899	77	401,581,583	40,901,792	2,309	1	116
2010	COMESA	515	1,713	2,228	550,478	40,000	79	412,018,226	42,030,676	2,309	1	178
2011	COMESA	622	2,054	2,676	516,792	42,443	89	422,896,113	43,178,257	2,309	1	1,450
2012	COMESA	718	1,790	2,508	568,273	44,380	85	430,954,579	44,343,410	2,309	1	1,380
2013	COMESA	660	1,632	2,293	578,672	46,989	86	442,621,513	45,519,889	2,309	1	1,119
2014	COMESA	673	1,636	2,309	586,973	49,506	88	454,623,817	46,699,981	2,309	1	821
2015	COMESA	681	1,593	2,274	608,479	52,337	98	466,911,599	47,878,336	2,309	1	620
2016	COMESA	681	1,464	2,145	631,763	55,414	102	479,474,498	49,051,686	2,309	1	679
2017	COMESA	1,094	1,381	2,475	665,239	58,077	103	492,302,640	50,221,473	2,309	1	1,266
2018	COMESA	1,133	1,390	2,524	699,143	61,747	101	505,337,127	51,393,010	2,309	1	1,626
2019	COMESA	1,136	1,422	2,558	726,326	65,060	102	518,512,712	52,573,973	2,309	1	1,332
2001	AFRICA	407	546	953	1,204,100	27,189	79	796,808,177	32,848,564	1,555	1	5
2002	AFRICA	360	674	1,035	1,268,777	27,338	79	816,258,630	33,751,739	1,555	1	28
2003	AFRICA	466	1,158	1,624	1,330,307	28,139	76	836,236,033	34,678,779	1,555	1	82
2004	AFRICA	-	1,243	1,243	1,408,501	29,576	79	856,831,468	35,635,271	1,555	1	46
2005	AFRICA	830	1,597	2,427	1,492,952	31,323	76	878,117,279	36,624,895	1,555	1	21
2006	AFRICA	883	1,496	2,379	1,580,579	33,350	72	900,119,784	37,649,033	1,555	1	51
2007	AFRICA	1,070	1,839	2,909	1,677,250	35,635	67	922,850,337	38,705,932	1,555	1	729
2008	AFRICA	1,247	2,363	3,610	1,779,052	35,717	69	946,346,513	39,791,981	1,555	1	96
2009	AFRICA	1,355	2,105	3,460	1,833,094	36,899	77	970,638,689	40,901,792	1,555	1	116

YEAR	COU	IMPORT (Million USD)	EXPORT Million USD	TRADE Million USD	GDP_COUNTRY Million USD	GDP_KEN Million USD	EXR	POP_COUNTRY	POP_KEN	DISTANCE	PARTNER	KEN_FDI Million USD
2010	AFRICA	1,446	2,383	3,829	1,928,581	40,000	79	995,749,614	42,030,676	1,555	1	178
2011	AFRICA	1,715	2,800	4,515	1,952,836	42,443	89	1,021,683,452	43,178,257	1,555	1	1,450
2012	AFRICA	1,667	2,967	4,635	2,058,581	44,380	85	1,045,182,377	44,343,410	1,555	1	1,380
2013	AFRICA	1,716	2,686	4,403	2,137,096	46,989	86	1,072,656,799	45,519,889	1,555	1	1,119
2014	AFRICA	1,662	2,744	4,405	2,212,169	49,506	88	1,100,812,979	46,699,981	1,555	1	821
2015	AFRICA	1,522	2,471	3,994	2,274,039	52,337	98	1,129,583,756	47,878,336	1,555	1	620
2016	AFRICA	1,382	2,311	3,694	2,300,272	55,414	102	1,158,948,291	49,051,686	1,555	1	679
2017	AFRICA	1,940	2,164	4,104	2,367,136	58,077	103	1,188,890,657	50,221,473	1,555	1	1,266
2018	AFRICA	2,034	2,132	4,165	2,433,941	61,747	101	1,219,344,577	51,393,010	1,555	1	1,626
2019	AFRICA	2,181	2,186	4,367	2,493,830	65,060	102	1,250,245,435	52,573,973	1,555	1	1,332
2001	EAC	14	292	305	36,252	27,189	79	79,979,318	32,848,564	273	1	5
2002	EAC	19	465	484	39,193	27,338	79	82,321,444	33,751,739	273	1	28
2003	EAC	29	722	750	41,502	28,139	76	84,720,325	34,678,779	273	1	82
2004	EAC	-	805	805	44,463	29,576	79	87,226,632	35,635,271	273	1	46
2005	EAC	61	976	1,037	47,558	31,323	76	89,875,914	36,624,895	273	1	21
2006	EAC	84	737	821	51,524	33,350	72	92,678,730	37,649,033	273	1	51
2007	EAC	192	953	1,144	55,322	35,635	67	95,618,862	38,705,932	273	1	729
2008	EAC	182	1,221	1,403	72,550	35,717	69	98,673,255	39,791,981	273	1	96
2009	EAC	163	1,170	1,333	76,728	36,899	77	101,807,627	40,901,792	273	1	116
2010	EAC	257	1,279	1,536	81,331	40,000	79	104,997,996	42,030,676	273	1	178
2011	EAC	304	1,552	1,856	86,174	42,443	89	108,232,692	43,178,257	273	1	1,450
2012	EAC	366	1,599	1,964	83,089	44,380	85	111,520,962	44,343,410	273	1	1,380
2013	EAC	335	1,451	1,785	88,047	46,989	86	114,884,380	45,519,889	273	1	1,119
2014	EAC	417	1,430	1,847	93,081	49,506	88	118,354,785	46,699,981	273	1	821

2015	EAC	410	1,294	1,705	96,980	52,337	98	121,952,845	47,878,336	273	1	620
2016	EAC	325	1,200	1,524	94,297	55,414	102	125,687,624	49,051,686	273	1	679
2017	EAC	590	1,111	1,700	99,214	58,077	103	129,545,091	50,221,473	273	1	1,266
2018	EAC	676	1,145	1,821	105,098	61,747	101	133,494,724	51,393,010	273	1	1,626
2019	EAC	620	1,249	1,869	111,873	65,060	102	137,494,700	52,573,973	273	1	1,332

Annex Table 2: Kenya's Top 15 Exports to the EAC (USD '000,000)

Code	Product	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
'TOTAL	All products	976	737	953	1221	1170	1279	1552	1599	1451	1430	1294	1200	1111	1145	1249
'15	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal ...	23	22	33	42	41	86	109	104	76	58	40	66	64	81	106
'72	Iron and steel	55	41	50	98	69	91	124	104	106	90	75	73	67	79	104
'34	Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial ...	33	22	26	37	45	53	64	71	60	58	44	46	51	64	82
'39	Plastics and articles thereof	57	59	59	73	65	81	90	98	96	103	95	78	76	78	72
'87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	26	33	35	49	70	59	60	58	67	48	56	55	41	68	67
'30	Pharmaceutical products	26	27	42	44	44	48	55	100	81	84	76	89	72	59	63
'84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	14	17	19	25	34	54	53	72	45	60	52	48	43	38	60
'27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral ...	402	85	89	99	97	114	165	127	93	123	97	93	83	64	55
'25	Salt; sulphur; earths and stone; plastering materials, lime and cement	44	58	91	146	126	111	136	122	117	124	120	88	75	60	53
'48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	31	34	43	51	43	46	48	46	46	38	37	34	36	42	48

'85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television ...	16	18	30	41	30	36	39	48	45	43	50	52	36	37	42
'17	Sugars and sugar confectionery	18	22	28	30	27	38	44	51	44	50	43	35	36	33	32
'73	Articles of iron or steel	18	29	34	42	31	36	44	43	39	39	33	29	23	26	32
'21	Miscellaneous edible preparations	5	5	6	6	8	9	11	18	15	17	22	26	30	28	31

Annex Table 3: Kenya's Top 15 Imports to the EAC (USD '000,000)

Code	Product	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
'TOTAL	All products	61	84	192	182	163	257	304	366	335	417	410	325	590	676	620
'04	Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere ...	0	0	1	1	3	10	15	16	21	26	37	25	83	99	131
'44	Wood and articles of wood; wood charcoal	0	12	17	9	4	5	6	7	9	4	7	13	19	34	61
'10	Cereals	4	3	26	12	10	28	47	80	17	110	90	34	67	98	47
'24	Tobacco and manufactured tobacco substitutes	12	2	25	41	15	20	9	14	75	60	43	49	34	46	42
'17	Sugars and sugar confectionery	0	1	2	1	3	7	1	26	5	25	18	29	22	35	38
'23	Residues and waste from the food industries; prepared animal fodder	2	2	9	8	10	9	13	13	11	7	8	14	89	69	33
'48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	2	8	8	19	22	24	28	24	27	25	28	27	32	32	33
'72	Iron and steel	2	2	3	0	1	3	6	2	4	3	2	3	7	12	29
'27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral ...	1	4	0	1	6	15	3	7	16	11	5	6	9	11	25
'69	Ceramic products	0	0	0	0	0	0	0	0	0	0	0	0	7	15	19
'07	Edible vegetables and certain roots and tubers	1	1	19	12	7	17	29	38	21	25	39	30	87	90	16
'09	Coffee, tea, maté and spices	0	0	0	0	1	5	6	7	13	10	13	8	13	20	13
'22	Beverages, spirits and vinegar	2	2	3	5	4	5	4	9	6	9	5	6	10	8	12
'01	Live animals	0	0	0	0	-	0	0	1	0	0	5	1	4	2	12

Annex Table 4: Kenya's Top 15 Exports to the COMESA (USD '000,000)

Code	Product	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
'TOTAL	All products	1,192	1,047	1,286	1,617	1,461	1,713	2,054	1,790	1,632	1,636	1,593	1,464	1,381	1,390	1,422
'09	Coffee, tea, maté and spices	145	172	175	270	203	289	253	211	183	185	181	182	175	179	174
'15	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal ...	38	47	65	74	75	95	112	75	48	53	52	74	69	88	111
'72	Iron and steel	73	76	77	102	77	94	141	118	120	104	102	108	99	89	97
'39	Plastics and articles thereof	50	58	68	94	85	100	127	129	120	122	115	95	85	80	77
'30	Pharmaceutical products	23	27	39	44	41	47	50	66	66	64	69	65	63	55	62
'27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral ...	402	76	83	89	90	123	177	126	92	151	132	116	95	77	62
'34	Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial ...	50	31	39	56	64	75	102	94	74	65	58	46	55	54	57
'48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	27	33	40	50	41	44	51	46	46	40	44	46	45	54	56
'25	Salt; sulphur; earths and stone; plastering materials, lime and cement	44	56	85	141	129	115	139	107	96	102	112	80	71	56	52
'21	Miscellaneous edible preparations	4	6	8	8	11	13	17	23	21	24	29	35	35	46	46
'24	Tobacco and manufactured tobacco substitutes	14	43	56	66	61	76	132	105	65	76	68	52	48	43	43
'17	Sugars and sugar confectionery	19	28	43	56	28	35	41	44	39	36	39	35	37	41	42
'87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	27	33	39	39	51	51	68	44	60	43	44	39	36	40	40
'84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	18	29	28	30	40	50	54	46	39	40	31	28	32	39	37
'38	Miscellaneous chemical products	7	11	15	26	17	21	24	19	16	19	22	27	28	34	33

Annex Table 5: Kenya's Top 15 Imports to the COMESA (USD '000,000)

Code	Product	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
'TOTAL	All products	204	244	425	409	323	515	622	718	660	673	681	681	1,094	1,133	1,136
'17	Sugars and sugar confectionery	31	47	73	59	41	98	43	105	79	58	86	156	232	145	276
'04	Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere ...	0	1	1	1	4	10	16	17	21	26	36	25	86	101	132
'33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations	28	37	42	40	41	46	54	48	58	49	63	55	74	81	72
'44	Wood and articles of wood; wood charcoal	1	1	2	2	3	4	6	11	11	5	7	13	20	36	52
'27	Mineral fuels, mineral oils and products of their distillation; bituminous sub-stances; mineral ...	3	9	46	49	23	33	24	32	11	35	10	7	3	4	46
'48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	17	24	31	46	45	57	66	69	33	38	29	28	31	44	45
'85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television ...	15	15	11	14	13	18	13	30	16	27	26	34	34	37	43
'24	Tobacco and manufactured tobacco substitutes	23	16	36	50	29	43	51	33	85	62	44	50	35	45	43
'96	Miscellaneous manufactured articles	1	2	2	2	1	2	2	16	49	53	35	34	39	35	33
'34	Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial ...	3	3	5	5	11	16	24	47	46	56	47	41	47	40	33
'72	Iron and steel	8	4	7	11	4	7	14	16	23	17	13	23	25	28	33
'23	Residues and waste from the food industries; prepared animal fodder	0	0	6	1	4	5	7	7	6	4	6	9	82	71	32

'39	Plastics and articles thereof	4	4	4	5	6	11	15	20	23	23	21	18	23	32	31
'25	Salt; sulphur; earths and stone; plastering materials, lime and cement	0	1	2	7	1	1	1	2	1	2	2	2	14	28	18
'19	Preparations of cereals, flour, starch or milk; pastrycooks' products	0	1	1	2	2	4	6	8	8	7	9	6	12	13	18

Annex Table 6: Kenya's Top 15 Exports to the US (USD '000,000)

Code	Product	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
'TOTAL	All products	228	291	286	300	226	285	291	313	348	435	416	427	457	467	509
'62	Articles of apparel and clothing accessories, not knitted or crocheted	129	171	156	146	81	65	80	101	125	184	174	193	181	209	219
'61	Articles of apparel and clothing accessories, knitted or crocheted	43	54	69	88	81	108	139	116	133	113	97	88	111	111	101
'26	Ores, slag and ash	-	-	0	0	-	0	0	-	0	25	18	23	11	9	50
'08	Edible fruit and nuts; peel of citrus fruit or melons	4	6	4	4	4	17	20	24	20	28	33	36	50	54	47
'09	Coffee, tea, maté and spices	31	31	33	45	43	45	35	50	46	60	59	58	79	47	36
'27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral ...	0	0	0	-	-	-	-	0	3	1	3	2	3	2	18
'33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations	0	0	0	1	1	0	1	1	1	2	4	2	4	9	10
'06	Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	1	1	1	2	4	4	4	4	5	6	5	4	5	4	5
'21	Miscellaneous edible preparations	1	0	0	0	0	0	1	1	0	0	0	3	0	7	5
'67	Prepared feathers and down and articles made of feathers or of down; artificial flowers; articles ...	0	0	0	0	0	0	0	0	0	0	0	0	1	1	3

'15	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal ...	0	0	0	0	0	0	1	1	1	1	3	3	3	3	2
'71	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad ...	1	1	1	1	1	32	1	1	1	1	1	1	2	2	2
'32	Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and other colouring ...	0	-	0	0	0	0	0	0	1	1	1	1	0	0	2
'95	Toys, games and sports requisites; parts and accessories thereof	0	1	2	2	1	2	2	2	2	2	1	1	1	2	1

Annex Table 7: Kenya's Top 15 Imports to the US (USD '000,000)

Code	Product	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
'TOTAL	All products	563	343	662	402	649	496	505	782	667	1,919	1,289	473	557	528	591
'84	Machinery, mechanical appliances, nuclear reactors,	23	37	73	56	63	82	97	191	200	174	121	111	143	86	116
'88	Aircraft, spacecraft, and parts thereof	433	112	349	90	155	97	73	134	65	1,355	796	32	58	96	66
'85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television ...	10	19	46	57	43	50	37	91	80	55	51	73	66	76	57
'39	Plastics and articles thereof	4	4	7	8	6	9	13	11	11	9	8	17	24	33	52
'10	Cereals	11	26	27	15	97	27	13	17	20	32	23	38	47	22	46
'90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical ...	5	8	12	11	16	15	21	39	58	58	46	49	39	34	36
'30	Pharmaceutical products	4	7	4	11	17	18	38	23	29	22	26	12	20	31	34
'27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral ...	3	44	1	3	1	2	6	5	1	3	18	11	7	11	32

'38	Miscellaneous chemical products	4	8	7	10	9	11	13	25	31	32	21	14	25	24	21
'48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	1	1	1	3	5	9	16	12	13	23	16	14	18	15	16
'93	Arms and ammunition; parts and accessories thereof	1	0	0	0	0	0	8	0	1	0	1	1	1	3	15
'87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	3	4	10	5	8	13	12	20	17	12	23	13	7	10	13
'63	Other made-up textile articles; sets; worn clothing and worn textile articles; rags	5	7	9	11	15	20	15	17	15	11	12	11	8	9	11
'07	Edible vegetables and certain roots and tubers	3	7	17	8	22	11	21	9	15	8	14	6	15	8	10
'15	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal ...	2	4	5	13	16	8	17	6	4	8	11	5	10	10	8

Annex Table 8: Kenya's Top 15 Exports to Africa (USD '000,000)

Code	Product	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
'TOTAL	All products	1,597	1,496	1,839	2,363	2,105	2,383	2,800	2,967	2,686	2,744	2,471	2,311	2,164	2,132	2,186
'09	Coffee, tea, maté and spices	157	184	188	288	219	307	269	284	264	261	253	244	245	252	234
'72	Iron and steel	101	103	104	143	102	127	178	154	153	124	111	116	107	113	133
'15	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal ...	50	61	90	109	107	147	191	186	125	98	70	100	85	101	124
'84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	25	40	37	43	56	76	83	121	85	97	78	77	60	89	112
'30	Pharmaceutical products	37	43	68	79	70	74	83	138	118	127	117	131	119	104	108
'39	Plastics and articles thereof	74	90	98	128	111	134	159	174	164	171	158	136	125	112	105

'24	Tobacco and manufactured tobacco substitutes	54	89	103	107	95	108	168	174	121	118	109	96	100	99	104
'34	Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial ...	66	41	54	79	91	107	141	144	115	105	81	76	83	96	103
'87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	38	47	52	62	86	75	90	79	93	69	67	73	53	75	79
'21	Miscellaneous edible preparations	7	9	10	10	14	16	21	32	33	36	49	55	66	70	74
'27	Mineral fuels, mineral oils and products of their distillation; bituminous sub-stances; mineral ...	466	108	106	113	113	132	184	147	123	296	217	172	131	95	72
'48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	37	44	56	65	54	60	67	68	70	59	57	57	56	66	68
'85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television ...	24	35	46	69	57	61	63	91	79	67	74	76	54	53	61
'25	Salt; sulphur; earths and stone; plastering materials, lime and cement	47	63	101	160	139	128	155	146	145	148	143	100	87	73	60
'17	Sugars and sugar confectionery	34	40	60	77	43	56	60	71	64	63	57	50	51	52	49

Annex Table 9: Kenya's Top 15 Imports to Africa (USD '000,000)

Code	Product	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
'TOTAL	All products	830	883	1,070	1,247	1,355	1,446	1,715	1,667	1,716	1,662	1,522	1,382	1,940	2,034	2,181
'72	Iron and steel	178	156	190	188	215	288	294	257	214	224	181	129	182	275	379
'17	Sugars and sugar confectionery	46	61	102	83	68	139	65	115	110	75	93	156	251	148	278
'27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral ...	21	31	78	139	72	93	146	111	157	122	69	80	74	119	142
'04	Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere ...	1	1	1	2	4	10	16	17	21	26	37	25	86	101	133
'10	Cereals	19	20	36	101	320	81	152	96	38	137	103	48	209	139	97
'33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations	35	44	47	46	48	54	62	57	67	59	72	64	83	93	83
'44	Wood and articles of wood; wood charcoal	4	18	25	13	6	9	15	21	18	13	14	20	25	49	82
'48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	39	51	64	101	95	115	121	106	68	70	62	59	69	84	82
'87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	15	14	11	35	33	37	71	71	74	96	114	57	65	82	61
'85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television ...	26	30	29	35	29	40	50	63	103	76	58	57	54	51	58
'23	Residues and waste from the food industries; prepared animal fodder	2	3	10	9	11	11	15	16	14	9	11	19	100	85	56
'39	Plastics and articles thereof	33	32	29	45	36	48	42	48	51	40	47	52	59	68	53
'96	Miscellaneous manufactured articles	3	3	3	3	2	3	3	18	50	56	37	41	43	40	46
'24	Tobacco and manufactured tobacco substitutes	23	16	37	52	29	43	64	39	91	63	44	50	35	47	43

Annex Table 10: Kenya's Top 15 Potential Exports under TFTA (USD '000,000)

Code	Product	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
'TOTAL	All products	1,395	1,193	1,453	1,895	1,739	1,930	2,312	2,666	2,416	2,506	2,224	2,074	1,921	1,925	1,996
'09	Coffee, tea, maté and spices	127	143	136	225	156	215	200	263	247	246	234	227	227	226	213
'72	Iron and steel	96	94	94	135	97	121	167	151	146	124	110	116	107	112	133
'15	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal ...	46	58	85	97	90	122	145	180	121	96	68	98	85	101	124
'39	Plastics and articles thereof	71	81	87	115	101	122	145	167	158	166	150	128	116	108	102
'84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	18	25	26	29	42	62	61	96	68	84	67	62	53	76	99
'34	Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial ...	64	39	51	72	83	101	133	135	108	99	75	70	78	90	98
'30	Pharmaceutical products	31	32	50	57	52	56	68	127	106	113	104	119	102	89	95
'87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	32	36	42	53	77	65	72	76	89	67	65	69	52	75	75
'27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral ...	456	102	100	109	109	126	176	146	119	254	183	161	126	94	71
'21	Miscellaneous edible preparations	6	8	8	9	12	14	18	28	26	31	37	48	48	59	68
'48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	35	40	51	60	51	56	61	64	64	53	54	55	55	64	66
'24	Tobacco and manufactured tobacco substitutes	15	38	50	58	50	59	118	129	74	86	73	61	59	57	62
'25	Salt; sulphur; earths and stone; plastering materials, lime and cement	45	60	94	153	131	116	144	145	145	148	143	100	87	73	60

'85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television ...	18	19	33	46	37	45	47	68	57	53	61	59	42	49	54
'17	Sugars and sugar confectionery	29	34	46	51	40	51	59	68	63	62	57	48	50	51	48

Annex Table 11: Kenya's Top 15 Potential Imports under TFTA (USD '000,000)

Code	Product	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
'TOTAL	All products	817	788	1035	1176	1345	1417	1616	1647	1658	1633	1498	1328	1913	1993	2150
'72	Iron and steel	178	156	190	187	214	288	290	253	213	224	181	129	180	274	379
'17	Sugars and sugar confectionery	43	60	102	80	68	139	64	115	110	75	93	156	250	148	278
'27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral ...	20	31	51	82	70	92	107	108	140	107	59	76	71	107	134
'04	Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere ...	1	1	1	2	4	10	16	17	21	26	37	25	86	101	133
'10	Cereals	19	20	36	101	320	81	143	96	38	137	103	48	209	139	97
'33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations	34	43	47	46	48	54	62	57	67	59	72	63	83	92	82
'44	Wood and articles of wood; wood charcoal	4	18	24	13	6	9	15	21	18	12	14	20	25	49	82
'48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	38	51	64	101	95	115	121	106	68	70	62	59	69	84	81
'87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	15	14	10	35	32	37	71	70	74	96	114	57	64	73	61
'85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television ...	26	30	28	34	28	39	48	63	99	75	56	57	53	50	56

'23	Residues and waste from the food industries; prepared animal fodder	2	3	10	9	11	11	15	16	13	9	11	19	100	85	56
'39	Plastics and articles thereof	33	32	29	45	35	48	41	47	51	40	46	52	59	66	51
'96	Miscellaneous manufactured articles	3	3	3	3	2	3	3	18	50	56	37	37	42	40	45
'24	Tobacco and manufactured tobacco substitutes	23	16	37	52	29	43	64	39	91	63	44	50	35	47	43
'84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	28	35	33	38	44	49	47	91	92	61	51	46	37	40	41

Annex Table 12: EAC Sensitive List of Products and their Applied Tariff Rates

Heading No.	HS. Code	Description	Rate
4.01		**Milk and cream, not concentrated nor containing added sugar or other sweetening matter.**	
	0401.10.00	- Of a fat content, by weight, not exceeding 1%	60%
	0401.20.00	- Of a fat content, by weight, exceeding 1% but not exceeding 6%	
	0401.30.00	- Of a fat content, by weight, exceeding 6%	60%
4.02		**Milk and cream, concentrated or containing added sugar or other sweetening matter.**	
	0402.10.00	- In powder, granules or other solid forms, of a fat content, by weight, not exceeding 1.5%	60%
		- In powder, granules or other solid forms, of a fat content, by weight, exceeding 1.5%:	
		-- Not containing added sugar or other sweetening matter	
	0402.21.10	--- Specially prepared for infants	60%
	0402.21.90	--- Other	60%
		-- Other	
	0402.29.10	--- Specially prepared for infants	60%
	0402.29.90	--- Other	60%
		- Other:	
		-- Not containing added sugar or other sweetening matter	
	0402.91.10	--- Specially prepared for infants	60%
	0402.91.90	--- Other	60%
	0402.99.10	--- Specially prepared for infants	60%
	0402.99.90	--- Other	60%
4.03		**Buttermilk, curdled milk and cream, yogurt, kephir and other fermented or acidified milk and cream, whether or not concentrated or containing added sugar or other sweetening matter or flavoured or containing added fruit, nuts or cocoa.**	
	0403.10.00	- Yogurt	60%
	0403.90.00	- Other	60%
10.01		**Wheat and meslin.**	
	1001.90.20	Hard Wheat	35%
	1001.90.90	Other	35%
10.05		**Maize (Corn)**	
	1005.90.00	Other	50%

Heading No.	HS. Code	Description	Rate
4.03		**Buttermilk, curdled milk and cream, yogurt, kephir and other fermented or acidified milk and cream, whether or not concentrated or containing added sugar or other sweetening matter or flavoured or containing added fruit, nuts or cocoa.**	
	0403.10.00	- Yogurt	60%
	0403.90.00	- Other	60%
10.01		**Wheat and meslin.**	
	1001.90.20	Hard Wheat	35%
	1001.90.90	Other	35%
10.05		**Maize (Corn)**	
	1005.90.00	Other Rice	50%
	1006.10.00	Rice in the husk (Paddy or rough)	75% or $200/ MT whichever is higher
	1006.20.00	Husked (Brown) rice	75% or $200/ MT whichever is higher
	1006.30.00	Semi-Milled or wholly milled rice whether or not polished or glazed	75% or $200/ MT whichever is higher
	1006.40.00	Broken Rice	75% or $200/ MT whichever is higher
11.01	**1101.00.00**	**Wheat or meslin flour.**	60%
17.01		**Cane or beet sugar and chemically pure sucrose, in solid form.**	
		- Raw sugar not containing added flavouring or colouring matter:	
		-- Cane sugar	

Heading No.	HS. Code	Description	Rate
	1701.11.10	--- Juggery	35%
	1701.11.90	--- Other	100% or $ 200/MT solid form.
		-- Beet sugar	
	1701.12.10	--- Juggery	35%
	1701.12.90	--- Other	100% or $ 200/MT whichever is higher
		- Other:	

	1701.91.00	Containing added flavouring or colouring matter	100% or $ 200/MT whichever is higher
		-- Other	
	1701.99.10	---Sugar for industrial sugar	100% or $ 200/MT whichever is higher
	1701.99.90	--- Other	100% or $ 200/MT whichever is higher
24.02		**Cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes.**	
	2402.20.10	---Of length not exceeding 72 mm in length including the filter tip	35%
	2402.20.90	--- Other	35%
24.03		**Other manufactured tobacco and manufactured tobacco substitutes; 'homogenised' or 'reconstituted' tobacco; tobacco extracts and essences.**	
	2403.10.00	Other	35%
25.23		**Portland cement, aluminous cement, slag cement, supersulphate cement and similar hydraulic cements, whether or not coloured or in the form of clinkers.**	
	2523.29.00	Other *	55%
36.05	**3605.00.00**	**Matches, other than pyrotechnic articles of heading 36.04.**	50%
52.08		**Woven fabrics of cotton, containing 85% or more by weight of cotton, weighing not more than 200 g/m2.****	
	5208.51.10	--- Khanga, Kikoi and Kitenge	50%
	5208.52.10	--- Khanga, Kikoi and Kitenge	50%
52.09		**Woven fabrics of cotton, containing 85% or more by weight of cotton, weighing more than 200 g/m2.****	
	5209.51.10	--- Khanga, Kikoi and Kitenge	50%

Heading No.	HS. Code	Description	Rate
52.11		**Woven fabrics of cotton, containing less than 85 % by weight of cotton, mixed mainly or solely with man- made fibres, weighing more than 200 g/m^2.****	
	5211.51.10	--- Khanga, Kikoi and Kitenge	50%
52.12		**Other woven fabrics of cotton.****	
	5212.15.10	--- Khanga, Kikoi and Kitenge	50%
	5212.25.10	--- Khanga, Kikoi and Kitenge	50%
55.13		**Woven fabrics of synthetic staple fibres, containing less than 85% by weight of such fibres, mixed mainly or solely with cotton, of a weight not exceeding 170 g/m^2.****	

	5513.41.10	--- Khanga, Kikoi and Kitenge	50%
55.14		**Woven fabrics of synthetic staple fibres, containing less than 85% by weight of such fibres, mixed mainly or solely with cotton,of a weight exceeding 170 g/m².****	
	5514.41.10	--- Khanga, Kikoi and Kitenge	50%
62.11		**Track suites, ski suits and swimwear; other garments****	
	6211.43.10	--- Khanga, Kikoi and Kitenge	50%
		--- Khanga, Kikoi and Kitenge	50%
63.02		**Bed linen, table linen, toilet linen and kitchen linen.** Other bed linen, knitted or crocheted. Other bed linen, printed:**	
	6302.21.00	--Of Cotton	50%
		-Other bed linen:	
	6302.31.00	--Of Cotton	50%
		-Other bed linen:	
	6302.51.00	--Of Cotton	50%
		-Other:	
	6302.91.00	--Of Cotton	50%

Heading No.	HS. Code	Description	Rate
63.05		**Sacks and bags, of a kind used for the packing of goods.**	
	6305.10.00	- Of jute or of other textile bast fibres of heading 53.03	45% or USD cts 45 per bag, whichever is higher
63.09	6309.00.00	**Worn clothing and other worn articles**	35% or USD 0.20/ kg whichever is higher
83.09		Stoppers, caps and lids (including crown corks, screw caps and pouring stoppers), capsules for bottles, threaded bungs, bung covers, seals and other packing accessories, of base metals.	
	8309.10.00	-Crown corks	40%
85.06		**Primary cells and primary batteries.**	
	8506.10.00	- Manganese dioxide	35%
	8506.30.00	**- Mercuric oxide**	35%
	8506.40.00	- Silver oxide	35%
	8506.50.00	**- Lithium**	35%
	8506.60.00	- Air-zinc	35%
	8506.80.00	- Other primary cells and primary batteries	35%

Heading No.	HS. Code	Description	Rate
4.01		**Milk and cream, not concentrated nor containing added sugar or other sweetening matter.**	
	0401.10.00	**- Of a fat content, by weight, not exceeding 1%**	60%
	0401.20.00	- Of a fat content, by weight, exceeding 1% but not exceeding 6%	
	0401.30.00	- Of a fat content, by weight, exceeding 6%	60%
4.02		**Milk and cream, concentrated or containing added sugar or other sweetening matter.**	
	0402.10.00	- In powder, granules or other solid forms, of a fat content, by weight, not exceeding 1.5%	60%
		- In powder, granules or other solid forms, of a fat content, by weight, exceeding 1.5%:	
		-- Not containing added sugar or other sweetening matter	
	0402.21.10	**--- Specially prepared for infants**	60%
	0402.21.90	--- Other	60%
		-- Other	
	0402.29.10	--- Specially prepared for infants	60%
	0402.29.90	--- Other	60%
		- Other:	
		-- Not containing added sugar or other sweetening matter	
	0402.91.10	--- Specially prepared for infants	60%
	0402.91.90	--- Other	60%
	0402.99.10	--- Specially prepared for infants	60%
	0402.99.90	--- Other	60%
4.03		Buttermilk, curdled milk and cream, yogurt, kephir and other fermented or acidified milk and cream, whether or not concentrated or containing added sugar or other sweetening matter or flavoured or containing added fruit, nuts or cocoa.	
	0403.10.00	- Yogurt	60%
	0403.90.00	- Other	60%
10.01		Wheat and meslin.	
	1001.90.20	Hard Wheat	35%
	1001.90.90	Other	35%
10.05		Maize (Corn)	
	1005.90.00	Other	50%

		Rice	
	1006.10.00	Rice in the husk (Paddy or rough)	75% or $200/ MT whichever is higher
	1006.20.00	Husked (Brown) rice	75% or $200/ MT whichever is higher
	1006.30.00	Semi-Milled or wholly milled rice whether or not polished or glazed	75% or $200/ MT whichever is higher
	1006.40.00	Broken Rice	75% or $200/ MT whichever is higher
11.01	1101.00.00	Wheat or meslin flour.	60%
17.01		Cane or beet sugar and chemically pure sucrose, in solid form.	
		- Raw sugar not containing added flavouring or colouring matter:	
		-- Cane sugar	
	1701.11.10	--- Juggery	35%
	1701.11.90	--- Other	100 % or $ 200/ MT solid form.
		-- Beet sugar	
	1701.12.10	--- Juggery	35%
	1701.12.90	--- Other	100% or $ 200/ MT whichever is higher
		- Other:	
	1701.91.00	Containing added flavouring or colouring matter	
	100% or $ 200/MT whichever is higher		
		-- Other	
	1701.99.10	---Sugar for industrial sugar	100% or $ 200/ MT whichever is higher
	1701.99.90	--- Other	100 % or $ 200/ MT whichever is higher
24.02		Cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes.	
	2402.20.10	---Of length not exceeding 72 mm in length including the filter tip	35%

	2402.20.90	--- Other	35%
24.03		Other manufactured tobacco and manufactured tobacco substitutes; 'homogenised' or 'reconstituted' tobacco; tobacco extracts and essences.	
	2403.10.00	Other	35%
25.23		Portland cement, aluminous cement, slag cement, supersulphate cement and similar hydraulic cements, whether or not coloured or in the form of clinkers.	
	2523.29.00	Other *	55%
36.05	3605.00.00	Matches, other than pyrotechnic articles of heading 36.04.	50%
52.08		Woven fabrics of cotton, containing 85% or more by weight of cotton, weighing not more than 200 g/m2.**	
	5208.51.10	--- Khanga, Kikoi and Kitenge	50%
	5208.52.10	--- Khanga, Kikoi and Kitenge	50%
52.09		Woven fabrics of cotton, containing 85% or more by weight of cotton, weighing more than 200 g/m2.**	
	5209.51.10	--- Khanga, Kikoi and Kitenge	50%
52.11		Woven fabrics of cotton, containing less than 85 % by weight of cotton, mixed mainly or solely with man- made fibres , weighing more than 200 g/m^2.**	
	5211.51.10	--- Khanga, Kikoi and Kitenge	50%
52.12		Other woven fabrics of cotton.**	
	5212.15.10	--- Khanga, Kikoi and Kitenge	50%
	5212.25.10	--- Khanga, Kikoi and Kitenge	50%
55.13		Woven fabrics of synthetic staple fibres, containing less than 85% by weight of such fibres, mixed mainly or solely with cotton, of a weight not exceeding 170 g/m^2.**	
	5513.41.10	--- Khanga, Kikoi and Kitenge	50%
55.14		Woven fabrics of synthetic staple fibres, containing less than 85% by weight of such fibres, mixed mainly or solely with cotton,of a weight exceeding 170 g/m^2.**	
	5514.41.10	--- Khanga, Kikoi and Kitenge	50%
62.11		Track suites, ski suits and swimwear; other garments**	
	6211.43.10	--- Khanga, Kikoi and Kitenge	50%
	6211.49.10	-- of other textile material	
		--- Khanga, Kikoi and Kitenge	50%
63.02		Bed linen, table linen, toilet linen and kitchen linen.** Other bed linen, knitted or crocheted. Other bed linen, printed:	

	6302.21.00	--Of Cotton	50%
		-Other bed linen:	
	6302.31.00	--Of Cotton	50%
		-Other bed linen:	
	6302.51.00	--Of Cotton	50%
		-Other:	
	6302.91.00	--Of Cotton	50%
63.05		Sacks and bags, of a kind used for the packing of goods.	
	6305.10.00	- Of jute or of other textile bast fibres of heading 53.03	45% or USD cts 45 per bag, whichever is higher
63.09	6309.00.00	Worn clothing and other worn articles	35% or USD 0.20/ kg whichever is higher
83.09		Stoppers, caps and lids (including crown corks, screw caps and pouring stoppers), capsules for bottles, threaded bungs, bung covers, seals and other packing accessories, of base metals.	
	8309.10.00	-Crown corks	40%
85.06		Primary cells and primary batteries.	
	8506.10.00	- Manganese dioxide	35%
	8506.30.00	- Mercuric oxide	35%
	8506.40.00	- Silver oxide	35%
	8506.50.00	- Lithium	35%
	8506.60.00	- Air-zinc	35%
	8506.80.00	- Other primary cells and primary batteries	35%

Annex Table 13: Selected Indicators for Kenya and the United States.

Country Name	Series Name	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Kenya	Population growth (annual %)	2.8	2.7	2.7	2.7	2.6	2.6	2.5	2.4	2.4	2.3
	Population, total (millions)	40.9	42.0	43.2	44.3	45.5	46.7	47.9	49.1	50.2	51.4
	GDP (constant 2010 - million US$)	36,899	40,000	42,443	44,380	46,989	49,506	52,337	55,414	58,077	61,747
	GDP growth (annual %)	3.3	8.4	6.1	4.6	5.9	5.4	5.7	5.9	4.8	6.3
	GDP per capita (constant 2010 US$)	902.1	951.7	983.0	1,000.8	1,032.3	1,060.1	1,093.1	1,129.7	1,156.4	1,201.5
	Agriculture, forestry, and fishing, value added (% of GDP)	23.4	24.8	26.3	26.2	26.4	27.5	30.2	31.1	34.8	34.1
	Services, value added (% of GDP)	49.3	48.1	47.1	47.7	48.0	48.0	46.2	44.8	42.3	43.1
	Manufacturing, value added (% of GDP)	12.0	11.3	11.8	11.0	10.7	10.0	9.4	9.3	8.1	7.8
	Industry (including construction), value added (% of GDP)	18.7	18.5	18.9	18.6	18.0	17.4	17.3	17.9	16.8	16.4
United	Population growth (annual %)	0.9	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.6	0.5
States	Population, total (millions)	306.8	309.3	311.6	313.8	316.0	318.3	320.6	322.9	325.0	326.7
	GDP (constant 2010 - million US$)	14,617,299	14,992,053	15,224,555	15,567,038	15,853,796	16,242,526	16,710,459	16,972,348	17,348,627	17,900,989

GDP growth (annual %)	-2.5	2.6	1.6	2.2	1.8	2.5	2.9	1.6	2.2	3.2
GDP per capita (constant 2010 US$)	47,648.8	48,467.5	48,866.1	49,603.3	50,171.2	51,028.8	52,116.7	52,555.5	53,382.8	54,795.5
Agriculture, forestry, and fishing, value added (% of GDP)	1.0	1.0	1.2	1.2	1.3	1.2	1.0	0.9	0.9	..
Services, value added (% of GDP)	76.4	76.2	75.9	76.1	75.8	75.8	76.8	77.6	77.4	..
Manufacturing, value added (% of GDP)	11.7	11.9	12.0	11.9	11.8	11.6	11.6	11.1	11.2	..
Industry (including construction), value added (% of GDP)	19.3	19.4	19.4	19.2	19.3	19.3	18.5	18.0	18.2	..

Annex Table 14: US Imports from Kenya 2014 by Products and Regimes

	2014 US$ (thousands)			
Description US$ (thousands)	Kenya's exports	US imports	% share of total	Regime & % share (US imports)
Grand total	**6,110,472**	**590,717**	**10%**	**AGOA (71%); MFN (28%); GSP (1%)**
Textiles & clothing	459,163	379,059	83%	AGOA (99%); MFN (1%)
Vegetable products	2,389,024	99,923	4%	AGOA (40%); MFN (58%); GSP (2%)
Commodities not elsewhere specified	72,897	63,363	87%	MFN (100%)
Mineral products	1,001,832	16,150	2%	MFN (100%)
Food, Beverages & Tobacco	429,933	12,912	3%	AGOA (16%); MFN (83%); GSP (1%)
Miscellaneous manufactured articles	51,001	3,199	6%	AGOA (45%); MFN (54%)
Precious stones and metals	11,308	3,104	27%	MFN (40%); GSP (60%)
Chemical products	481,572	2,860	1%	MFN (100%)
Machinery	165,451	2,410	1%	MFN (92%); GSP (8%)
Animal or vegetable fats & oils	75,897	2,049	3%	MFN (86%); GSP (13%)
Plastic products	128,178	1,050	1%	MFN (34%); GSP (66%)
Live animals, animal products	126,034	993	1%	MFN (99%); GSP (1%)
Wood products	32,309	789	2%	MFN (19%); GSP (81%)
Raw hides	139,774	710	1%	AGOA (28%); MFN (55%); GSP (18%)
Specialised equipment	22,173	584	3%	MFN (93%); GSP (3%); Civil Aircraft (4%)
Footwear	35,276	430	1%	AGOA (26%); MFN (63%); GSP (10%)
Transport equipment	99,756	358	0%	MFN (94%); GSP (6%)
Non-metallic minerals	17,906	305	2%	MFN (65%); GSP (35%)
Collectors' pieces & antiques	1,857	202	11%	MFN (100%)
Paper products	115,929	191	0%	MFN (100%)
Base metals	253,202	76	0%	MFN (100%)