Policy brief

Promoting Kenyan exports

A country- and product-specific analysis

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Key messages

Kenya's exports of goods and services have grown by 28% from $8.9 billion in 2010 to $11.5 billion in 2019. Nevertheless, Kenya's exports as a percentage of GDP have been gradually falling, from 24% in 2011 to 10% in 2020.

Amid Covid19 in 2020, goods exports managed to grow by 3.3% to $6 billion, buoyed by continued world demand for Kenyan tea, coffee and fruits and a quick rebound in demand for garments.

Major Kenyan products that can be supported for further exporting to meet growing trading partner demand: flowers to the EU, UK or China; clothing to the US; vegetables to the UK or EU; macadamia to the US, EU or China; and tea to the UK or China.

Barriers faced by Kenyan exporters are often product-specific and market-specific. These relate to difficulties in meeting certain standards in certain markets, the lack of trade-related infrastructure (including flights), or a lack of capabilities or productivity.

To boost exports, Kenya should continue its bilateral, regional and international trade engagements; provide technical and financing support to micro, small and medium-sized enterprises in value chains and firms producing the identified promising export products; support the development of market- and product-specific standards; and facilitate investment.

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About this publication

This policy brief is extracted from a forthcoming SET paper entitled, 'Promoting Kenya's exports: a country- and product-specific analysis'. It is a part of an emerging analysis series that focuses on Kenya's trade with the EAC, the rest of Africa, European Union, United Kingdom, United States, China and India.

Disclaimer: The content of this publication has been produced rapidly to provide early ideas and analysis on a given theme. It has been cross-read and edited but the usual rigorous processes have not necessarily been applied.

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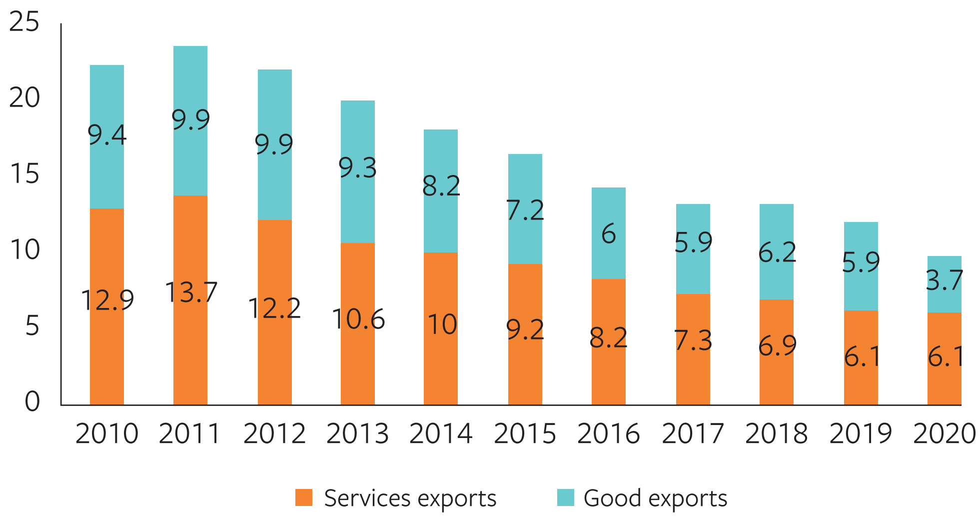
Overview of Kenyan trade in goods

Kenya's imports and exports have been growing in value for the past two decades, except in periods of external shocks. By value, exports of goods and services have grown by 28% over the past decade from $8.9 billion in 2010 to $11.5 billion in 2019. In 2020 amid the pandemic, Kenya's services exports were significantly hurt, declining by 34.9% to $3.7 billion. Goods exports, however, managed to register a 3.3% growth to $6 billion in 2020, buoyed by continued world demand of Kenyan tea, coffee, fruits and vegetables, and a quick rebound in demand for garments. This highlights how diversified exports and trading partners could be a source of growth resilience in times of external shocks.

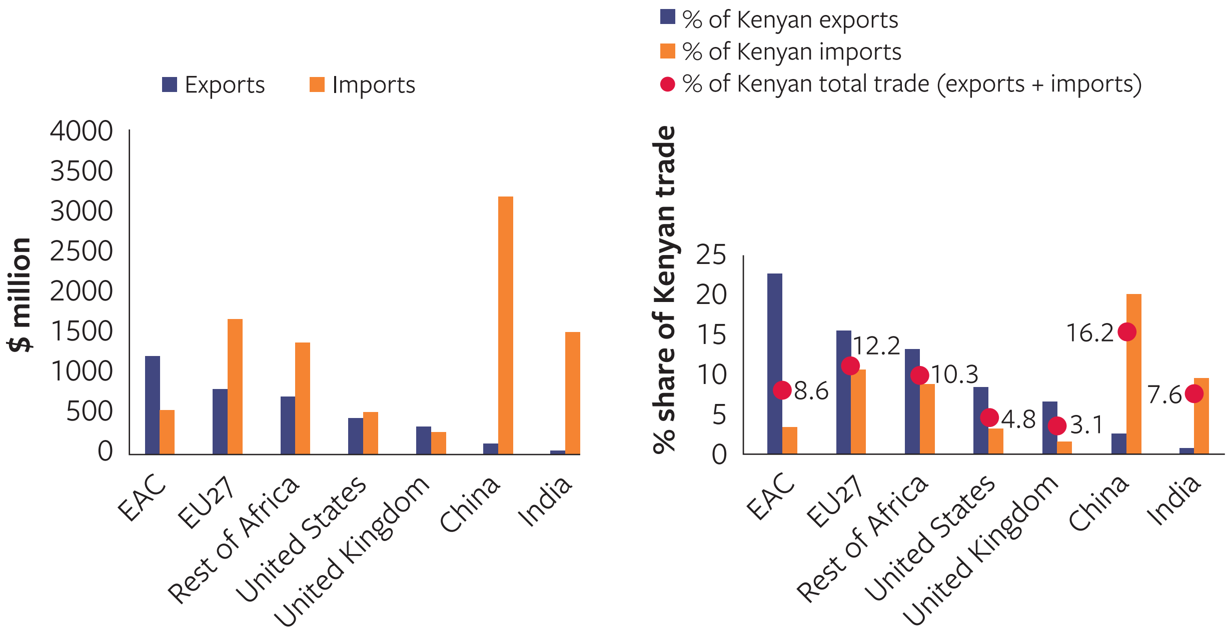
Nonetheless, Kenya's exports of goods and services as a percentage of gross domestic product (GDP) have been gradually falling, from 23.6% in 2011 to 10% in 2020 (Figure 1), suggesting that there is much to explore around promoting the role of exports in Kenya's economic development. This provides motivation to analyse and identify promising exports at the product level in Kenya's seven major trading partners – the East African Community (EAC), rest of Africa or ROA (i.e., Africa except EAC countries), European Union (EU), United Kingdom (UK), United States (US), China and India (Figure 2).

Figure 1 Kenyan goods and services exports (% of GDP)



Source: Authors' calculations based on data from UNCTAD statistics

Figure 2 Goods trade with Kenya's key regional and bilateral partners, 2019



Source: Authors' calculations based on data from World Integrated Trade Solution (WITS) database

Competitiveness of Kenyan goods exports

By investigating the efficiency (in terms of revealed comparative advantage or RCA) of Kenya's top 50 exports to its seven major trading partners and these partners' demand for such products (sourced from Kenya and globally) in the past five years,[1] we identified promising export products to respective destinations in Table 1, broadly categorised into:

- Category A products can be further promoted for exporting in view of growing trading partners' demand and Kenyan efficiency on these products;
- Category B products are those that may need intervention (e.g. to increase efficiency) to meet increasing demand from trading partners on these products;
- Category C products are those which Kenya may move or diversify away from in view of falling trading partners' demand and Kenyan efficiency on these products;
- Category D products are those which Kenya may opt to direct towards other bilateral partners to utilise the growing Kenyan efficiency on these products.

1 See Raga et al. (2021, forthcoming) for detailed methodological approach.

Table 1 Competitiveness of major Kenyan exports to specific destinations

	Increasing Kenyan RCA	Decreasing Kenyan RCA
Increasing trading partner demand	Category A • Cut flowers to EU, UK, China, ROA. • Live plants to EU, US, UK, India, China. • Fresh, chilled or frozen or prepared vegetables to EU, UK. • Edible or dried avocados to EU. • Macadamia to US, EU or China. • Black tea to UK or China. • Food preparations to EAC, ROA, US, India, EU. • Clothing to US. • Iron or steel products to EAC. • Tobacco and cigarettes to ROA. • Titanium ores, concentrates to China, US, EU. • Crude oil to EAC.	Category B • Medicaments for therapeutic uses to ROA, EU, India. • Public transport vehicles to EAC. • Plastic products for packing of goods to ROA. • Petroleum oils; not light oils and preparations to US. • Tobacco (other than smoking) to ROA. • Unused postage or similar stamps to EAC.
Decreasing trading partner demand	Category D • Black tea to ROA—can be diverted to growing demand in UK or China. • Coffee to US, UK or India—can be diverted to growing demand in China. • Chewing gum to EAC—can be diverted to growing demand in ROA. • Prepared pineapples to EU: $50mn—can be to growing demand in UK or China. • Cigarettes to EAC—can be to growing demand in ROA, China.	Category C • Petroleum oils; not light oils and preparations to EAC, ROA, EU, UK, China, or India—can be diverted to growing demand in US. • Medicaments for therapeutic uses to EAC—can be to growing demand in ROA, EU, India. • Beans to EU, UK or India. • Tobacco and substitutes to EU, ROA or UK. • Soap and surface-active products to EAC or ROA—can be diverted to growing demand in EU, India, UK, US. • Sea water salt to EAC. • Palm oil and its fractions to EAC, ROA. • Beer malt to EAC. • Sugar confectionery to EAC. • Plastic products for packing of goods to EAC—can be diverted to growing demand in the rest of Africa.

Notes: See detailed list of promising export products at 6-digit level to each bilateral/regional trading partners in Raga et al (2021).

By examining products with growing demand from Kenya's major trading partners (which import these products worldwide but not substantially from Kenya), we identified the following **new Kenyan products** for potential exporting to respective trading partners:

- miscellaneous food preparations to the EU, China, the US or India
- cotton garments to the EU China, EAC, India, ROA Vegetable textile fibres to UK
- soap and surface-active products to the EU, India, the UK or the US
- disodium carbonate to the ROA
- copper waste and scrap to the EU and US
- iron or non-alloy steel products to India
- cigarettes with tobacco to the EU, UK or US

Constraints to developing Kenyan exports and policy implications

With a good understanding of products of interest in which demand for and specialisation in Kenyan exports is growing in section 2, we then reviewed a number of studies and summarised details on the barriers faced by specific export products in specific destination markets. Our analysis suggests that barriers are indeed often product-specific and market-specific. They may relate to difficulties in meeting certain standards in certain markets, the lack of trade-related infrastructure (including flights), or a lack of capabilities or productivity (for more details, see summary in Table 3).

We reviewed domestic and international trade policies related to Kenya's exports. Kenya is engaged in a range of trade agreements relevant for the identified promising products and these need continued attention. Kenya needs to ensure market access in the US once the African Growth and Opportunity Act (AGOA) preferences end in 2025, which may include signing a new trade agreement. Kenya also needs to follow up the UK–Kenya trade agreement to assess its compatibility with its commitments under the EAC and the African Continental Free Trade Area (AfCFTA). In terms of AfCFTA, Kenya needs to implement phase 1 commitments and prepare for phase 2 issues. Kenya also needs a more active approach to investment at the international level.

There are more specific measures that Kenya can take to promote identified products. This includes supporting micro, small and medium-sized enterprises (MSMEs) in a range of value chains such as tea, horticulture and garments; providing value chain finance for firms in horticulture, tea and garment value chains; and supporting the development of standards appropriate to the specific product and export market.

Financial institutions or institutions that support financial sector development therefore have a number of options for supporting Kenya's exports: supporting value chain finance and digital financial services, supporting finance for meeting product- and destination-specific standards, and considering financial products and services in the implementation of new trade agreements such as AfCFTA, or supporting international approaches to investment facilitation.

	General exports destination	EU	UK	US	China/Asia	Africa
General exports		Technical barriers to trade (TBT) such as labelling requirements , Phytosanitary control (SPS) /1	SPS, environmental, social and safety standards, infrastructure, finance /2	TBT, SPS /1	Lack of comprehensive trade policy with China /3	Informal cross-border trade, poor infrastructure and non-tariff barriers /11
Flowers	SPS, TBT	SPS; packaging requirements; procedural obstacles; environmental, social and safety standards (ESSS) /1		SPS; packaging requirements; procedural obstacles; ESSS /1	Direct flight availability to China /4; high tariffs in China, India, Thailand /1,4; ESSS in Japan /1	
Vegetables and food (fresh, chilled, frozen)		Food safety standards, maximum residue level of pesticides (MRL), procedural obstacles /1	SPS	Conformity assessment (certification, testing and inspection requirements), procedural obstacles /1	Procedural obstacles (Japan) /1	
Tea	Limited value addition; production, management capacity and supply chain issues /7		Limited supply of consumer-packaged tea from developing countries generally /8		Marketing/ English translation in packaging for Chinese consumers; high tariff /5	
Fruits (avocados)		SPS, TBT, smallholder farms lack finance to invest in covered trucks /9			SPS in China /6; procedural obstacles in Japan /1	

	General exports destination	EU	UK	US	China/Asia	Africa
Clothing	Low productivity and value-addition, high input cost, lack of value chain coordination, reliance on AGOA /10	Conformity assessments, technical requirements, rules of origin /1		Conformity assessments, technical requirements, rules of origin /1		

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