

KENYA-USA FREE TRADE AGREEMENT

COMMENTS

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Introduction

Kenya is currently the USA's 98th largest goods trading partner with \$1.0 billion in total (two way) goods trade during 2018. Goods exports totaled \$365 million; goods imports totaled \$644 million. The U.S. goods trade deficit with Kenya was \$279 million in 2018.

According to the USA Department of Commerce, the country's exports of goods to Kenya supported an estimated 5 thousand jobs in 2015.

Exports

- Kenya was the United States' 110th largest goods export market in 2018.
- U.S. goods exports to Kenya in 2018 were \$365 million, down 19.7% (\$89 million) from 2017 and down 17.5% from 2008.
- The top export categories (2-digit HS) in 2018 were: aircraft (\$103 million), machinery (\$41 million), plastics (\$37 million), electrical machinery (\$31 million), and special other (repairs) (\$16 million).
- U.S. total exports of agricultural products to Kenya totaled \$37 million in 2018. Leading domestic export categories include: coarse grains (ex. corn) (\$10 million), wheat (\$6 million), pulses (\$5 million), vegetable oils (ex. soybean) (\$3 million), and planting seeds (\$3 million).

Imports

- Kenya was the United States' 85th largest supplier of goods imports in 2018.
- U.S. goods imports from Kenya totaled \$644 million in 2018, up 12.6% (\$72 million) from 2017, and up 87.5% from 2008.
- The top import categories (2-digit HS) in 2018 were: woven apparel (\$240 million), knit apparel (\$153 million), edible fruit & nuts (cocoa, brazil, cashew) (\$74 million), special other (returns) (\$55 million), and coffee, tea & spice (coffee) (\$50 million).

- U.S. total imports of agricultural products from Kenya totaled \$154 million in 2018. Leading categories include: tree nuts (\$75 million), coffee, unroasted (\$43 million), tea, including herb (\$17 million), essential oils (\$11 million), and other vegetable oils (\$3 million).

Trade Balance

- The U.S. goods trade deficit with Kenya was \$279 million in 2018, a 136.9% increase (\$161 million) over 2017.
- **Investment**
- U.S. foreign direct investment (FDI) in Kenya (stock) was \$405 million in 2017, a 7.5% decrease from 2016.

Kenya-USA Free Trade Agreement

The proposal to have a Free Trade Agreement between the United State of America and Kenya would be the United States' first free trade agreement (FTA) with a sub-Saharan African country and its second on the continent, after the 2006 FTA with Morocco.

The objectives of the USA-Kenya Free Trade Agreement should cover issues such as tariffs, quotas, services and more so movement of labour between USA and Kenya, agriculture, standards, investment, intellectual property, labor, the environment, nontariff barriers, dispute settlement, e-commerce, state-owned enterprises, customs, trade facilitation, .

1. Free Trade Agreements are generally good for countries on the same level of development: Kenya is a developing country, USA is a developed country. Hence the FTA would be lopsided in favor of the USA unless the agreement includes an obligation of trade facilitation for Kenya by USA.
2. An FTA between Kenya and USA would entail Kenya accepting goods from USA duty free while the USA would accept Kenyan goods duty free leading to loss of revenue on both sides but Kenya would lose more since its imports more high value products from the USA than the USA imports from Kenya.
3. Kenya exports low value, raw or semi-manufactured goods to the USA fetching very little in foreign exchange while the USA exports high value, manufactured goods to Kenya earning huge foreign exchange leading to huge balance of payments deficits.

4. Kenya would rather open its markets to other African countries and in the process, it would be able to diversify its export and import markets than allow more USA imports into the Kenyan market which would undercut Kenya's plans to transform and diversify its economy.
5. Even if USA opened its market to Kenyan goods, there is a possibility that the agreement will have clauses that ban child labour while most of the agricultural sector (avocado, coffee picking etc, weeding, digging etc, in Kenya uses child labor. This would work negatively for Kenya.
6. **Non Tariff Measures-** USA might insist on products from Kenya (agricultural) are organically produced insisting on maximum residual levels of chemicals such as pesticides, no fertilizers and so on making it hard for small scale producers to take advantage of the market.
7. Kenya is a high cost producer due to low economies of scale, lack of raw materials and intermediate products and its products may not match the goods produced by the USA whose companies could almost certainly produce at lower costs and therefore offer cheaper products to local consumers, effectively crowding out local Kenyan manufacturers. It would make much more sense to negotiate with the USA as a block (EAC) (COMESA) or AfCFTA) to maximize on the economies of scale than as an individual country.
8. **Issue of rule of origin:** Related to the above point, if raw materials and intermediate products are imported by Kenya to process the products to export to the USA, the rule of origin might prevent these products from being accepted in the USA.
9. A FTA between Kenya and USA would mean increased market access for United States of America products including farm and manufacturing exports, greater openness to USA investments in Kenya, intellectual property protections, and domestic pro-market reforms in Kenya.
10. An FTA between the USA and Kenya would put a death nil on attempts to build a region-wide economic bloc, the African Continental Free Trade Area (AfCFTA which prohibits bilateral free trade negotiations with third parties.

WHY NOW?

Kenya should not allow itself to be used by the USA in its trade wars with the WTO and China. We all know that USA has been dismissive of the WTO rules and its disdain for China's economic dominance of Africa. It is in the public domain that the USA has had a dismissive approach to the rule-based multilateral trading system and its penchant for a transactional and narrow focus on the commercial aspects of FTAs and Regional Trade Agreements (RTAs). Why the USA administration would not negotiate a FTA with the AfCFTA and chose to scuttle the efforts of the African continent's efforts to increase intra-African trade liberalization, strong bargaining position as a continent, economic growth, investment, collective bargaining strategy, and structural transformation and regional integration is beyond my understanding. Instead, what I see the USA doing is fuelling fragmentation, increasing competition among African countries instead of integration, increasing trade barriers and in the process the cost of trade within and among African countries.

Yes, Kenya might be angling itself for the expiration of the AGOA in 2025 since its other trading partners in say EAC will still have preferential access to the USA market as least developed countries, it would have been more beneficial for both Kenya the African continent as a whole to negotiate a draft AfCFTA trade deal with the USA to replace AGOA in 2025 than Kenya going it alone. Kenya should be thinking of the greater good of the continent rather than short term gains from a bilateral agreement with an economic and political giant in the form of the USA in its quest to cut down the economic dominance of China and kill the rules based multilateral trading system in the form of the WTO.