



Strengthening the U.S.-Kenya Trade Relationship to Grow U.S. Agricultural Exports to East Africa

Kenya is an emerging middle-income country and has one of the best performing economies in sub-Saharan Africa. It serves as the commercial hub for East Africa, with coastal ports that allow for imports to be received and transported to landlocked neighbors. Kenya relies heavily on imported food and farm products, much of which the United States produces competitively. In 2018, Kenya imported \$2.5 billion of agricultural products from the world. While the country's global imports of food and agricultural products has trended upwards, its imports from the United States have remained steady, resulting in a reduced U.S. market share as other nations increase exports to Kenya. Indonesia is currently the top agricultural exporter to Kenya. The United States is looking to strengthen its trade relationship with Kenya and increase its agricultural exports to the country. Kenya currently boasts a growing middle class, rapid modernization, and a progressive government, all which make it an opportune time to explore increased trade between the United States and Kenya.

Demographic and Economic Trends

Kenya is home to more than 47 million people with an estimated population growth rate of 2.5 percent in 2017, more than twice the global average. The country's population growth has put significant pressure on its natural resources and arable land and has stressed the labor market and social service sector. The past few decades have also witnessed high birth rates and declining mortality rates, which has left the country with a very young demographic. More than 40 percent of the population is under the age of 15 and another 20 percent is between 15 and 24 years old. Kenya has historically been a rural-based economy with little over a quarter of the population living in urban areas. However, with an annual rate of urbanization of 4.2 percent, it is undergoing a rapid transformation and modernization where international trade plays an increasing role.

Kenya is classified by the World Bank as a lower middle-income economy, with a per capita annual income at around \$1,700. Kenya's economy relies heavily on agriculture, employing around 75 percent of the workforce on at least a part-time basis and generating an estimated 25 percent of the country's gross domestic product (GDP). Other important sectors of the economy include construction, information, communication, and services. Kenya is still recovering from the effects of prior restrictive fiscal policies and successive years of drought. Insufficient infrastructure, challenges with governance, and corruption continue to hamper development, but reducing corruption in Kenya is a top priority for the U.S. Agency for International Development. The current Administration is funding an economic and social action plan

focused on enhancing manufacturing, food security and nutrition, affordable housing, and universal health coverage. Large investment projects currently underway in railroad transport, power, and broadband connectivity are also critical economic drivers. Last year brought small but positive growth in real GDP which supported the expanding middle class.

Top Five Agricultural Imports: Consumption Trends and U.S. Market Share

Kenya's growing middle class and its young and increasingly urban demographic has translated to a growing demand for diverse food and beverage products. While traditional foods like Ugali, a stiff porridge made from white corn, are still important, Kenyans are consuming more bread, rice, sugar, and other imported goods than ever before.

Similar to trends across Africa, demand for convenient and ready-to-eat foods is increasing. KFC, Subway, Domino's Pizza, Cold Stone Creamery, and Pizza Hut are just a few of the American fast food franchises that have established themselves in Kenya. Kenyan fast food establishments are adapting to the demands of Kenyan consumer tastes and preferences and offer a unique mix of international and domestic menu choices. Beyond fast-food, the middle-class population of Kenya is dining out more and the variety of restaurants is increasing in the urban centers, driving demand for international foods, ingredients, and beverages. The number of cafes, bars, and restaurants is growing rapidly as Kenyans are willing to spend more on convenience.

The retail food sector in Kenya is also expanding due to the demographic changes at play. New investments in retail space, the increasing popularity of shopping malls, and the arrival of foreign brands and retail chains such as Carrefour, Game, Choppies and Shoprite are resulting in more Kenyans shopping at modern grocery retailers. Outdoor markets still serve most of the population and according to the World Bank, only 56 percent of households had electricity in 2016, with an even smaller percentage having refrigeration. Nevertheless, according to Euromonitor, in 2017, the value of sales in modern grocery retailers grew by 7 percent, reaching \$2.5 billion, and the sector is forecast to grow at a compound annual growth rate of 9 percent during the 2017 to 2022 period. This growth in modern grocery retail establishments offers more opportunities for imported high-value products that otherwise would not be sold in Kenya.

While the five most important agricultural imports in Kenya are wheat, palm oil, sugar, corn, and rice, there are many other agricultural products that offer great opportunities for U.S. export.

Wheat is the number one imported agricultural product in Kenya. According to USDA estimates, about 85 percent of domestic consumption was imported in 2018, valued at approximately \$355 million. Between 2014 and 2018, Kenya purchased two thirds of the wheat it imported from Russia, Ukraine, Argentina, and Germany, with most of the balance coming from Canada and Poland. Over the same period, Kenyan millers purchased between 2 and 6 percent of their wheat from the United States, the low amount being primarily due to higher

prices and technical barriers to trade. U.S. wheat exports to Kenya are currently hindered by Kenya's long-standing restriction of Pacific Northwest wheat due to the lack of an export certification protocol for *flag smut*, between Kenya and the United States. Domestic increases in local milling capacity have allowed Kenya to mill its own wheat flour and consequently, imports of flour have decreased.

Crude palm oil has seen the largest 10-year growth of all of Kenya's agricultural imports. While several other oils are technically substitutable, palm oil continues to be by far the cheapest for Kenyans, with other imported and domestically produced oils in very low demand. Over the past 10 years, more than 98 percent of imports have come from Indonesia and Malaysia.

Sugar consumption in Kenya has grown enormously over the past decade, similar to many other countries in Africa. Within the past five years Kenya produced about 58 percent of the sugar it consumed and imported the remaining 42 percent – mainly from Brazil, Egypt, Thailand, and Mauritius. The contribution of the local sugar industry on Kenya's economy is enormous and based on estimates more than 10 million Kenyans derive their livelihood directly or indirectly from the crop.

White corn is the country's main staple and Kenya strives to be self-sufficient its production. The crop is grown by both a few large-scale enterprises that contribute a great deal to the supply, and many small-holder farmers on rain-fed land, whose crop is highly vulnerable to drought, pests, and disease. Recent investments in the poultry sector have increased demand for feed corn, but Kenya currently has an import ban on genetically modified (GM) products, and consequently does not import feed corn at all from the United States.

Rice is Kenya's third-largest staple food (after corn and wheat) and its consumption has been rising steadily as a result of changing tastes, higher incomes, and its ease of cooking. Domestic production supplies slightly more than a tenth of demand despite the almost three-fold increase in production over the last 10 years. Kenyan consumers prefer aromatic rice varieties, and based upon volume, imports are purchased primarily from Pakistan, Thailand, India, and Vietnam. The United States has never sold an appreciable amount of rice to Kenya.

Opportunities for Growth in Imports of Higher-Value Commodities

Given Kenya's propensity to buy lowest cost rather than highest quality, the United States often finds itself challenged to compete for market share of Kenya's largest import commodities. Nonetheless, there are potential opportunities to increase sales of higher-value goods that are becoming increasingly popular among the growing middle class: distilled spirits, wine, beer, vegetable oils, fruits and vegetable juices, fish products, pasta, and forest products.

Alcoholic beverages imports offer potential depending on the specific type of beverage. While the beer and wine imports have remained nearly flat over the past few years, imports of distilled spirits, primarily whiskeys, have almost doubled in value since 2012. The increase has been

attributed partially to the substitution of home-made spirits with inexpensive imports and partially to the increased popularity of hard liquor and mixed drinks by millennials, especially women. In 2018, \$26 million in spirits were imported, 47 percent from the United Kingdom, 12 percent from France, 10 percent from India, and 6 percent from Italy. Other countries accounted for the remainder, with the United States supplying less than 1 percent. Wine imports have varied little over the last five years and totaled around \$18 million in 2018. Low cost South African wines made up 59 percent of imports in 2018, followed by France at 11 percent, Chile at 6 percent, Italy at 6 percent, and all other countries at less than 5 percent each. The United States accounts for less than 1 percent of Kenya's wine imports, however the U.S. wine industry has identified Kenya as a top prospective market.

Uncooked pasta is becoming more popular thanks to its low cost, shelf-stability, and simple preparation. Imports doubled between 2013 and 2017, but unlike in other African countries, Kenya's millers do not yet produce uncooked pasta. The majority of pasta is currently being imported from Turkey and Egypt, with virtually no imports from the United States.

Fresh Fruits imports in Kenya have been steadily increasing over the last decade with almost \$25 million imported in 2018. U.S. producers however were absent in Kenya's 2018 market. Furthermore, the only U.S. fresh fruit exports to Kenya since 2008 were \$28,000 of grapefruits in 2017 and \$7,000 of cranberries in 2016. Over the last five years, Kenya's top three fresh fruit imports from the world were: apples, accounting for 55 percent of Kenya's total fresh fruit imports, followed by citrus and grapes, accounting for 19 percent and 9 percent, respectively. The remaining balance of total fresh fruit imports were a mixture of temperate and tropical fruits. The number one supplier of fresh fruits to Kenya is South Africa (accounting for 82 percent in 2018), which has an opposite growing season from the United States. Apples are an especially promising market for the United States, as the fruit ships well and is more tolerant to cold chain interruptions, which are sometimes a challenge in East Africa.

Fish products imported by Kenya are primarily frozen tilapia, frozen mackerel, and canned fish, such as sardines and other small fish. More than 90 percent is purchased from China with the remainder from Southeast Asian countries. The United States exported just over \$500,000 of frozen fillets to Kenya in 2015 and 2016 combined, but in 2017 and 2018 combined exports fell to \$55,000. As Kenya improves its cold chain, the United States should see opportunities for increased exports of fish products to the country.

Forest products are increasingly in demand in Kenya and imports of these products have more than doubled in the last decade with around \$41 million purchased in 2018. The construction industry plays a key role and demand for imported forest products is expected to continue rising with housing a priority investment for the current government. Most of Kenya's forest product imports are fiberboard, waferboard, and plywood, with the majority coming from China and small amounts from South Africa and Russia.

Global Market Perspective

Kenya is an original member of the World Trade Organization (WTO) and has forged numerous trade relationships both bilaterally and as a member of regional economic blocks.

Kenya is a member of the regional intergovernmental organization known as the East African Community (EAC). The EAC was established in 2005 to promote production, investment, and trade efficiency in the East Africa region. Member countries are Burundi, Kenya, Rwanda, South Sudan, Tanzania, and Uganda, totaling about 146 million consumers. The Economist magazine notes that the EAC is the most successful economic block on the continent, maintaining good data and accountability via a public scorecard. EAC member countries, through what is known as the Common Market Protocol, maintain a common customs union, enjoy free trade (zero duty) on goods and services amongst themselves, and impose a common external tariff (CET) on imports from countries outside the EAC. The EAC allows individual countries to deviate from the CET through duty increases and reductions on a product basis for a one-year period, effectively raising and lowering demand for domestically produced products.

For non-free trade partners, Kenya maintains steep tariffs on imported agricultural goods in an effort to support its large domestic agricultural workforce.

Kenyan Applied Tariffs on Imports, 2018		
Product Group	Applied Duties	
	Average	Max
Animal Products	23.1	25
Dairy Products	51.7	60
Fruit, Vegetables, Plants	22.0	25
Coffee, Tea	19.6	25
Corn	21.9	50
Oilseeds & Oils	11.6	25
Sugar	40.0	100
Beverages & Tobacco	25.3	35
Cotton	0	0

Source: WTO Tariff Analysis Online Facility

Kenya is also a member of the Common Market for Eastern and Southern Africa (COMESA), a free trade area comprised of 21 member-countries with a population of more than 520 million people. COMESA's mission is to integrate its member countries into an internationally competitive regional economic community. Similar to the EAC, COMESA member countries impose a common external tariff on goods from non-members and enjoy free trade with each other. COMESA is working to create a harmonized system throughout the region, covering

customs, transport, communication, a legal framework, and macro-economic and monetary policy.

In addition, Kenya has been at the forefront of the effort to form the largest free trade zone in the world; the African Continental Free Trade Area (AfCFTA). According to the Trade Law Centre, in March 2018, Kenya was one of the first members to endorse the agreement that sets forth the conditions under which all 54 African countries, a single market of 1.2 billion people, will trade and cooperate. The AfCFTA will enter into force 30 days after 22 participating nations have ratified the agreement and deposited the instruments of ratification with the African Union Commission. As of April 2, 2019, 15 of the 22 countries have deposited their instruments, including Kenya, leaving just seven countries required for the agreement to enter into force. When fully operationalized, it will put African countries in a much stronger negotiating position with the rest of the world.

While Kenya has shown strong commitments to the regional trade areas within Africa, they have also pursued agreements with other lucrative trading partners. Kenya is the sole EAC member to ratify the EAC-EU Economic Partnership Agreement, which provides freedom from all quota restrictions, duty-free entry into the EU of all EAC exports, and a guarantee that the EU will not apply export subsidies on products sold to the EAC. The agreement commits the EAC to gradually liberalize over 15 years more than 80 percent of imports from the EU. Although Kenya has ratified the agreement, it is currently stalled, reportedly due to concerns by the least developed members that EU manufactured goods will hinder industrialization in East Africa. As a middle-income country, Kenya suffers greater consequences than the other East African partners, as the least developed members can continue to benefit from duty-free, quota-free market access into the EU under the “Everything but Arms” agreement.

Kenya continues to enjoy a beneficial trading relationship with the United States under the African Growth and Opportunity Act (AGOA). The trade preference act, which expires in 2025, allows for duty-free access to the U.S. market for 6,400 unique products – agricultural and otherwise. AGOA has been credited with spurring significant economic growth in Kenya, most importantly boosting the coffee industry, and its duty-free treatment of apparel articles made in Kenya with third-country fabric. As per the U.S. Census Bureau’s 2017 trade data, major Kenyan agricultural exports under AGOA were macadamia and cashew nuts, coffee, tea, roses, and non-edible vegetable and nut oils. In an effort to fully utilize the market access that AGOA provides, most importantly for horticultural products and cut flowers (other than roses, which are currently entering without issue), the Kenyan Government is working with the U.S. Government on meeting U.S. Sanitary and Phytosanitary (SPS) requirements, undertaking pest risk analysis, understanding export conditions, and addressing some longstanding trade barriers. The EAC has expressed interest in a regional trade pact with the United States that does not require renewal every 10 years and cannot be unilaterally withdrawn at any time.

Agricultural Production and Exports

While 25 percent of GDP is from the agriculture sector, most of the agricultural output in Kenya comes from small, rain-fed farms and traditional pastoralists with relatively low production efficiencies. Foreign exchange revenue comes from the very strong tea and cut flower industries. In 2018, Kenya ranked third and seventh in global tea and cut flower exports, respectively. Coffee is also an important agricultural product that brings in significant foreign exchange and high-grade coffees from Kenya are considered among the best in the world. While flowers are grown by large agribusinesses, tea and coffee are grown mainly by small-holder farmers who are members of large cooperatives. Global competition in tea is increasing from China and Sri Lanka and competition in cut flowers is strong from the Netherlands, Colombia, Italy, Germany, Ecuador, and Belgium.

With lifestyles and tastes changing rapidly for Kenya's growing middle class, opportunities abound for expansion of U.S. agricultural products to Kenya. U.S. exporters offer a variety of high-quality products and the U.S. Government, specifically the U.S. Department of Agriculture's Foreign Agricultural Service, is well positioned to assist exporters wishing to enter the Kenyan market and expand the reach of U.S. agriculture. Strengthening the U.S.-Kenya trade relationship will also help the United States better compete and gain ground in this valuable market.

For more information please contact Paul Trupo, FAS Office of Global Market Analysis, paul.trupo@usda.gov or (202) 720-1335 .