

## Kenya and United States begin negotiations for transformative Free Trade Agreement (FTA)

*The pact, the first for Sub-Saharan Africa, will facilitate trade and investment partnership on expiry of AGOA in 2025*

**Nairobi, July 8, 2020**—Kenya and the United States of America today launched historic negotiations for a bilateral Free Trade Agreement that is expected to deliver immense economic benefits to the two countries.

The landmark FTA, the first of its kind for Sub-Saharan Africa, will secure trade and investment relations between the two countries ahead of the lapse of the Africa Growth and Opportunities Act (AGOA) on September 30, 2025. It will facilitate continued free access of Kenyan exports to the expansive US market at the end of AGOA.

The process of negotiations delivers on the initiative announced jointly by Kenya’s President Uhuru Kenyatta and US President Donald Trump during their meeting at the Whitehouse in Washington DC in February this year. At an earlier meeting in August 2018, during President Kenyatta’s first visit to the US, the two presidents announced elevation of Kenya’s diplomatic relations with the US to a strategic partnership focused on four pillars—economic prosperity; trade and investment; defense cooperation; democracy, governance and civilian security; as well as multilateral and regional issues.

*“When concluded, the Free Trade Agreement will be a milestone for Kenya-US partnership in trade and development cooperation. It will expand trade and investment opportunities that will greatly benefit our two countries,”* said **Betty Maina, Cabinet Secretary for Industrialization, Trade and Enterprise Development**. *“Successful negotiations for a robust FTA will deliver immense economic opportunities and enhance shared prosperity of our national and regional economies,”* she said during a virtual launch of joint negotiations with **US Trade Representative, Amb. Robert Lighthizer**. The Chief Negotiator for Kenya is Amb. Johnson Weru, Principal Secretary for the State Department of Trade and Enterprise Development.

The US is Kenya’s third largest export destination and fifth most important trading partner. The proposed FTA will anchor Kenya to benefit from the emerging US trade and investment policy for Africa. It will create an enabling and predictable environment for US businesses to scale up investments in Kenya’s Big Four priority sectors, supporting opportunities for job creation and shared economic prosperity.

Moreover, the pact will cushion Kenya’s exports from potential market losses when AGOA expires. Even though Kenya, like other eligible SSA countries, enjoys duty and quota free US market access, its recent updated economic status to low middle income country means its exports will cease to enjoy free US market access at the end of AGOA. Without a pact, Kenya’s apparel and textile exports will be subject to duty of 15-28 percent under the World Trade Organization’s Most Favoured Nations principle.

The US administration has indicated it is unlikely to renew AGOA and will, instead, consider balanced and reciprocal FTA arrangements with strategic partners including Kenya, United Kingdom and European Union. This is explicitly conveyed in President Trump’s 2019 and 2020 Trade Policy Agenda.

The trading arrangement under negotiation mutually commits Kenya and USA to increase trade between them by reducing trade barriers, including tariffs and import quotas. Kenya's exports will retain duty and quota free access to the US market, cementing the gains achieved during AGOA that enabled Kenya to diversify and increase the value of exports to the US market. Between 2009 and 2019, the value of Kenya's exports to the US increased from Sh17.4 billion to Sh51.9 billion. Over 70 percent of these earnings were from horticulture, apparels and textiles. Textiles and apparel account for 85 percent of the value of Kenya's AGOA exports and two thirds of all exports to the US. In the same period, the value of US exports to Kenya rose from Sh50 billion to Sh62 billion. The major US exports include aircraft, mechanical and electrical machinery, plastic and coarse grains. Even though the trade balance favours the US, it is significantly small compared to Kenya's other major trading partners.

A robust FTA will enable Kenya to use the Government's National Export Development Strategy to expand the market potential for priority exports that have a huge potential in the US market. These exports including horticulture and floriculture products, coffee, tea, herbs and spices, fish, food and beverages, mineral products and handicraft earned \$593 million (Sh59.3 billion) but accounted for just 0.17 percent of the US market. If Kenya were to raise its market share in these products to five percent, it would earn Sh1.8 trillion, a significant amount that would meet its commitment to raise export earnings from Sh597 billion to Sh2 trillion by 2025.

As part of this ambitious strategy, the Government will strengthen the capacity of key inspection agencies including the Kenya Bureau of Standards, Kenya Plant Health Inspectorate Service and Kenya Revenue Authority to enforce quality global standards for Kenya's exports. This is important for the US market and for Kenya to expand its access to other developed markets in Europe and Asia.

Successful negotiations of the FTA will provide the US with a model for negotiating similar pacts with other African countries. The US Chamber of Commerce has endorsed the process, applauding the two governments for their commitment to expand trade and investment opportunities between the two countries. The pact will lay the groundwork for the US to strengthen and deepen its relationships with other African economies by providing the necessary legal protections and enduring reciprocal trade, **said Scott Eisner, President of the Chamber's US-Africa Centre.**

The US has 14 FTAs with 20 countries across the world. In Africa, Morocco was the first in 2004 to conclude an agreement, hence, Kenya will be the second African country upon successful conclusion of the negotiations.

### **US investments in Kenya**

Kenya is home to nearly 200 American corporations that have invested over \$2 billion in the past 20 years in social impact and technology projects. Most of these firms use Nairobi as their regional hub and employ thousands of Kenyans, helping reduce unemployment pressure from young graduates. A predictable business environment will motivate firms from the US and other developed financial markets to expand their FDI and retain their profits in Kenya. Emerging investors include "early harvesters" that have a potential for creating over 2,000 job opportunities for young science and technology graduates annually.

These gains will cement the US position as an important ally for Kenya to realize its Vision 2030 development agenda. The US government and its people contribute Sh310 billion annually to Kenya's

prosperity, according to AidData at William and Mary, a US research and innovation lab. This is through bilateral and multilateral development assistance, Diaspora remittances, FDI, trade, investment guarantees, tourism, civil society operations, scholarships and other spending areas.

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