The Bottom Line

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U.S. TO NEGOTIATE TRADE DEAL WITH KENYA

Summary

On February 6, the U.S. and Kenya announced plans to negotiate a bilateral trade agreement. U.S. Trade Representative Robert Lighthizer said the United States wants a "comprehensive, high-standard" deal that can "serve as a model for additional agreements across Africa."

Background

The African Growth and Opportunity Act (AGOA) was enacted in May 2000 and significantly enhanced market access to the United States for qualifying Sub-Saharan African countries, including Kenya. Between 2002 and 2008, trade between the U.S. and all African nations grew to $100 billion. U.S. trade with Kenya peaked in 2014 with $2.2 billion. Since then, volumes have declined. The combined total value of African trade with the United States in 2017 was just $39 billion. A key reason for the fall in U.S.-Africa trade is a shift in American energy demand. At its peak, the U.S. imported $99.5 billion of oil and gas from the continent in 2008. In 2018, this figure had fallen to just $17.6 billion.

In 2013, China launched the massive Belt and Road Initiative (BRI), sometimes referred to as the New Silk Road, a collection of infrastructure projects and investment initiatives planned to stretch from East Asia to Europe and into Africa. The ultimate goal of the BRI would be to increase intra-regional trade by creating a vast network of railways, pipelines, and highways west toward the former Soviet Republics and south toward Pakistan and India.

Current Status

Africa boasted seven of the twenty fastest growing economies in the world in 2017, according to the International Monetary Fund (IMF), and has become the fastest urbanizing region on the planet, with China strategically placed at the infrastructural threshold of the new frontier. China recently launched a $1 billion Belt and Road infrastructure fund and, last year, delivered a whopping $60 billion aid package, further consolidating its robust economic influence on the continent.

African heads of state met February 8-9 in the Ethiopian capital, Addis Ababa, as part of an African Union summit to discuss the African Continent Free-Trade Agreement (AfCFTA). It has been signed by all but one of Africa's 54 countries, but has yet to come into effect. When it does, it would establish the world's largest free-trade zone by area, encompassing a combined economy of $2.5 trillion and a market of 1.2 billion people. Lighthizer said bilateral agreements with the United States were a model for other African countries and were meant to complement the continental accord. Kenyan President Uhuru Kenyatta agreed, calling his country a "pace-setter" that is "clearing the field for future negotiations for the rest of the African continent."

Kenya currently enjoys unilateral trade advantages under the U.S. Generalized System of Preferences (GSP), which benefits poor countries globally, and the Africa Growth and Opportunity Act (AGOA). Both are designed to provide access to the U.S. market for eligible countries. But these preferences, while useful, are not a strategy for trade growth. Kenya is America's 11th largest trading partner on the continent and 6th biggest in Sub-Saharan Africa, with total trade between the two countries at $1.17 billion in 2018. U.S. Trade Representative Robert Lighthizer will publish objectives for the negotiations in the Federal Register at least 30 days before the talks begin, the White House said.

Impact

During the meeting in Addis Ababa, leaders of the African Union favored negotiating a continent-wide Free Trade Agreement with the U.S. to leverage the strength of AfCFTA. Having the U.S. begin negotiations with one member can create the template and framework for others to follow. Both sides in this current exchange look forward to greater access to markets.

RESOURCES:

Intent to Negotiate Trade Agreement with Kenya (USTR)
China's Massive Belt and Road Initiative (CFR)