

Agricultural Trade Liberalization in Kenya and Implications for Kenya China Trade Relations

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Abstract

In developing economies such as Kenya, agriculture is a ‘special’ sector and a fundamental engine for economic growth. Kenya has actively pursued agricultural trade liberalization though the existing studies have not clearly delineated its implications on Kenya-China trade relations. What is evident though is that the trade deficit between Kenya and China had widened to the tune US\$3.5 billion as of 2018. This is notwithstanding the fact that the trade relations have been beneficial to Kenya in terms of affording a market to major Kenyan exports. Nevertheless, there is flimsy research on the implications of agricultural trade liberalization on Kenya-China trade relations. It is in this regard that the study sought to give direction on how Kenya can capitalize on agricultural trade liberalization to address the widening trade deficit with China. Emphasis was on how tariffs in agriculture and foreign direct investment impact on Kenya-China trade relations. The study was guided by the theory of firm heterogeneity. The study utilized secondary data with United Nations Conference on Trade and Investment (UNCTAD), UN Comtrade database and the World Trade Organization as the sources of the data. The study established that there is limited FDI inflows in the agricultural sector. It is therefore important for the government to ensure that there is conducive environment for investment in agriculture so as to diversify the share of Kenya’s agricultural exports to China. Also, there is need for the adoption of policies that stimulate the diffusion of new technology in agriculture that would facilitate the transition to climate smart crops that would increase investment opportunities as well as contribute to Kenya’s exports. Moreover, since agricultural products face tariff barriers in China, Kenya needs to renegotiate its terms of trade with China in attempts to narrow down its trade deficit.

Keywords: Agricultural trade liberalization, trade deficit, tariffs, foreign direct investment

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1.1 Introduction

Agricultural trade liberalization is the removal or reduction of constraints to agricultural trade between different nations. With the liberalization of trade in agriculture, the barriers to free trade that had been imposed with the goal of protecting the domestic production from foreign competition are either reduced or completely removed (Baldwin, & Evenett, 2009). Agricultural trade liberalization is instrumental in increasing the volume of exports through technology transfers. On the other hand, there is also rise in imports in terms of capital goods that are key in promoting technology advancement. Consequently, with improvement in technology in agriculture, there is a decline in the volume of imports and an improvement in balance of trade. This is notwithstanding the fact that the implications of agricultural trade liberalization on the balance of trade is most often uncertain since it largely depends on the rise in volumes of exports and imports together with the prices of the goods traded.

On the flipside, it is contended that poor nations would not elicit gains from liberalization since their low level of production makes it difficult for them to take advantage of the trade in agriculture. Moreover, it is argued that a reduction in tariffs which typifies agricultural trade liberalization brings about a decrease in the revenue generated by government thereby resulting in fiscal instability and declined government spending in development initiatives (Younas and Bandyopadhyay, 2009). As well, the reduction of import duties would bring about a situation whereby there are more imports compared to exports thereby resulting in trade deficit. As such, developing countries, Kenya included are in most cases reluctant to liberalize their trade especially in the agricultural sector since there is a likelihood of imports increasing more than exports because of the infancy of their structures.

Globally, trade deficits have been predominant for countries engaging in international trade. The trade deficits are not only evidenced with agricultural products but also non-agricultural products. Notably, as of 2017, United States of America (US) trade deficit with China raised to US\$363 billion the highest ever on record (Comtrade, 2018). This brought about the escalation of trade disputes with China. To that end, US made efforts towards reducing the trade deficit with China with the imposition of a 25% tariff on China’s products (Taheripour, & Tyner, 2018). It however proved futile as China retaliated by imposing a 25% tariff on Soybean exports from the US. Notably, unfair trade has threatened the gains of trade liberalization with the response by countries suffering the negative terms of trade being the imposition of protectionist policies.

The issue of trade imbalance is not only isolated to US and China but also to countries such as Columbia, Argentina and Mexico that had larger growth in imports as compared to exports in the post-liberalization period

(Selçuk, Karaçor, & Yardımcı, 2017). The reason for this was that the countries in question countered the trade deficit they experienced in international trade by overvaluing their currency. The implication was that the goods produced were more expensive in the world market resulting in foreign trade deficits. In Pakistan, trade deficits have been predominant in the last four decades. This has been attributed to the dismal growth of exports. To remedy the situation, the government embarked on trade liberalization in attempts to attract FDI in order to accelerate the growth in exports.

Furthermore, Kenya and China trade relations is also characterized by trade imbalance. However, at the onset, the trade between the two countries was fairer. Specifically, in the 1960s, Kenya refused aid from China mainly due to ideological differences. Kenya was capitalist and it traded majorly with the western countries. However, during the regime of President Moi, the trade relation between the two countries gained a momentum. In 1997 when the International Monetary Fund suspended its loans to Kenya due to poor governance and corruption, China had no concern of these issues hence it contributed the largest portion of aid to Kenya (Mahoney, 2010). By 2002 when Mwai Kibaki formed the new government, the trade relations between the two countries was further strengthened with China being credited with the infrastructural development of Kenya (Onjala, 2010). China's engagement is not only limited to construction firms but also telecommunication, textile industry and the importation of cheap products. Notable infrastructural developments by China in Kenya are the Standard Gauge Railway with a record financing of US\$3.6 billion, LAPPSET (\$220 million) and the Jomo Kenya International Airport with a tune of financing of up to \$115 million.

Evidently, FDIs and loans have epitomized China's contribution to the Kenyan economy. The problem however is that Kenya's trade deficit has been on a steady increase over the years. According to Comtrade (2018), the trade deficit between Kenya and China had widened to the tune of US\$3.5 billion as of 2018. One of the reasons why Kenya has been unable to have balanced trade with China is because China also possesses comparative advantage in agriculture. Globally, China is among the largest agricultural economy with horticultural produce taking the lion's share of its exports. For majority of the countries, agriculture is a key impetus for import financing and the alleviation of food insecurity. With efforts towards agricultural trade liberalization, there has been limited attention on how Kenya can capitalize on it to address the trade deficit with China. As such, the study aims at highlighting the implications of foreign direct investments and tariffs in agriculture on the trade balance between Kenya and China.

1.1.1 A profile of Agricultural Trade Liberalization in Kenya

Generally, there is consensus among policy experts that countries that have tended to be liberal in terms of their trade policies have elicited growth in their economy. With the liberalization of agricultural processes, there is an increase in trade openness, technology diffusion as well as bringing domestic prices close to the global prices (Selçuk, Karaçor, & Yardımcı, 2017). In the 1950s and 1980s, the emphasis of majority of the developing countries was on the implementation of inward-looking policies as a prerequisite for development. This policy regime was characterized by high tariff and foreign exchange control (McCartney, 2015). Nevertheless, it was later on realized in the 1980s that countries that were pursuing import substitution were unable to be at par with developed countries. It was against this background that developing countries lowered the tariffs and removed restrictions that impeded international trade. From then henceforth, trade liberalization has been pervasive with developing countries.

The main goal for the liberalization of trade was to encourage the importation of inputs, intermediate goods together with technology transfer (Mukherjee, & Chanda, 2017). In attempts to enhance agricultural trade liberalization, the government agreed to adopt the economic recovery interventions developed by the World Bank in the 80s as a prerequisite in its efforts to access credit. However, in spite of this radical change in tact, the sector did not show any much improvement. Nevertheless, despite the breakdown of most of Kenya's bilateral and multilateral relations with the international community in the 90's that saw the country lose critical funds as donors pulled away on the backdrop of claims of corruption and bad governance, agriculture experienced low performance. This trend continued, although slowly, and the sector's performance registered a positive performance in 1995 for the first time in 21 years. However, at the turn of the millennium, prolonged drought plunging the sector's performance further, until 2003 when it bounced back slightly but picked up after 2010.

1.2 Statement of the Problem

The increasing interconnectedness of global markets and financial systems has necessitated countries to adopt more open trade policies in attempts to be economically and politically strategic. The trade relations between Kenya and China has elicited mixed reactions. On one hand, agricultural trade liberalization has increased the market size Kenya sells to and sources from hence satisfying its commodity needs. On the other hand, it has led to the rise in trade deficit with China to the tune of US\$3.6 billion. There has also been over-reliance on the exportation of primary products while importing expensive manufactured products such as transport equipment from China.

In addition, the country lacks robust policies and structures to adopt advanced technology in the agricultural sector to reduce their production and mechanization costs and hedge out the risks associated with poor production

and unfavorable global market dynamics. As such, most of the time the government has to play catch up and react to changes rather than employ the more proactive responses strategy. From the 1980s when Kenya fully liberalized its trade, the trade deficit with China has been on an increase at a very alarming rate. Over the years, China has diversified its range of exports to Kenya while Kenya's exports to China have remained relatively the same for the past four decades. The influx of cheap Chinese imports has also contributed to Kenya's misfortunes in its trade relations with China.

From a policy standpoint, the Kenyan government has not been on the forefront in creating a conducive environment for investment in the agricultural sector that contributes the largest share of exports to China. In fact, the bulk of investments from China have mainly been done in the manufacturing and service sectors with limited focus on agriculture. This is notwithstanding Kenya having a comparative advantage in agriculture. In addition, despite Kenya having a GDP composition of 35% in agriculture it is unable to capitalize on it to reduce its trade deficit with China (Mundi, 2015). As such, the study aims at establishing the potential of agricultural trade liberalization in addressing Kenya's trade deficit with China. The insights it should develop should be instrumental in highlighting the essence of agricultural trade liberalization, therefore, facilitating the development of clearer, more practical and sustainable concepts and models in the future.

1.3 Literature Review

1.3.1 Theoretical Review

Melitz (2003) theory of firm heterogeneity is best suited to explain the implications of agricultural trade liberalization on trade relations between Kenya and China. The theory considers firms as heterogenous entities that have different production levels. According to the model, a decline in the trading costs results in improved total productivity. The growth in productivity is attributed to selection effect and allocation of resource across firms of varied productivity levels. Firm heterogeneity model predicts that firms which are least productive exit the market while non-exporting firms that are most productive expand their production level and start to export. On the other hand, the existing exporters expand their sales in international markets as the costs of exporting declines (Bernard et al, 2003).

The key attribute of the model is the presence of productivity cut-off thresholds in differentiating firms by their exporting and profitability status. The first threshold indicates the least production level a firm has to have to obtain non-negative profits. The firms that exit are therefore those that produce below this threshold. Therefore, successful exporters were the most productive firms whereas the less productive only produce for the domestic market. The second threshold distinguishes the exporters from the non-exporters. Moreover, the least productive firms that were operating below optimal level before the economy opened up to trade have no choice but to exit the market since they are unable to cope with stronger foreign competition.

The theory has been widely applied in the agriculture sectors. Particularly, while ascertaining the validity of the model, Golpinath, Sheldon & Echeverria (2007) concluded that farmers have an affinity to move their production whereby they would benefit immensely. Depending on export favorability in the global market, farmers may choose whether to increase or decrease their exports. Similarly, the ability of a farmer to cater for either the domestic or international market is dependent on their volume of production (Ahn, Khandelwal, and Wei 2011). Consequently, the study intends to build on this theory by assessing the implications of agricultural trade liberalization on trade relations between Kenya and China.

1.3.2 Empirical Review

1.3.2.1 Tariffs on Trade Balance

According to the World Trade Organization, tariffs are duties levied on imports that give the government revenue and at the same time offer domestic producers an advantage over foreigners (WTO, 2015). In the post-liberalization period, focus has been on reducing tariffs in attempts to enhance global trade. The difference however is that countries position on the imposition of tariffs has tended to change with the regime. Particularly, the Trump era best typifies the inverse gains of trade liberalization. In fact, trade wars between the USA and China have been predominant since the Republicans took over in 2016. In that regard, Kim, & Shikher, (2017) attempted to establish if a link exists between tariffs and trade balance in the case of trade between the US and China. The main emphasis of the study was on establishing if protectionism improved trade balance. With the use of a dynamic trade model, it was established that a change in trade policy resulted in a change in the trade balance. More specifically, it was found that a 10% increase in the US tariff leads to a slight improvement in US trade balance. However, both savings and investment in US declined substantially.

Similarly, Rosyadi & Widodo, (2017) delved into the consequences of the imposition of US tariffs against China on the rest of the world. The simulated scenarios suggested that there is a likelihood of declined terms of trade and deterioration in the Gross Domestic Product. On the other hand, both the US and China are set to benefit from an increase in trade balance. Besides that, there would be declined bilateral trade between the two countries with an increase in exports towards trading partners in developing countries.

In the Sub-Saharan context, Nicita, & Rollo, (2013) did an analysis of how tariff barriers affect the volume

of exports from sub-Saharan Africa (SSA). The findings indicated that exports from SSA face stiff competition from foreign competitors than from the local industries in their destination markets. In addition, tariff liberalization within SSA has been a huge incentive for intraregional trade. Evidently, the studies are skewed towards the US and China context. As well, the focus has been on trade as a whole as opposed to the agricultural sector in particular. What is evident though is that the imposition of tariffs has both negative and positive implications on the trading partners. In light of the reviewed literature, the study aims at establishing the implications of agricultural tariffs on the trade relations between Kenya and China.

1.3.2.2 Foreign Direct Investment on Trade Balance

In agriculture, there is both domestic and foreign investment. Often times, the trade policy in place in a country has the potential to either induce or discourage investments in agriculture. Despite the economic growth agenda of developing countries being on liberalizing their economies, their efforts have only attracted limited inflows of FDI. It is thus important to find out whether the inflow of investments in agriculture is key in ensuring there is balanced trade. Regarding the influence of FDI on trade balance, Wang, (2018) analyzed the implications of FDI on the trade balance between US and China. The study used panel data ranging from 2008 to 2016. The focus was mainly on the influence of FDI on the trade deficit between US and China. The findings were such that with an increase in FDI, there was a reduction in the trade deficits. It was therefore deliberated for the US to treat China equally in the market with the goal of maintaining both a stable economic and financial environment.

Furthermore, Noureddine & Hamid (2016) delved into the relationship between FDI and trade balance. As opposed to other studies, focus was on the utility of foreign investment in the different sectors in Morocco. From the study findings, it was evident that there was no link between FDI and trade balance. The reason for this is that with an increase in FDI, there is also increased exports through the investment in tradeable sectors such as in manufacturing. Besides, since the country heavily relies on imported inputs in its production of exports, a rise in imports attracts more FDI. Moreover, there is deterioration of the trade balance with inflows of foreign investment in non-tradable sectors. Consequently, the FDI brings about an increase in imports without achieving the same for exports. The eventual outcome is that the positive implications of FDI in certain sector cancel out with the negative implications in other sectors.

In addition, Marinela, (2015) investigated the influence of FDI on the trade balance of firms operating in Romania. The targeted firms were in operation between 2008 to 2013. The focus of the analysis was on the exports and imports of the firms with foreign capital participation. The results of the study indicated that the firms with FDI inflows exhibited negative trade balance. In fact, the exports from the firms with the largest share of FDI was not sufficient enough to cover the expenses for imports. As such, Romania made it mandatory for firms with higher imports than exports to increase their share of exports in attempts to reduce the trade deficit.

From the ensuing discussions, it is evident that there is a mixed relationship between FDI and trade balance. However, in majority of the cases, FDI inflows contributed to the deterioration of the trade balance. As such, countries can only capitalize on FDI if such investment is responsible for both the growth of imports and exports. Nevertheless, there is no clear picture on how FDI in specific sectors of the economy such as agriculture has influenced bilateral trade. Consequently, the paper delves into the implications of FDI on the trade relations between Kenya and China.

1.4 Methodology

The methodology is quantitative. In the paper, foreign direct invest and tariffs in agriculture were used as proxies for agricultural trade liberalization. On the other hand, the trade relations between Kenya and China was analyzed in terms of the trade balance between the two countries. The study made use of secondary data from the United Nations Conference on Trade and Investment (UNCTAD), United Nations Comtrade database and the World Trade Organization. The data on trade balance and foreign direct investment covers a period ranging from 1980 to 2018. However, for tariffs on agricultural trade between Kenya and China, the data is only available from 2005 to 2018.

1.5 Results and Discussions

1.5.1 Trade patterns between Kenya and China, 1980 – 2018

Kenya has exhibited different trade regimes with China since its independence. The focus of this paper is on the post- liberalization period in Kenya from 1980 to 2018. During this period, Kenya had adopted an outward oriented industrial policy evidenced by the deepening of its trade relations with China.

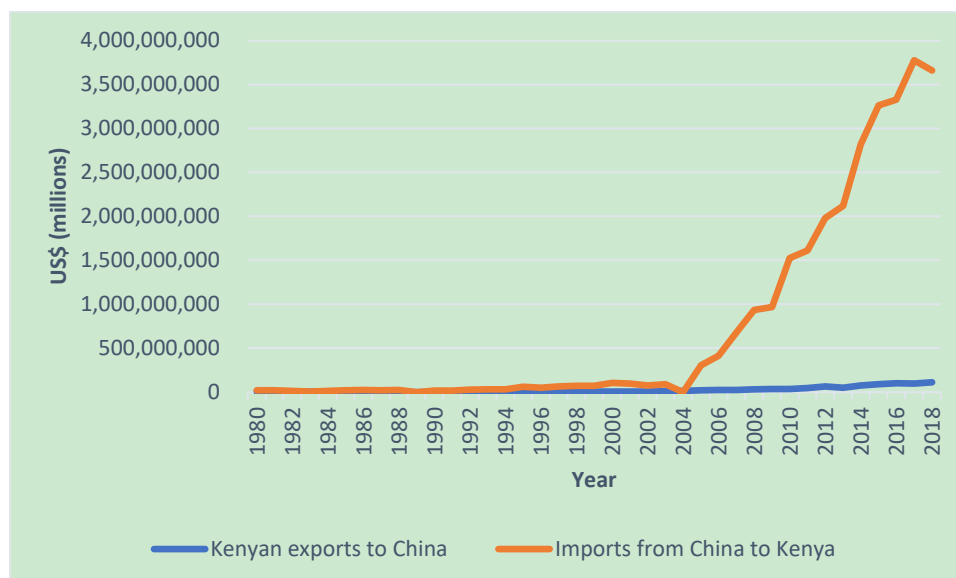


Figure 1: Trade patterns between Kenya and China, 1980 – 2018 (Source: UN Comtrade database)

Basing on the findings in figure 1, exports from Kenya to China was at a value of US\$5 million in the year 1980. It is the same year that Kenya had adopted the prescribed Structural Adjustment Program requiring it to liberalize trade. However, there was a drop in the exports to China with the lowest being US\$338,806 in 1990. In the same period, the value of imports from China to Kenya was double that of Kenya’s exports. In fact, in 1980, the imports from China to Kenya were valued at US\$19 million with the lowest being at US\$4 million. During the period 1980 to 1990, Kenya’s exports to China was below 5.2 million US Dollars in value while the imports from China had surpassed 20 million US Dollars.

In the period 1991 to 2000, Kenya elicited its lowest ever volume of exports to China. The value of exports ranged from a low of US\$612,866 in 1997 to a high of US\$4 million in the year 2000. The reason for this was that agricultural output yields took a slump in the 90s due to poor production factors and market conditions that resulted in under investment in the sector and encouraged imports (Kimenyi, Mbaku, & Mwaniki, 2003). This was however not the case with imports from China to Kenya. Specifically, there was a steady increase in the imports from US\$ 15 million in 1990 to a high of US\$ 101 million. Compared to the imports in 1989, there was increase in imports to Kenya by fivefold. This was attributed to the trade liberalization regime that made it possible for traders in Kenya to import goods from China. China’s trade blossomed while Kenya exhibited minimal growth with regards to the volume of exports.

At the turn of the new millennium, the agricultural sector in Kenya underwent a rejuvenation of sorts and it reflected in the volume of exports to China. Particularly, as opposed to the last decade, the volume of exports ranged from US\$ 3 million in 2001 to US\$ 31 million in 2010. It is this period that Kenya realized notable growth in its exports due to trade liberalization policies implemented in the 90s. On the other hand, China imports to Kenya increased from US\$ 94 million in 2001 to US\$ 1.5 billion in 2010. This period marked the onset of China’s heavy involvement in the infrastructural development in Kenya.

In the period 2011 to 2018, there was increased trade engagement between Kenya and China. In fact, China’s involvement in the tradeable sectors of the economy had increased tremendously. Though there was growth in the share of Kenya’s exports to China, it could not be compared to the imports from China. As of 2018, the imports from China were at US\$3.6 billion while Kenya’s exports were at US\$109 million. It is clear that Kenya is placed at a disadvantage in its trade relations with China. Over the years, there has been a diversification of imports to electrical, telecommunication equipment, building materials, textile, motor and transport equipment, motorcycles, drugs and fertilizers. Nevertheless, in the Kenyan case, the exports have significantly remained the same with agricultural products dominating the exports.

1.5.2 Trade Balance

Kenya has been experiencing persistent trade deficit with China for the past 4 decades. This has mainly been attributed to an imbalanced trade between Kenya and China. Figure 2 highlights the trade balance between Kenya and China for the period between 1980 that is when Kenya liberalized its trade to the year 2018.

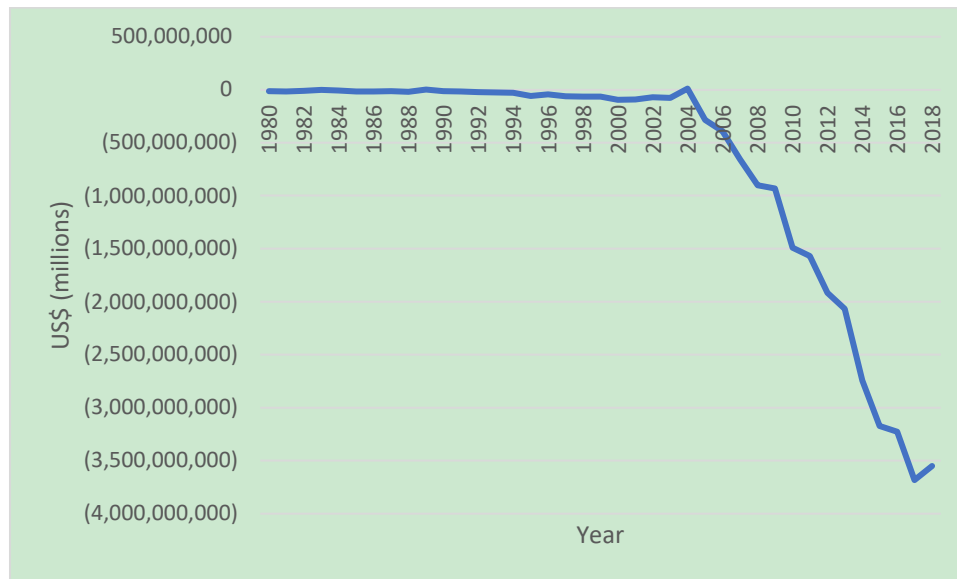


Figure 2: Trade Balance (Source: UN Comtrade database)

As highlighted in figure 2, there has been an increase in trade deficit right from 1980 to 2018. This is mainly attributed to the fact that there was higher importation of inputs for production that could not match the exported products from Kenya. Between 1980 to 1990, Kenya's trade deficit with China was below US\$ 20 million. However, in the 90s, there was rapid rise in imports from China leading to a deficit of US\$66 million as of 1998. From 2004, there was a further increase in trade deficit with Kenya hitting a record high deficit of US\$ 3.6 billion in 2017. In the post-liberalization period, there was influx of cheap imports from Kenya which led to the closure of cottage industries. The other challenge is that, despite Kenya performing poorly in its share of exports to China, the government was unable to employ more proactive response strategies in attempts to reduce the trade deficit.

1.5.3 FDI Inflows to Kenya

Foreign direct investment refers to the investment that are made in foreign assets in the form of property, rights, credits or foreign currency. Some of the predominant factors that dictate the inflows of FDI include trade openness in a country, political stability, labor markets and the status of infrastructural development (Kipnetich, 2008). Figure 3 highlights the trend in foreign direct investment from 1980 to 2018.

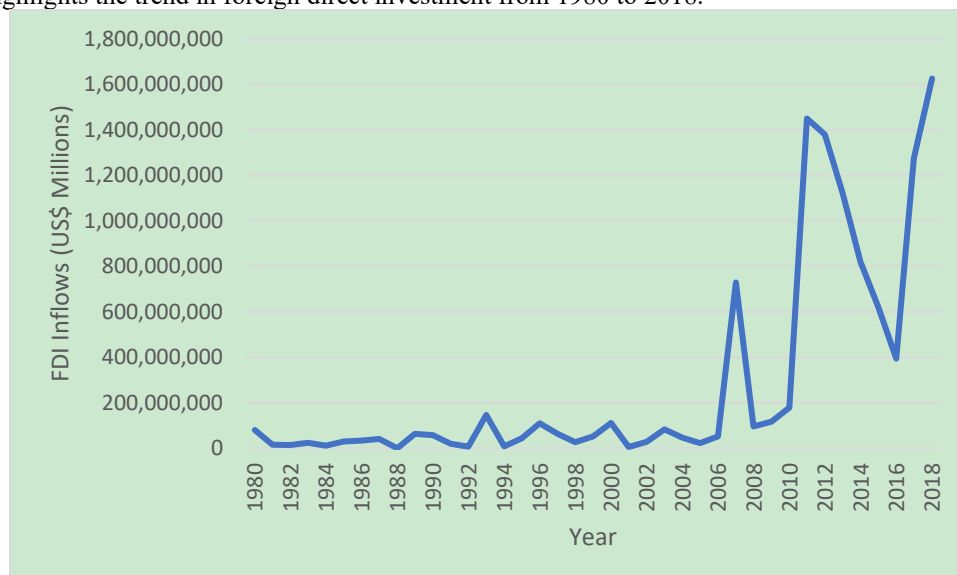


Figure 3: FDI Inflows to Kenya (Source: United Nations Conference on Trade and Investment)

From the findings in figure 3, FDI inflows in Kenya were at US\$78 million in 1980 with the lowest inflows being at US\$ 394,431 in 1988. However, in the 90s, Kenya lost its competitiveness in attracting FDI. This was attributed to turbulent political environment and poor governance. There was also a standoff with the International Monetary Fund leading to the suspension of aid in 1997. At the turn of the millennium, FDI inflows in Kenya has been a rollercoaster of ups and downs. It is during this period that China's FDI inflows to Kenya was predominant.

According to Onjala, (2010), China’s investment in Kenya in the year 2000 was in the manufacturing and service sector with manufacturing making up 90% of the investment. The author further notes that as of 2004 there were a total of 60 Chinese firms doing business in Kenya with 8 more firm being established in 2006 to operate in the same sectors. However, in 2008, FDI inflows reduced to US\$ 95 million from US\$729 million in the previous year as a consequence of the post-election violence in 2007. As well, in 2009, there was increased competition from other African countries as favorable destinations for FDI.

In 2011, there was rise in FDI inflows to US\$ 1.4 billion with China being credited with the increased investment. As of 2018, FDI stands at US\$ 1.6 billion Kenya’s highest in the post-liberalization period. This is mainly attributed to investments from China. The FDI from China are made by Chinese firms that are partly owned by the Kenyan government (Kipngetich,2008). The biggest beneficiaries of FDI inflows are the manufacturing, infrastructure, banking, tourism and agriculture. In terms of investment in agriculture, by 2017, there were only 7 foreign affiliates in agriculture compared to China which has 32 foreign affiliates in their agricultural sector (Map, 2016). The agricultural sector has not benefited substantially from the FDI inflows from China due to inability to capitalize on positive externalities such as knowledge and technology transfer. Poor governance and corruption have also contributed in a big way. Despite these inherent challenges, the signing of the sanitary and phytosanitary (SPS) protocol s an opportunity for Kenya to increase its volume of agricultural exports to China.

1.5.4 Tariffs (%)

The tariffs on agricultural products on trade between Kenya and China is proxied by Most Favored Nation (MFN) simple average duty. The data on MFN agricultural tariffs is only available from 2005 to 2018. The findings are as presented in figure 4.



Figure 4: Tariffs (Source: World Trade Organization Database)

From 2005, the tariffs on agricultural exports have been on a slight increase right from 18.7% to 20.3% in 2018. Nevertheless, China’s tariff rates for manufactured products has been on the decline in the post-liberalization period. In 1992, the tariff rate was at 43.8% with a steady decline to 9.4% in 2016 (Facts,2016). Evidently, the tariff rates that agricultural exports are exposed to are twice that of the manufactured products being exported to China. There is a likelihood that the tariff barriers faced by agricultural exports have in a way contributed to the rising trade deficit with China. To contain its trade deficit, Kenya will have to mechanize its agricultural processes so as to increase the competitiveness of its agricultural produce as well as capitalize on black tea, grains of hides and skins of bovine which have great potential in China.

1.6 Conclusion and Implications for Kenya China Trade Relations

In the last 4 decades, the inflows of FDI from China to the Kenyan economy have been on the rise. From the analysis of FDI inflows, investment has mainly been done in the manufacturing and services sector with agriculture receiving limited attention. The findings lend credence to the firm heterogeneity model which alludes that there is self-selection by foreign investors into sectors of the economy that are deemed to be more productive. Specifically, the Chinese firms established in Kenya are engaging majorly in the manufacturing and service sectors. Kenya has huge potential to diversify its share of exports to China and at the same time reduce its trade deficit. With the trade relations between Kenya and China, there is potential for Kenya to benefit from technology transfer in boosting both the productivity and efficiency in agriculture. Therefore, with Kenya adopting policies that stimulate the diffusion of new technology in agriculture, there is a likelihood of a transition to climate smart crops that would

offer massive investment opportunities for the agricultural sector. Also, with the signing of the sanitary and phytosanitary (SPS) protocol between Kenya and China, farmers would benefit from precision agriculture that ensures agricultural produce such as avocados and french beans meet the stringent market conditions in China.

In addition, Kenya's exports to China face relatively high tariff rates. This adversely affects producer earnings. Therefore, there is need for Kenya to renegotiate its terms of trade with China so as to increase access to China's market. For this to take place, the tariff barriers need to be reviewed. With reference to the firm heterogeneity model, with the reduction in tariff barriers, domestic producers with high growth potential would be able to expand their volume of production to serve foreign markets. Also, emphasis needs to be on agricultural commodities that Kenya possesses a comparative advantage in. Some of the products comprise of black tea, hides and skin as well as grains. Particularly, Kenya has the potential to gain an addition US\$ 10.7 million with the exportation of black tea (Map, 2016). Finally, to reduce the trade deficits with China, the government needs to work on creating an environment that encourages smallholder participation in intensive agriculture by doing away with restrictive fees and tariffs on inputs.

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