

## The Kenyan Automotive Industry: Historical Trends and Recent Policy Changes

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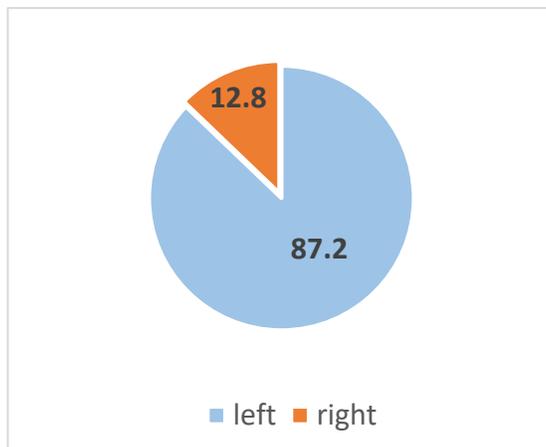
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*While the United States is one of the largest automotive manufacturers in the world, its exports to Kenya lag significantly behind other global automakers. The Kenyan market has traditionally been a destination for used vehicle imports, specifically from Japan. This reliance on Japanese automobiles is primarily due to Kenya’s policy of driving on the left side of the road. However, recent policy developments in Kenya aim to curb the importation of used vehicles and facilitate investment in domestic automotive manufacturing.*

### Composition of Current Automotive Exports to Kenya

While Kenya is still currently considered a lower-middle income country,<sup>1</sup> its large and growing middle class, progressive business environment, and history of automotive assembly makes it suitable to be a potential East African automotive hub. Moreover, it is the economic, commercial, and logistical hub, as well as the most developed economy, in Eastern Africa.<sup>2</sup> For these reasons, Kenya has been of keen interest to global automakers to tap into the production potential, while at the same time tapping into the increasing consumer market in Kenya. This is due in part to Kenya’s policy of operating automobiles on the left side of the road, which has been found to be a significant barrier for U.S. automakers since they primarily manufacture vehicles for the right side of the road.<sup>3</sup> Moreover, Kenya explicitly bans the importation of vehicles that drive on the right side of the road, so most of U.S. automotive production cannot be exported to Kenya. As a result, over 87% of global passenger vehicle exports to Kenya come from countries that drive on the left side of the road (figure 1 and table 1).

**Figure 1: Share of Exports to Kenya originating from right and left-side drive countries, 2019**



Source: IHS Markit, Global Trade Atlas (HS 8703 and 8704; accessed May 12, 2020).

### Kenya Historically Imports Used Vehicles

Kenya is historically one of the world’s top importers of used vehicles. Existing trade data precludes the analysis of used vehicle imports on a global scale, because many countries do not differentiate between new and used vehicles. However, Japan is the top exporter to Kenya (table 1) and does differentiate between new and used vehicles in its trade data. Japan’s motor vehicle exports to Kenya were 82.6 percent used in 2019 (\$444.4 of the \$538 million), and these used exports alone would account for over 57 percent of global exports to Kenya in 2019. Historically, Kenya estimates that, in total, as much as 85 percent of automobiles exported to Kenya are used vehicles.<sup>4</sup> However, the Kenyan Government argues that importing used vehicles not only curbs the development of any local automotive industry, but they also cost Kenyans more than \$593 million annually.<sup>5</sup>

<sup>1</sup> Kenya has had a GDP growth rate over 5 percent, on average, over the past decade. For more information, see World Bank, “Lower Middle Income Countries,” (accessed August 14, 2020).

<sup>2</sup> Deloitte, “Africa Automotive Insights: Navigating the African Automotive Sector” May 2018.

<sup>3</sup> Many SSA countries that were former British colonies, including most of COMESA, drive on the left side. For more information on the impact of this, see Coffin et al, “Examining Barriers to Trade in Used Vehicles,” August 2016.

<sup>4</sup> Republic of Kenya, “Draft National Automotive Policy” February 2019.

<sup>5</sup> Republic of Kenya, “Draft National Automotive Policy” February 2019.

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**Table 1: Exports to Kenya of Motor Vehicles, 2016-19 (millions \$)**

Country	Drive Side	2016	2017	2018	2019
Japan	Left	478.7	487.3	542.9	538.0
South Africa	Left	47.2	63.2	71.4	65.2
United Kingdom	Left	54.3	55.9	48.2	52.5
India	Left	24.6	18.4	21.2	29.9
China <sup>a</sup>	Right	21.5	37.0	29.3	24.9
United States	Right	3.0	4.1	1.2	0.7
Rest of World	N/A	67.1	42.5	58.9	65.2
<b>Total Exports</b>	<b>N/A</b>	<b>696.4</b>	<b>708.3</b>	<b>773.0</b>	<b>776.3</b>

Source: IHS Markit, Global Trade Atlas (HS 8703 and 8704; accessed May 12, 2020)

Note: Countries shown are the top 5 exporters to Kenya and the United States, which ranked twentieth in 2019. The rest of the top 10 exporters are Singapore, Thailand, Australia, Germany, and South Korea, who make up \$51.7 million of the \$67.1 million included in “rest of world” above.

<sup>a</sup> China’s exports to Kenya are almost exclusively (over 95 percent in each year) vehicles of subheading 8704, i.e. vehicles for the transport of goods.

### The Kenyan Automotive Industry, and Recent Developments

In recent years, Kenya has taken steps to promote local manufacturing of automobiles and reduce the importation of used vehicles.<sup>6</sup> First, the Kenyan government launched a national automotive policy in 2010 which established financial incentives for companies that manufacture or assemble cars locally, with the value of the incentives tiered based on the complexity of the manufacturing: (1) firms assembling/manufacturing locally face reduced or zero import and excise duties on intermediate inputs, and (2) a 50 percent or 100 percent reduction to the corporate tax rate for 10 years.<sup>7</sup> Second, to reduce the importation of cheaper used vehicles, Kenya prohibited imports of used commercial vehicles, and placed age limitations on imports of used passenger vehicles. Limitations on passenger vehicles are set to become more restrictive in upcoming years. Currently, Kenya only permits imports of used passenger vehicles 5 years or younger, but that is scheduled to change from 5 to 3 years in 2021, and from 3 years to zero in 2023.

Finally, the impact of these new policy changes have already been seen; after these restrictions on the importation of used vehicles were imposed, several international automakers such as Mahindra (India), Peugeot (France), Toyota (Japan), and Volkswagen AG (Germany) have opened production and assembly facilities (or resumed operations) in Kenya.<sup>8</sup> While no U.S. firm has currently made this decision, it is possible that U.S. producers will begin to follow suit by investing in manufacturing facilities in Kenya in order to access the Kenyan market, given the Kenyan government’s efforts to localize automotive production.

Sources: Coffin et al, [Examining Barriers to Trade in Used Vehicles](#); Deloitte, Africa Automotive Insights: Navigating the African Automotive Sector; Ford, [Kenya: Car Manufacturing Makes a Return](#); IHS Markit, [Global Trade Atlas](#); Open to Export, [Automotive Sector in Kenya](#); State Department for Industrialization, [Draft National Automotive Policy](#); UK Vehicle Exporters, [Vehicle Import / Export to Kenya](#); World Standards, [List of all left- & right-driving countries around the world](#).

<sup>6</sup> Other empirical work that attempts to estimate worldwide used vehicle flows ranks Kenya as the twelfth largest destination for used vehicle exports, and the largest in Africa. For more information, see Coffin et al., “Examining Barriers to Trade in Used Vehicles,” August 2016.

<sup>7</sup> For more information, see Republic of Kenya, “Draft National Automotive Policy” February 2019.

<sup>8</sup> Other major vehicle manufacturers present in Kenya include Isuzu, Volvo, Nissan, and Daewoo. In total, more than a dozen vehicle manufacturers operate in the country.

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