

The Impacts of the Africa Continental Free Trade Area(AfCFTA) on the Kenyan economy

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Motivation of the study: Objectives and Model

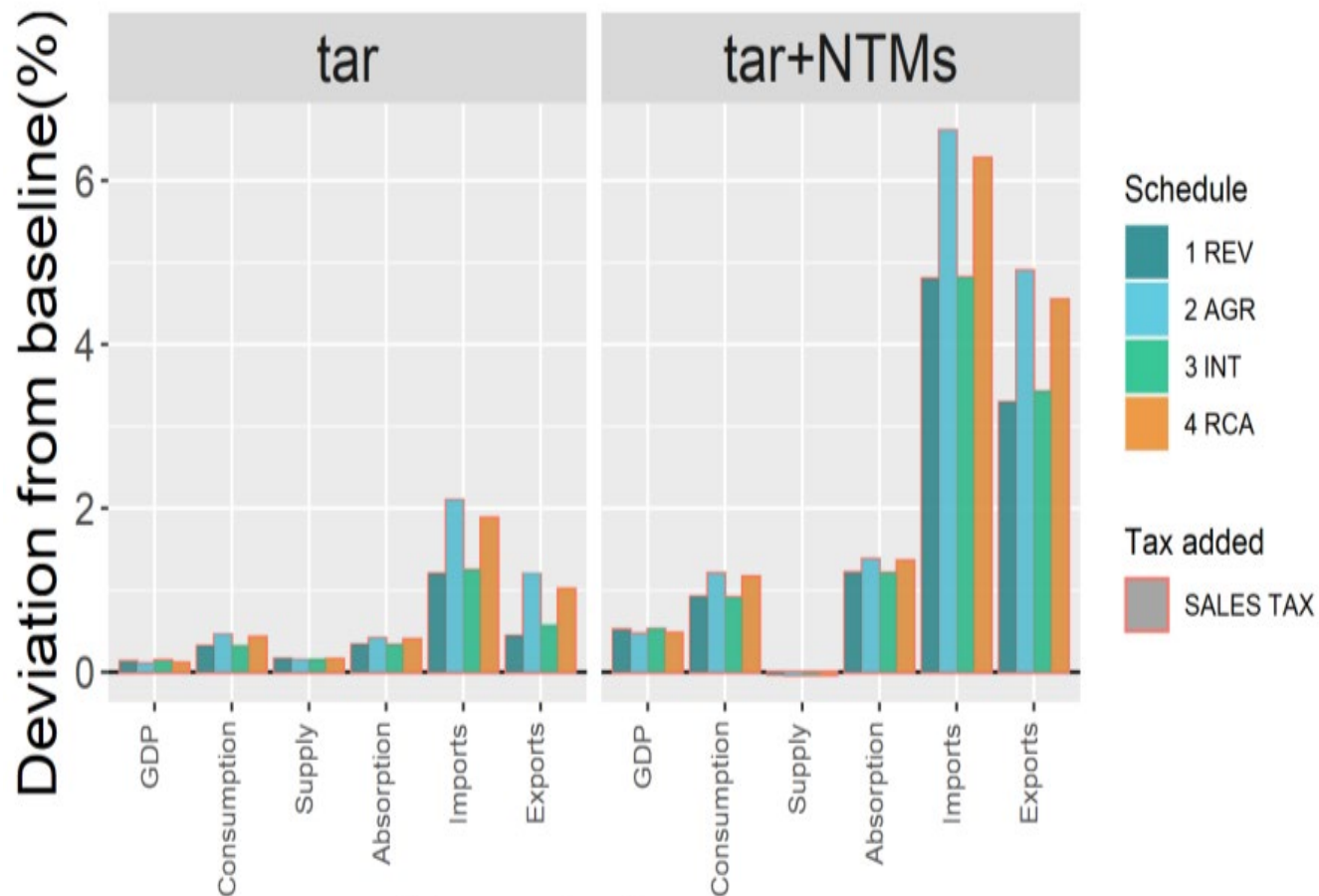
Objectives

- Determine the macroeconomic effects (GDP and revenues) due to tariff reduction and NTMs under the AfCFTA.
- To evaluate the trade-offs between the different economic actors.
- Determine the impacts of delaying or excluding liberalization of selected commodity groups
- Determine the changes in welfare in households based on income and spatial distribution.

Model used

- The DEMETRA model
- The framework used is based on single country CGE model.
- An updated Kenya 2016/2017 SAM was used.
- The model captures the direct impacts of liberalization on commodity exports and imports and extension on supply chains, income, investments, among others.
- Trade responses outside Kenya are taken from a Continental level-study using a global CGE model.

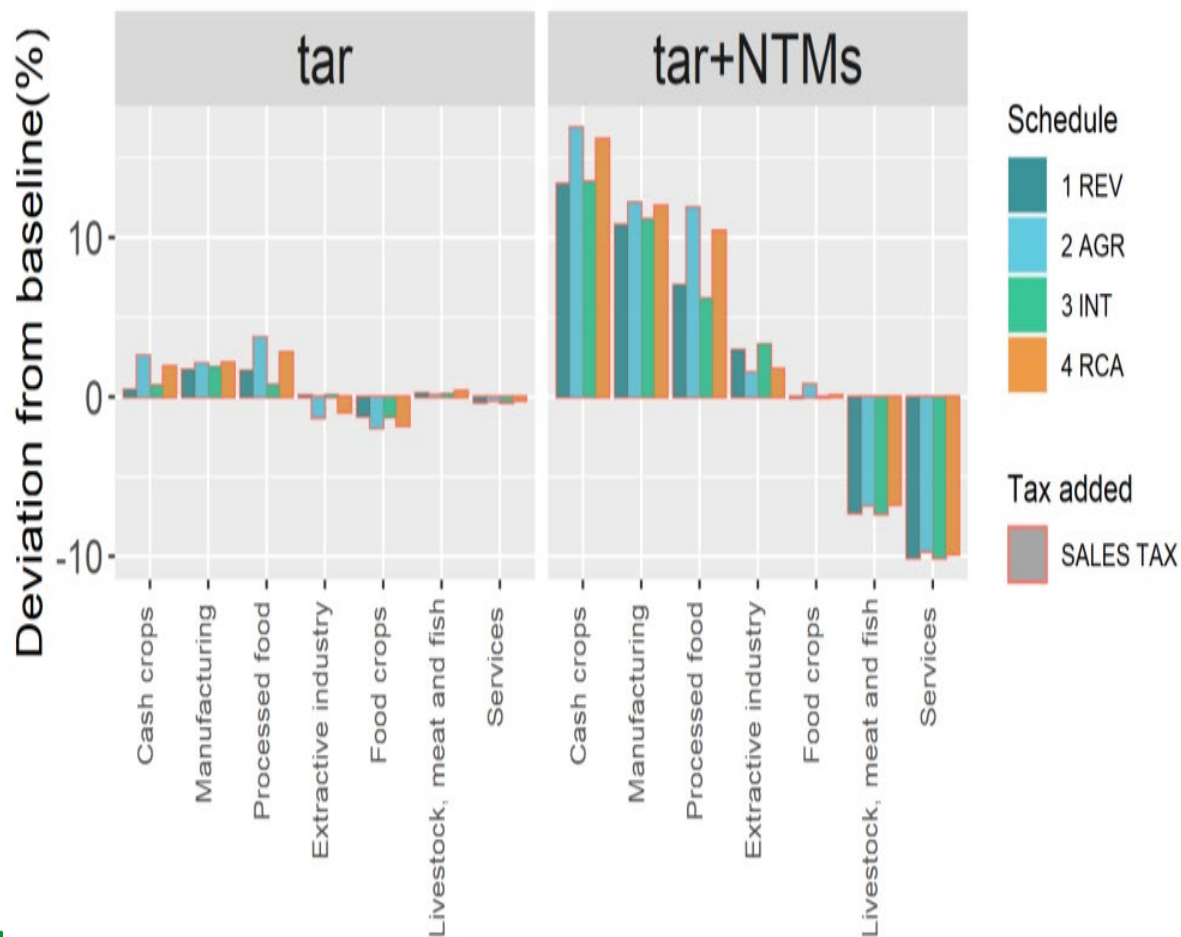
Macroeconomic impacts



- GDP increase (between 0.11%-0.14%)
- impacts on trade and consumption are more visible.
- Consumption expands by 0.32-0.47%
- Aggregate imports grow by 1.2-2.1%
- exports have a lower expansion (0.5-1.2%)

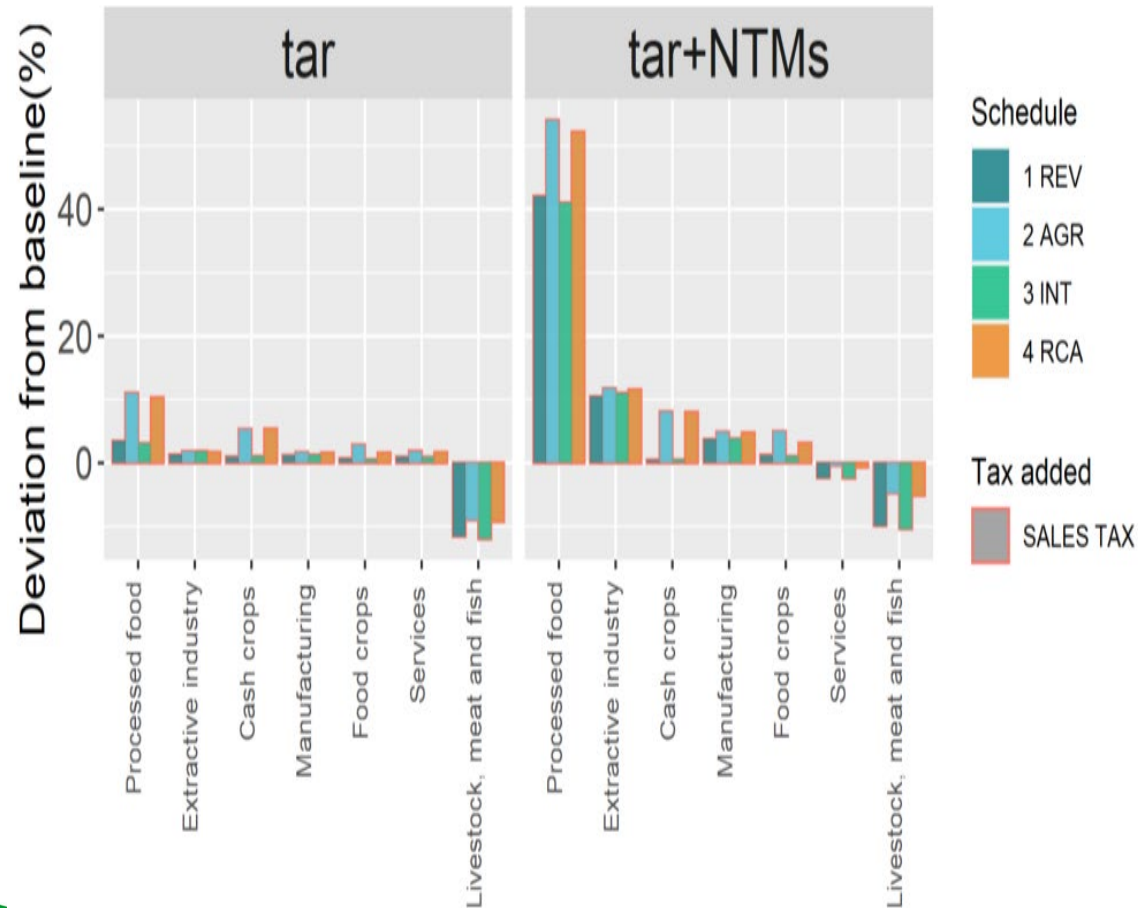
Trade impacts

Exports



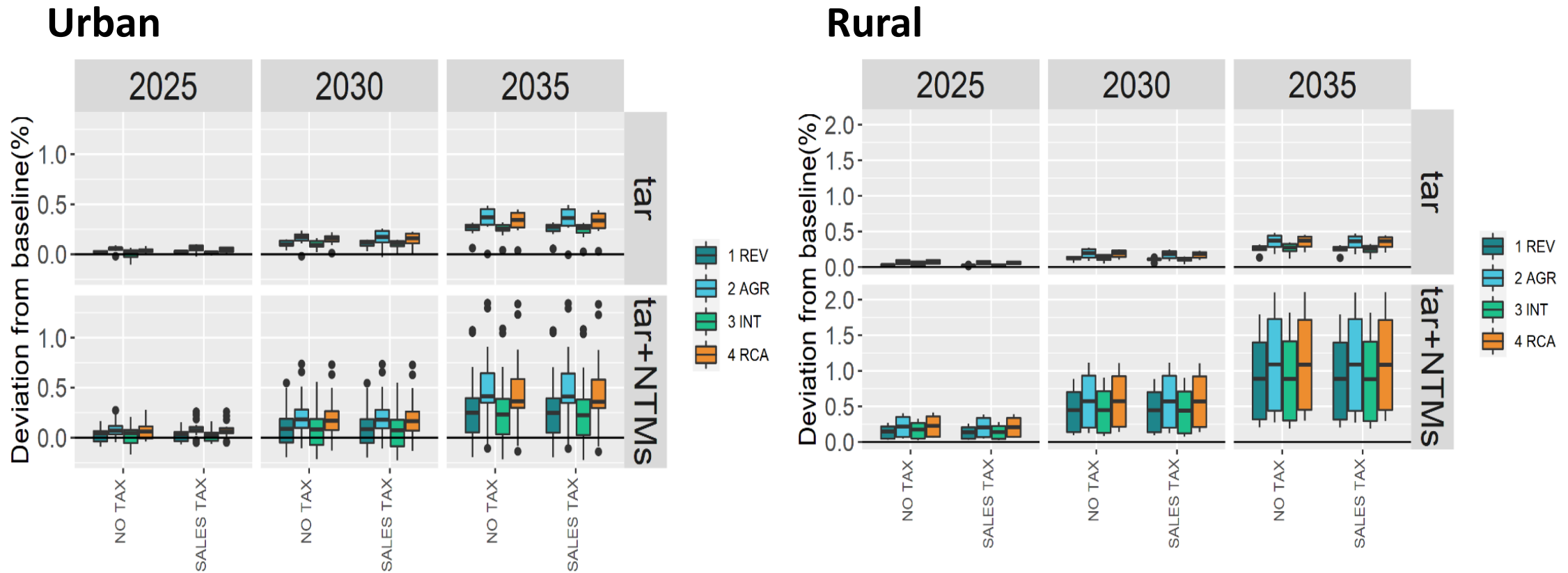
- Exports expansion of cash crops (0.4-2.6%)
- Increases for sugarcane & tea in the AGR and RCA
- manufacturing (1.7%-2.2%)
- processed food (0.8-3.7%).
- For livestock, meat & fish products,
 - ❑ only dairy and fish exports have levels above the baseline - 0.3%-5.6%
 - ❑ Meat and livestock face a reduction in exports

Imports



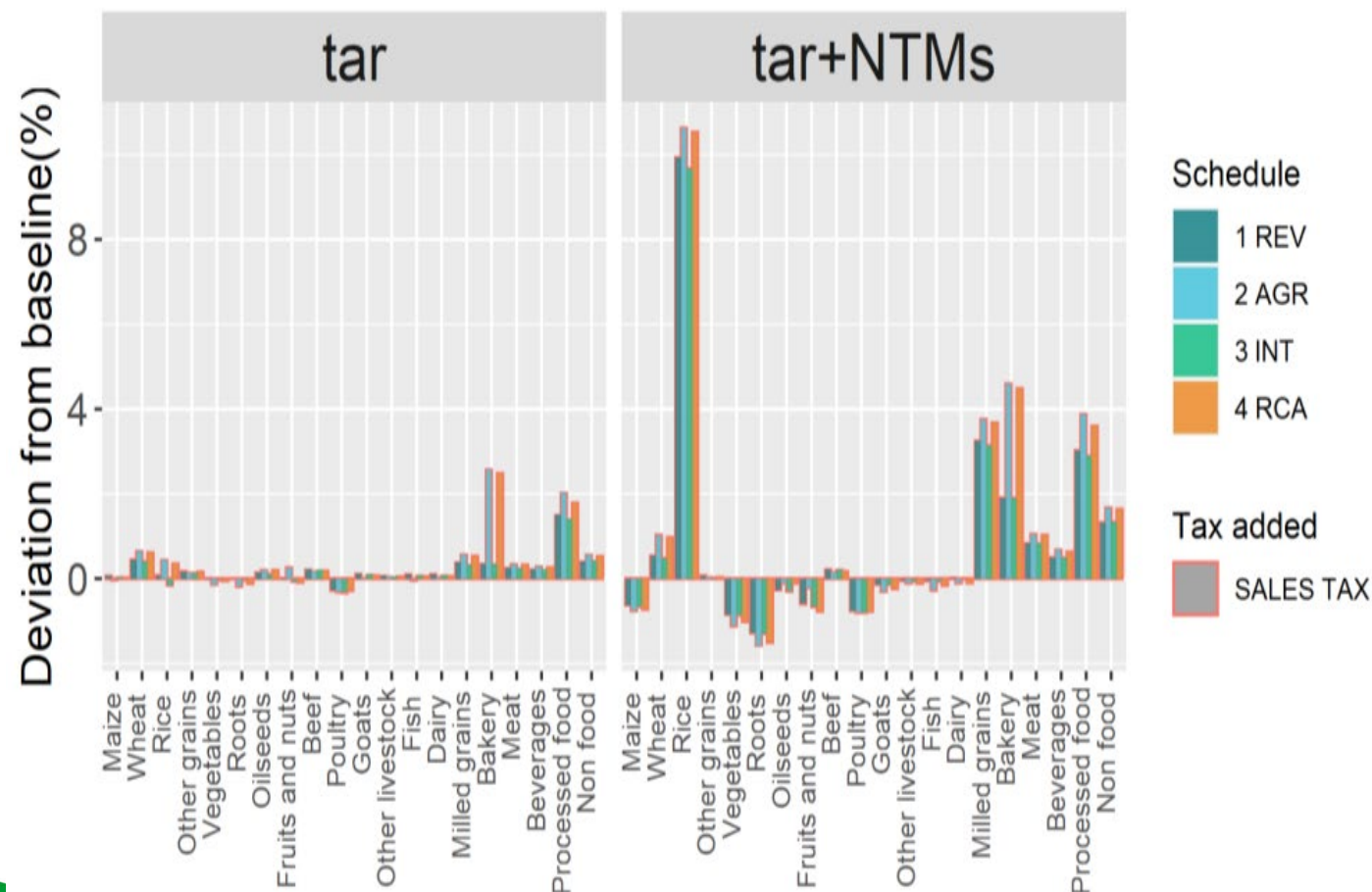
- Net increase in volumes across all product groups but notably among manufacturing products (1.2-1.7% above baseline in 2035),
- Food crops (0.7-2.9% with a decrease only for vegetables and rice)
- Processed food (3.5%-11%,
- Certain food crops increased (fruits, oilseeds, and rice)
- Wheat imports decline due decreased dd by millers

House hold impacts Welfare distribution



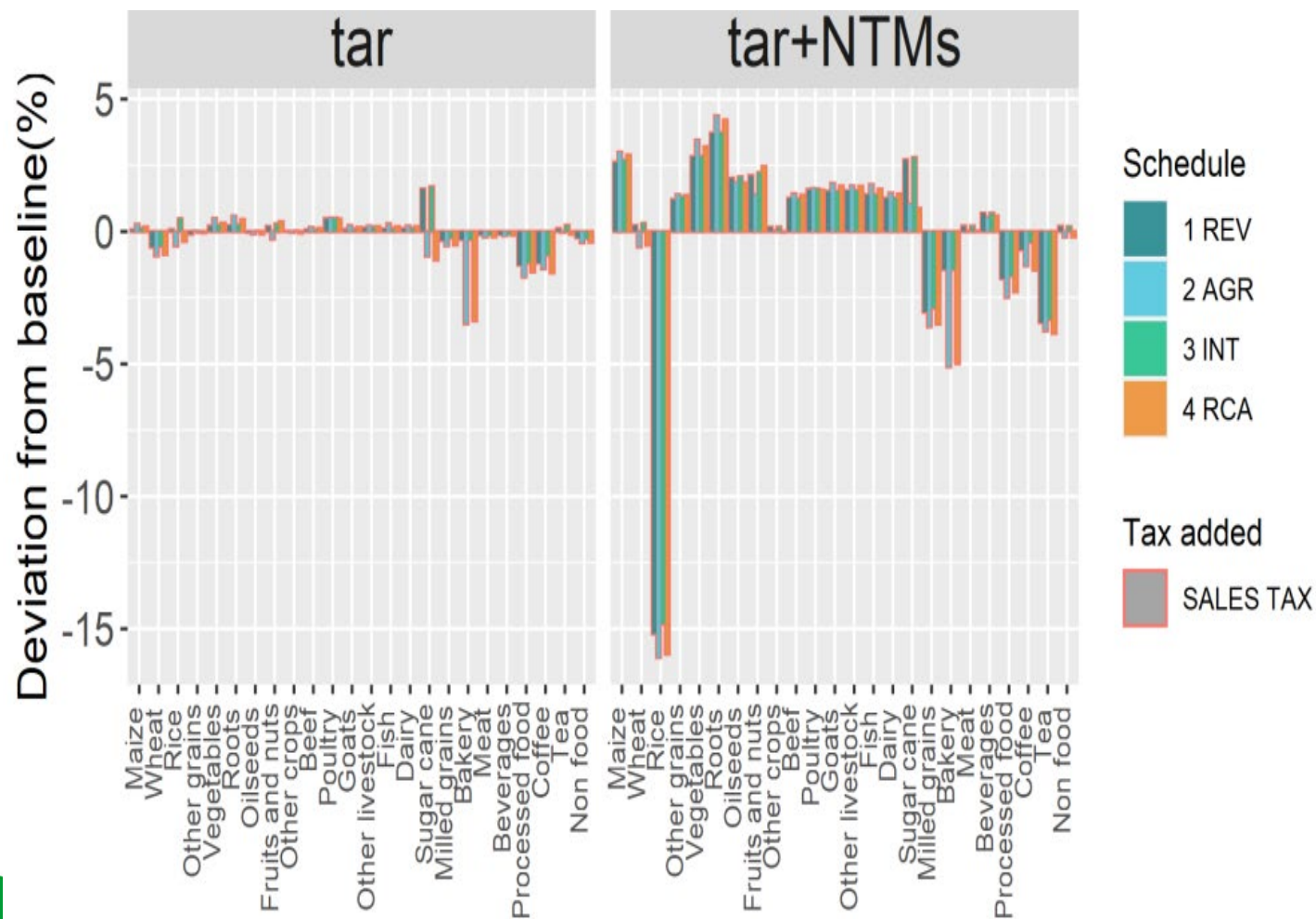
Food commodities

Household demand changes



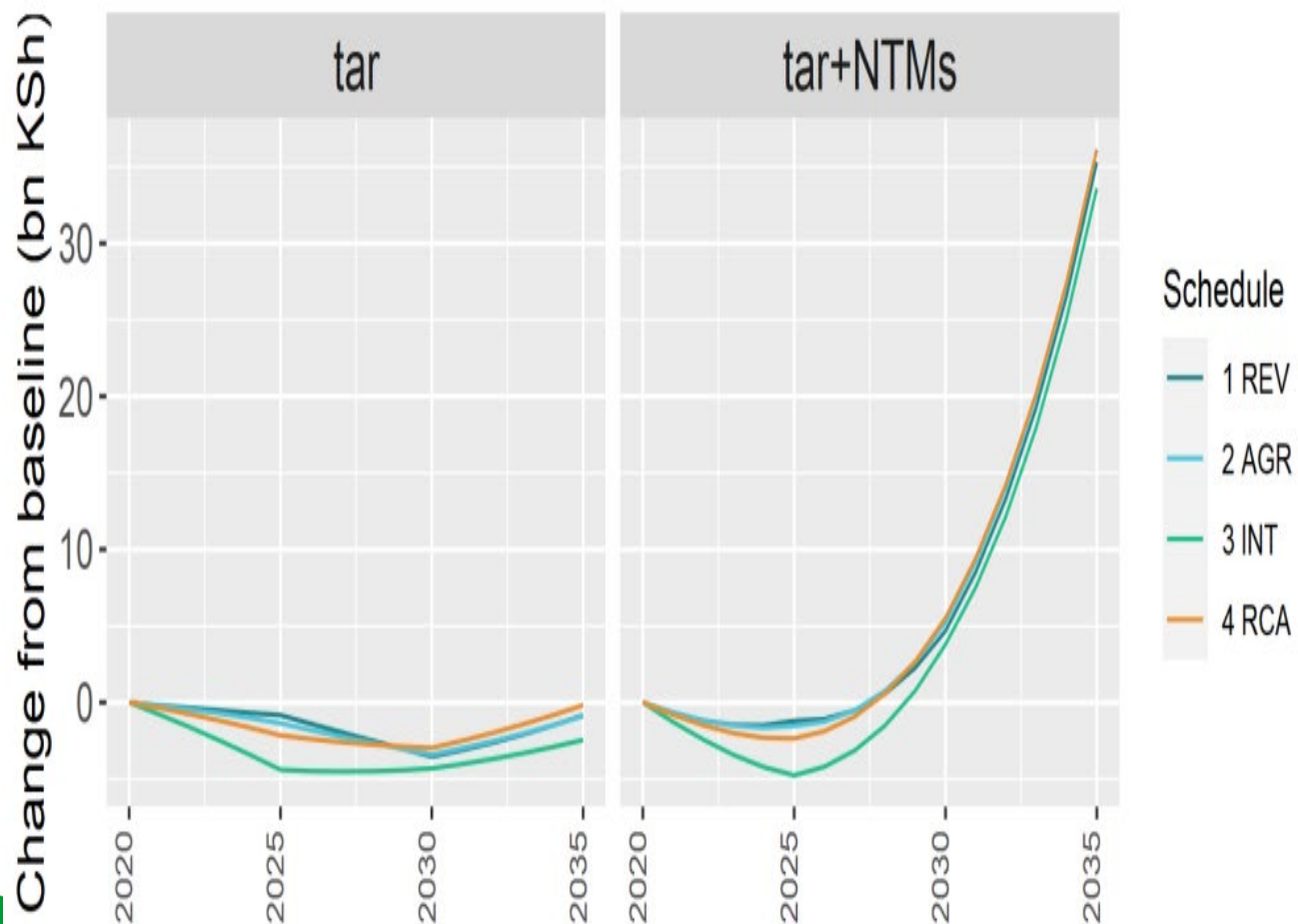
- Increase in household demand for **wheat, rice, other grains, oil seeds** and fruits, (substituting **maize**, other roots and vegetables)
- Bakery, milled grains, beverages, and other processed food.

Consumer price changes



- price of wheat decreases (0.6-0.9%),
- price of maize increases by 0.1-0.3%.
 - **Tar+NTMS**
- increase in market prices of food crops (except for wheat and rice)
- Increase in livestock and fish (meat to a lesser extent) due to an increase in production costs.

Government revenues



- **NTMs liberalization,**
- Total revenues have a similar dynamic up to 2025,
- thereafter revenues recover and exceed the baseline – in 2035, revenues are 33-35bn KSh higher than the baseline.
- This positive effect on revenues is driven by an increase in tariff & NTMs revenues and other tax classes, notably income and output taxes
- By 2025, the reduction is 0.4-1.9% in tariff & NTMs revenues (1.2-4.5bn KSh) and 0.04-0.2% in total revenues (0.8-4.4bn KSh).

Impacts of AfCFTA on Kenya ...

Key messages

- AfCFTA offers positive outcomes: Kenya has a comparative advantage in cash crops.
- Tariff reductions combined with NTMs boosts production and trade of manufactured products from Kenya.
- Stimulates labour productivity and concentration of skilled labour in manufacturing sector.
- Improved welfare due to increase in food stuffs.
- Liberalization reduces government revenue, thus narrowing the fiscal space.
- Investment in R & D for improved policy interventions
- Narrow the NTMs between countries.
- Scale up trade facilitation efforts to reduce time spend on movement of goods and services between countries.
- Enhance quality of Kenyan products and work through AfCFTA to access markets not previously exploited in Africa.

Policy recommendations

- The findings have revealed that cash crops provide a large expansion on employment in the AfCFTA framework hence important for the Kenyan government to improve the regulatory framework of tea, coffee and horticulture that are the main cash crops.
 - This will enhance investment in the sector to increase output, create more employment opportunities and ensure resilience of trade revenues as Kenya has a comparative advantage on this sub-sector.
- The AfCFTA's ability to improve welfare in rural areas provides an opportunity to narrow poverty and income inequality in these areas.
 - Given that rural areas are majorly agriculture based, **there is a need to improve infrastructure development** to match the benefits derived from the AfCFTA framework. Improved infrastructure will also **encourage value addition** and increased output of agricultural products.

Policy recommendations cont'

- Need to improve Kenya's competitiveness in areas that are large deficit drivers (notably manufacturing) would improve this situation by lowering imports and encouraging exports.

Thank You for Your Attention!



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