

# **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

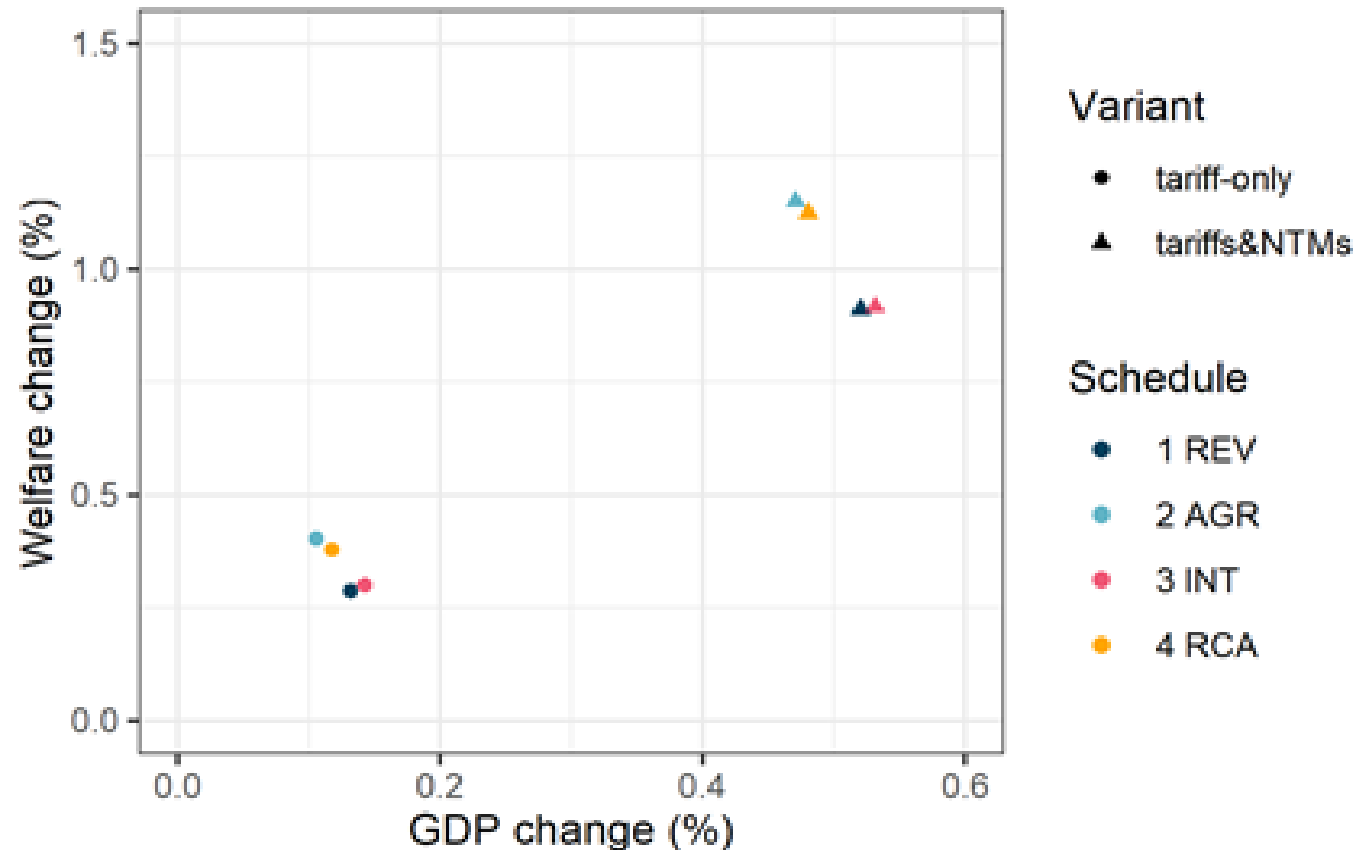
- Determine the macroeconomic effects (GDP and revenues) due to tariff reduction and NTMs under the AfCFTA.
- To evaluate the trade-offs between the different economic actors.
- Determine the impacts of delaying or excluding liberalization of selected commodity groups
- Determine the changes in welfare 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. (53 sectors, 55 marketed commodities and 18 home commodities, 22 household groups and 24 labour segments grouped by region and skill-level).
- 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.

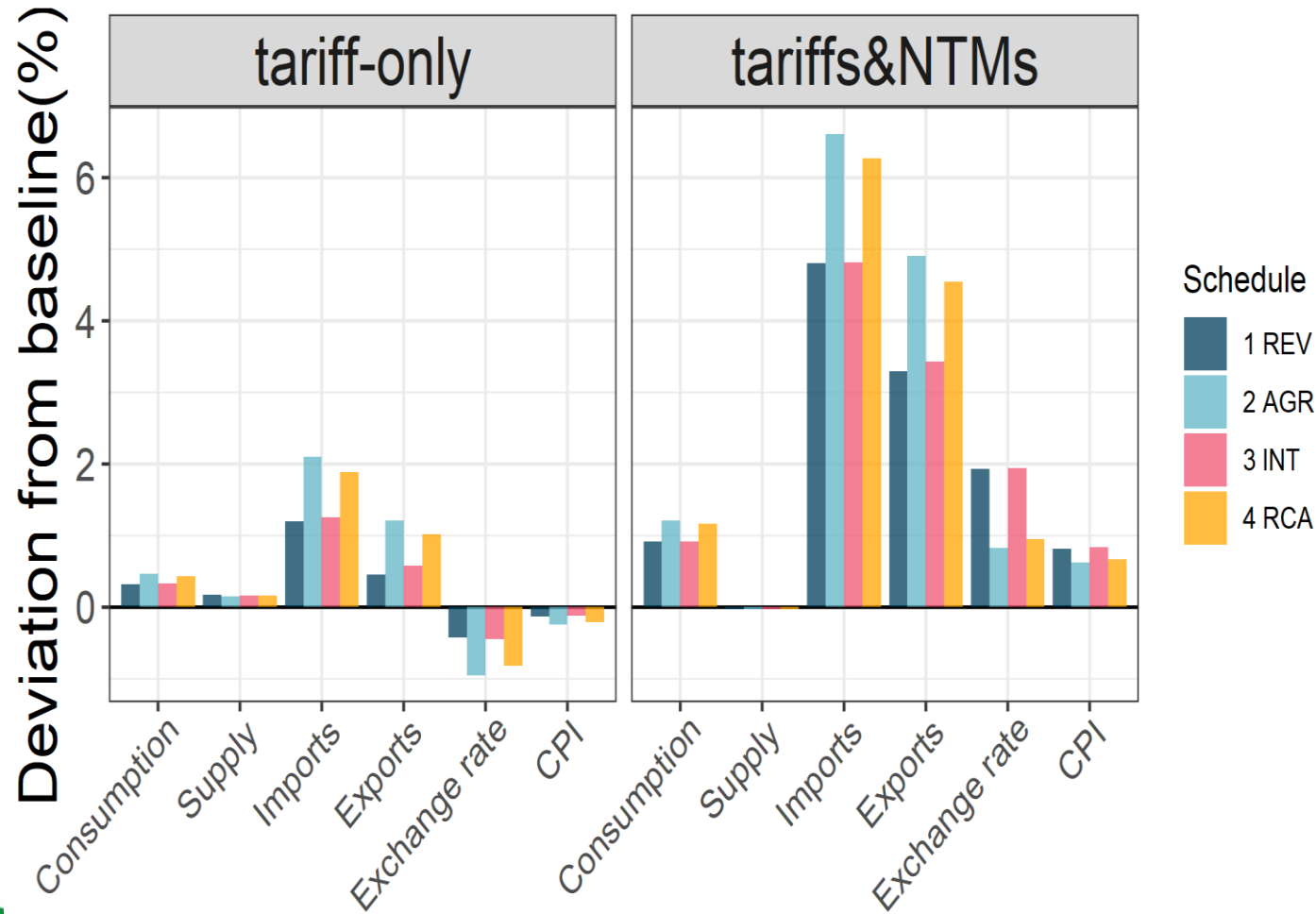
# Aggregate effects of the AfCFTA

## GDP and welfare



- The tariff-only variant leads to modest gains in GDP (between 0.11%-0.14% above baseline levels in 2035) with larger gains in welfare (0.29-0.40% above baseline)
- REV and INT schedules determine higher GDP outcomes while AGR and RCA increase welfare more

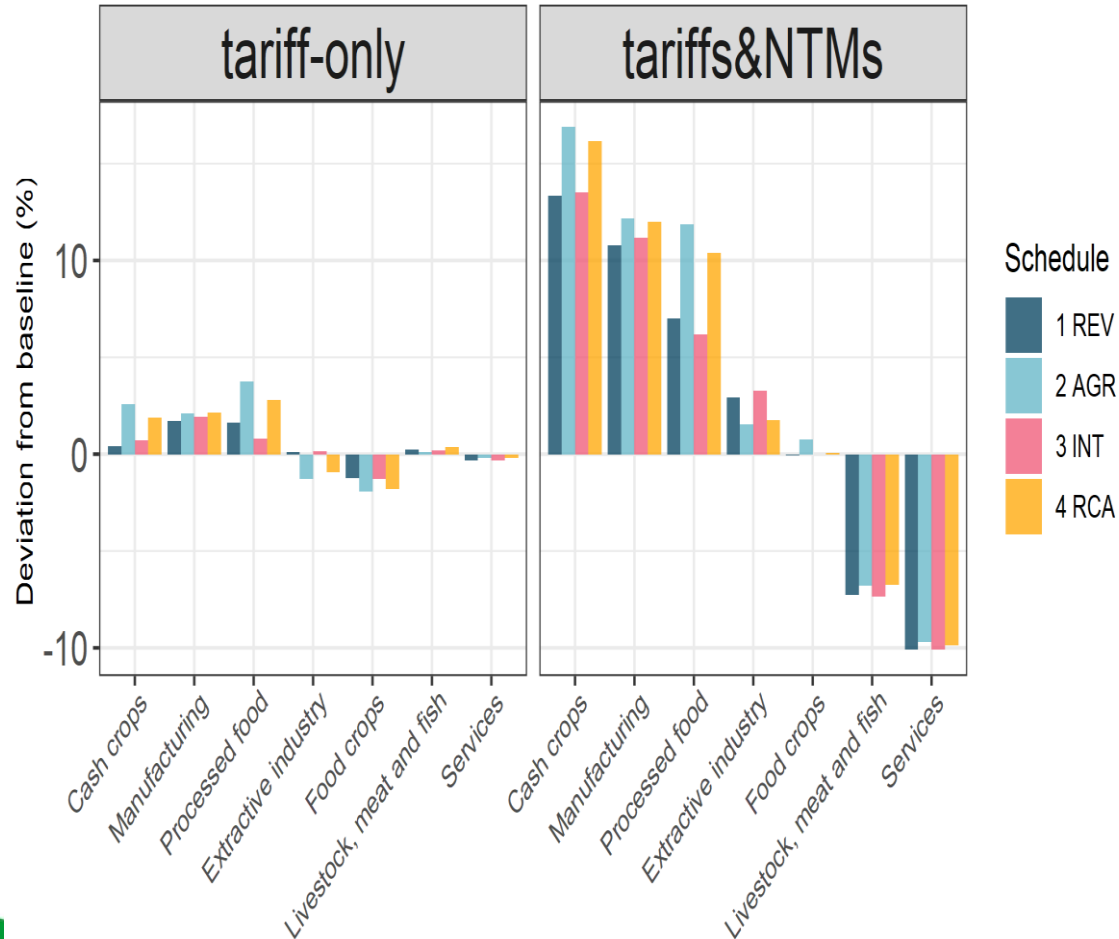
# Macroeconomic impacts



- 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%)

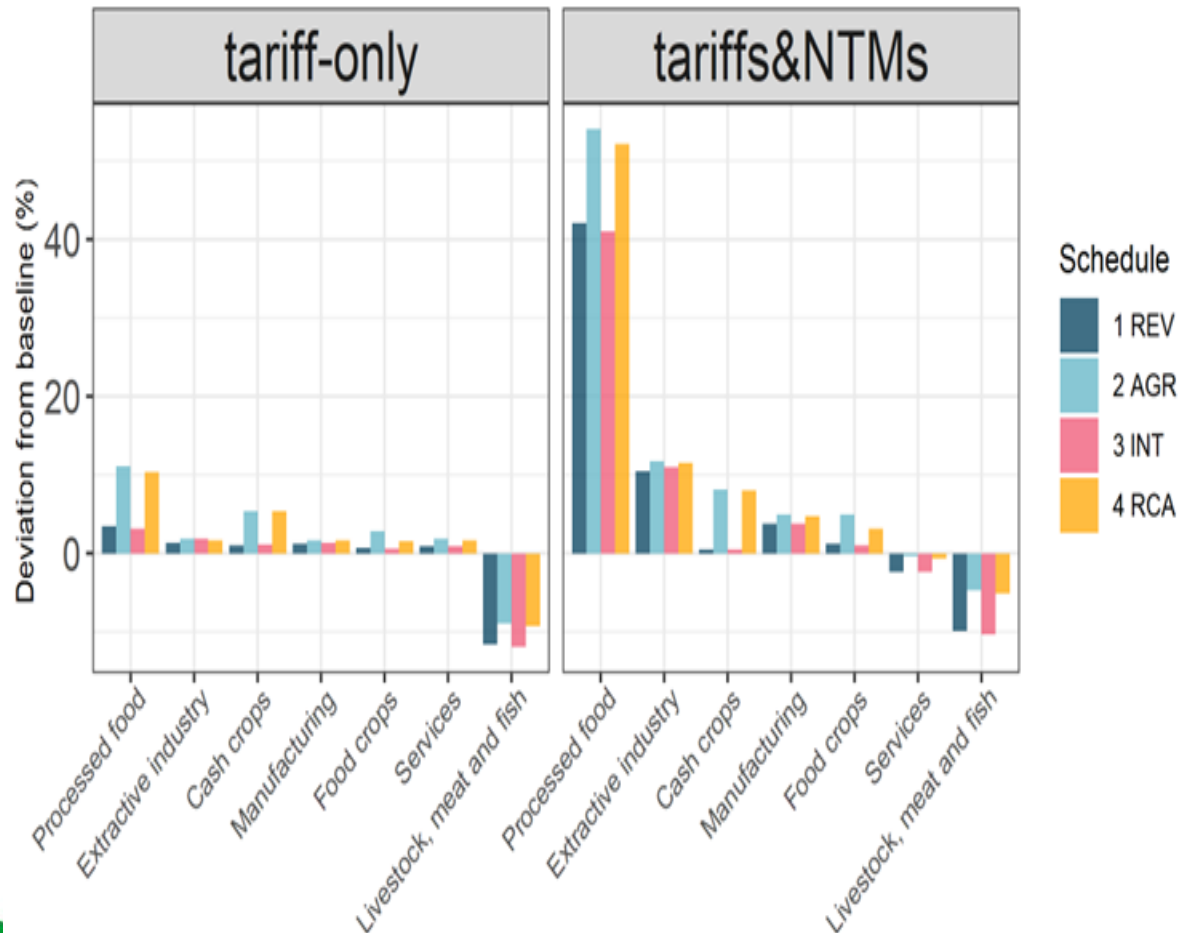
# Trade impacts

## 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

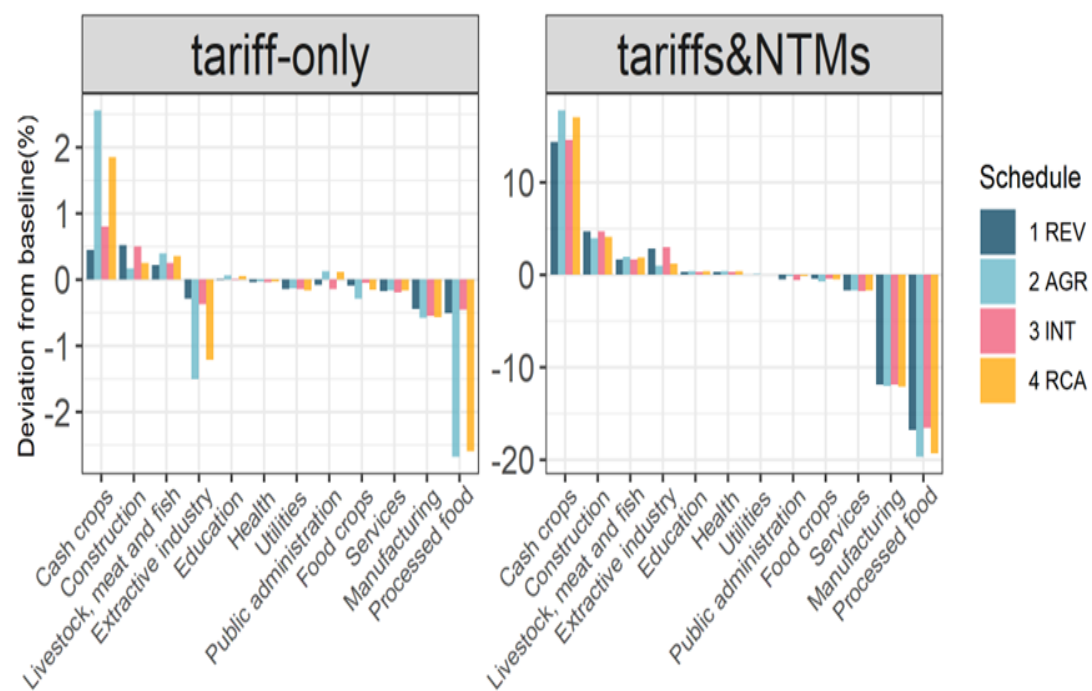


- Net increase in volumes across all product groups but notably among manufacturing products (1.2-1.7% above baseline in 2035),
- Food crops (0.7-2.9% with a decrease only for vegetables and rice)
- Processed food (3.5%-11%,
- Certain food crops increased (fruits, oilseeds, and rice)
- Wheat imports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

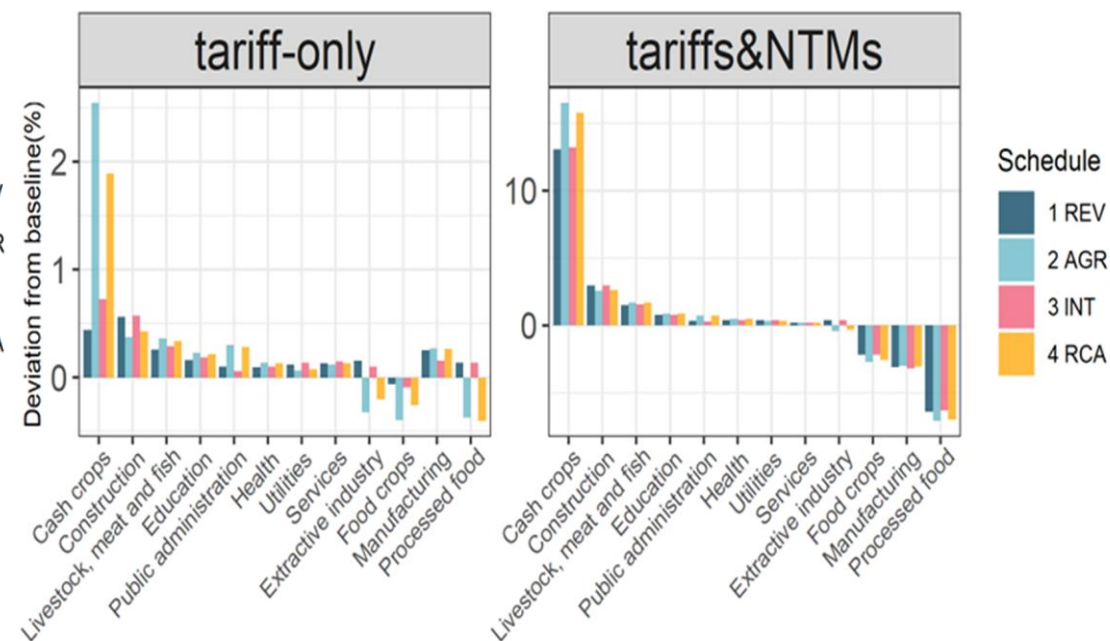


# Output and employment effects

## Employment changes by aggregate sector

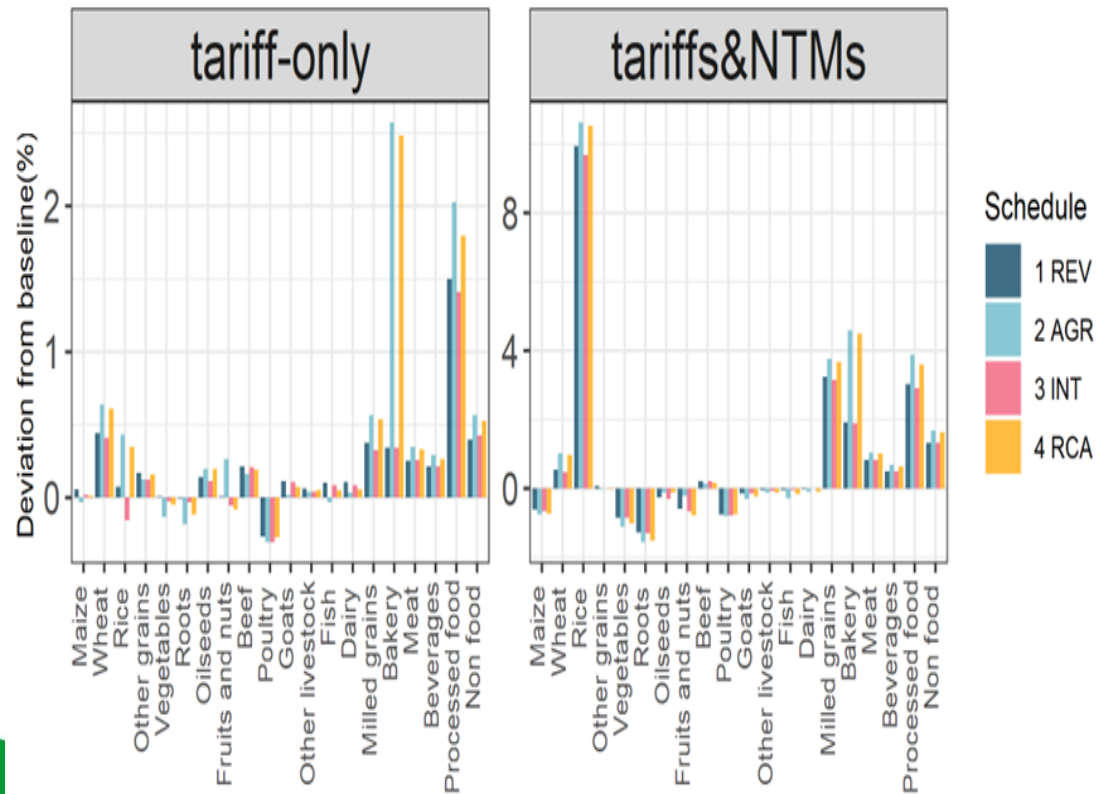


## Output changes by aggregate sector

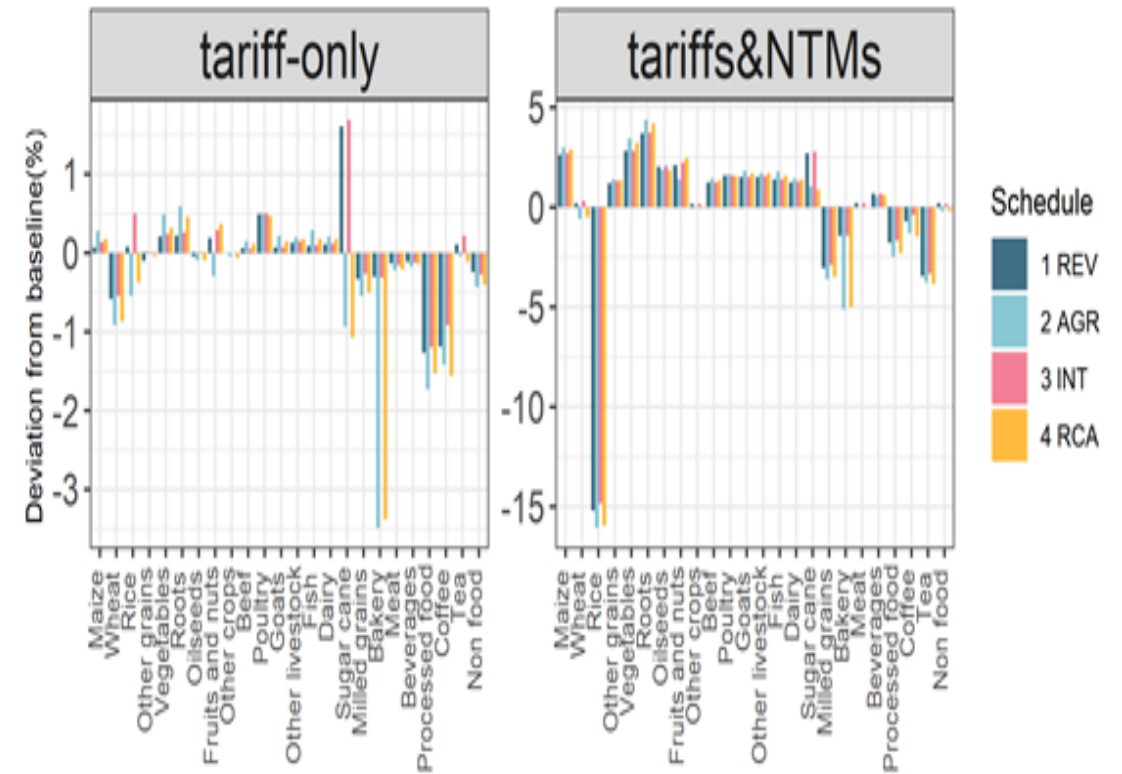


# Consumer-side effects in 2035

## Household agrifood demand effects



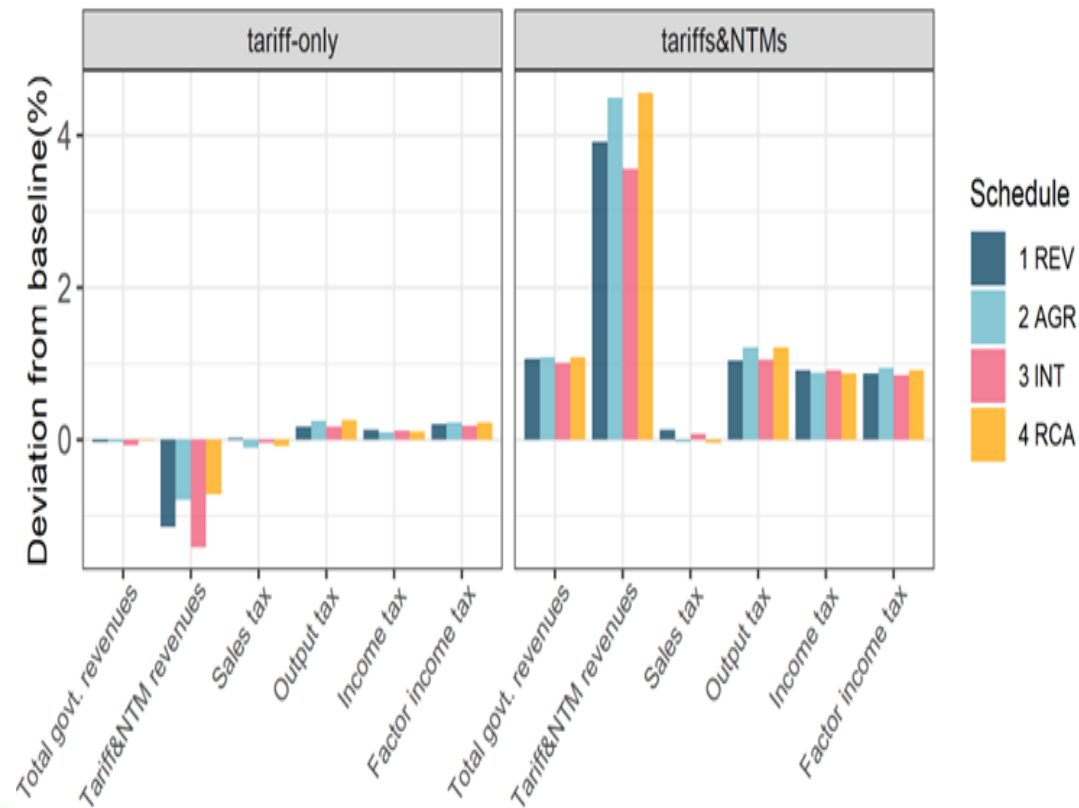
## Agrifood market prices



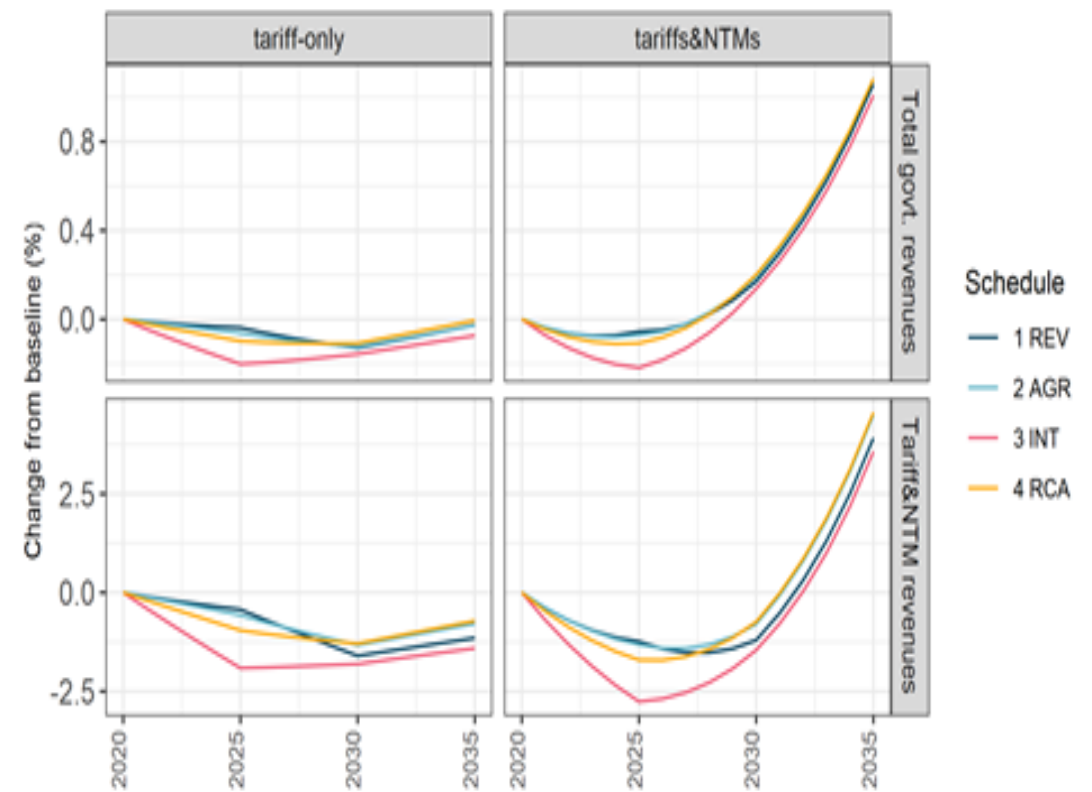


# Government revenues

## Effects on all tax classes in 2035



## Total government revenues - 2020-2035



## Impacts of AfCFTA on Kenya ...

- 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
- 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.

# Thank You for Your Attention!



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