

The Potential Distributional Effects of Economic Partnership Agreements on Household Welfare in Kenya

Research Proposal Bethuel Kinyanjui Kinuthia School of Economics, University of Nairobi AGRODEP workshop, Nov 19-20, 2013, Dakar, Senegal

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Outline



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- * Kenya and EPAs
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- * Collaboration



Overview on EPAs



- ACP countries for 30 years enjoyed duty free market access to the EU-but with disappointing results
- * EPAs: culmination of trade agreements between the ACP and EU targeted to be in force by 2008.
- Countries to forego unilateral non reciprocal preferences for reciprocity, compatible with the WTO rules
- * In practical terms: ACP to reduce barriers to zero or a min of 80% of EU imports.



verview on EPAs cont'd



Countries that do not conclude the deal will shift to the unilateral and less favorable Generalized System of Preference (GSP)

- Most products start attracting tariff (5-15%)
- In Africa, no conclusion as yet and existing studies show mixed results (main concern Africa stands to lose)
 - -Keck and Piermartini (2008)-SADC welfare enhancing
 - -Karingi et al (2005)-revenue losses, de-industrialization and undermine regional integration.

-Milner et al (2005) effect small and revenue losses.



Kenya and EPAs



Renya, member of (77 ACP countries) negotiating

- * EU a key destination for Kenya's exports (24% and second most important).
- Kenya keen to conclude the deal: Why? Market access, macroeconomic instability, disruptions of the economy especially the agricultural sector, vision 2030
- Main concerns: sign and suffer the consequences due to competition from EU products/ not sign and attract tariffs and loss of market



Kenya's top ten imports from the EU (000'USD) Source: Comtrade database: HS code 3 digit classifications.

Product code Product name		2007	2008	2009	2010	2011	
84	Nuclear reactors, boilers, machinery	404088.8	445420	427151.1	451732.3	481631.2	
85	Electrical machinery and equipment	339718.4	404244.8	311417.7	233985	262451.6	
87	Vehicles other than railway or tram	162051.8	137556	171323.2	176083.6	209578.8	
30	Pharmaceutical products	99771.23	114731.4	98861.14	122106	183048.5	
27	Mineral fuels, mineral oils and products	67969.15	104419.6	161279.3	278545.4	73196.87	
90	Optical, photographic, e.t.c	66934.76	46635.51	50410.38	50729.33	70642.54	
48	Paper and paperboard; e.t.c	61818.15	59879.85	63861.9	73156.49	69702.5	
38	Miscellaneous chemical products	66307.45	75407.83	63276.26	80227.59	63766.49	
31	Fertilisers	22825.75	33223.54	35251.38	33214.6	61130.66	
39	Plastics and articles thereof	56539.5	47126.31	50528.94	58395.02	57970.68	
63	Other made up textile articles; set	42700.88	43678.7	45416.06	49445.91	47068.46	
Kenya's top t	en exports to the EU(000'USD)						
6	Live trees and other plants; bulbs,	488337.2	594426.5	529025.5	489094.1	565051.1	
9	Coffee, tea, mat and spices	289052.8	315246.5	367511.7	401887.5	449754.7	
7	Edible vegetables and certain roots	258646.8	278035.7	220642.1	221940.6	230571.2	
20	Preparations of vegetables, fruit,	108536.5	149994.2	103817.1	105893.3	140019.5	
16	Preparations of meat, of fish or of	50458.25	43719.26	15839.43	20545.26	31134.52	
3	Fish and crustaceans, molluscs and	39758.23	37477.72	25753.58	31433.74	28599.78	
84	Nuclear reactors, boilers, machinery	34121.5	53120.31	80352.4	27286.64	86469.43	
8	Edible fruit and nuts; peel of citrus	27905.39	32510.6	30683.98	31605.14	36533.38	
41	Raw hides and skins(other than furs	21084.04	21362.9	9354.121	18955.79	38187.64	
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Kenya and EPAs cont'd



- Currently pressure coming from (horticulture and manufacturing)
- Existing studies in Kenya are also inconclusive and tend to be macro in nature and none focuses on household welfare.
 - -KIPPRA (2006): revenue losses usd\$70.5 m p.a. 2% g.r
 - Mckay et al 2005; Vollmer et al 2009: manufacturing sector
- Trade literature: open trade policies are good for development (average) but in practice, trade policy has strong distributional impacts (benefit and hurt households) & mechanisms n.w.u-Winters et al (2005)

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Research Objective



To estimate the impact of EPAs on household welfare in Kenya

- * Questions:
- * What is the impact of a tariff reduction on household welfare?
- * What are the likely mechanisms through which a tariff reduction is likely to affect household welfare?



Methodology

Nicita(2009), Marchand (2012)



 $e^{j} = (P_{T}, P_{NT}, u^{j}) = x_{0}^{J} + x_{i}^{J}$

$P_T = eP_T * (1 + \pi_T)TC$

 $du_{r}^{j} = \sum_{sk} L_{sk}^{labour} dw_{sj} + \sum_{T} s_{T}^{production} - s_{T}^{consumption} dp_{Tj} + \sum_{NT} (s_{NT}^{production} - s_{NT}^{consumption}) dp_{NTj}$

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Empirical strategy



First, the study estimates the extent to which small holder farmers in Kenya depend on the agriculture and non agricultural sector

- Kernel densities.
- The second step involves the estimation of changes in the prices of the goods and factor returns resulting from EPAs.
- The third stage involves the disaggregation of the income sources and consumption baskets of households in order to construct budget and income shares.
- This is followed by mapping out the changes in the prices of goods and factors onto each household's budget and income shares in order to produce an estimate of the changes in the welfare of the households.
- * Two scenarios: different levels of tariffs (0, 5, 10, and 15).
- * Roasted coffee 2.6%, beans 10.10%



Data Sources



Welfare household surveys (1994-2005)- hope to use the current one under consideration.

- * Tariff data for the products UNCTAD Trains and Comtrade databases.
- WTO trade statistics / Ministry of trade for the world prices
- * Collaboration with the Ministry of Trade





Province	District	Households	Rural	Urban	(Mean)Household size	
Nairobi	1	672	0	650	3.8	
Central	7	1,481	1,006	472	4.2	
Coast	7	1,255	677	571	4.8	
Eastern	13	2,391	1,811	573	5.2	
North eastern	3	509	309	200	5.2	
Nyanza	12	2,111	1,419	692	5.4	
Rift valley	18	3,285	2,298	977	5.5	
Western	8	1,508	955	548	6.2	
	69	13212	8475	4683	5.0	

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* Thank you very much for your attention.

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