

Is Export-led Growth A Mirage? The Case of Kenya

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Presentation Outline

- Introduction
- Trade policies
- Conceptual framework
- Empirical results
- Conclusion

Introduction

- Role of exports as a strategy to revamp growth (ELG)
- The outward-oriented trade strategy increases exports, encourages innovations and diffusion of technologies in the economy
- Kenya embraced trade openness through trade liberalization, export promotion policies and incentives in the early 1990s
- *Kenya Vision 2030*, the country's development blueprint- of a *globally competitive and prosperous... ..newly-industrializing country by 2030* underpinned by role of ELG

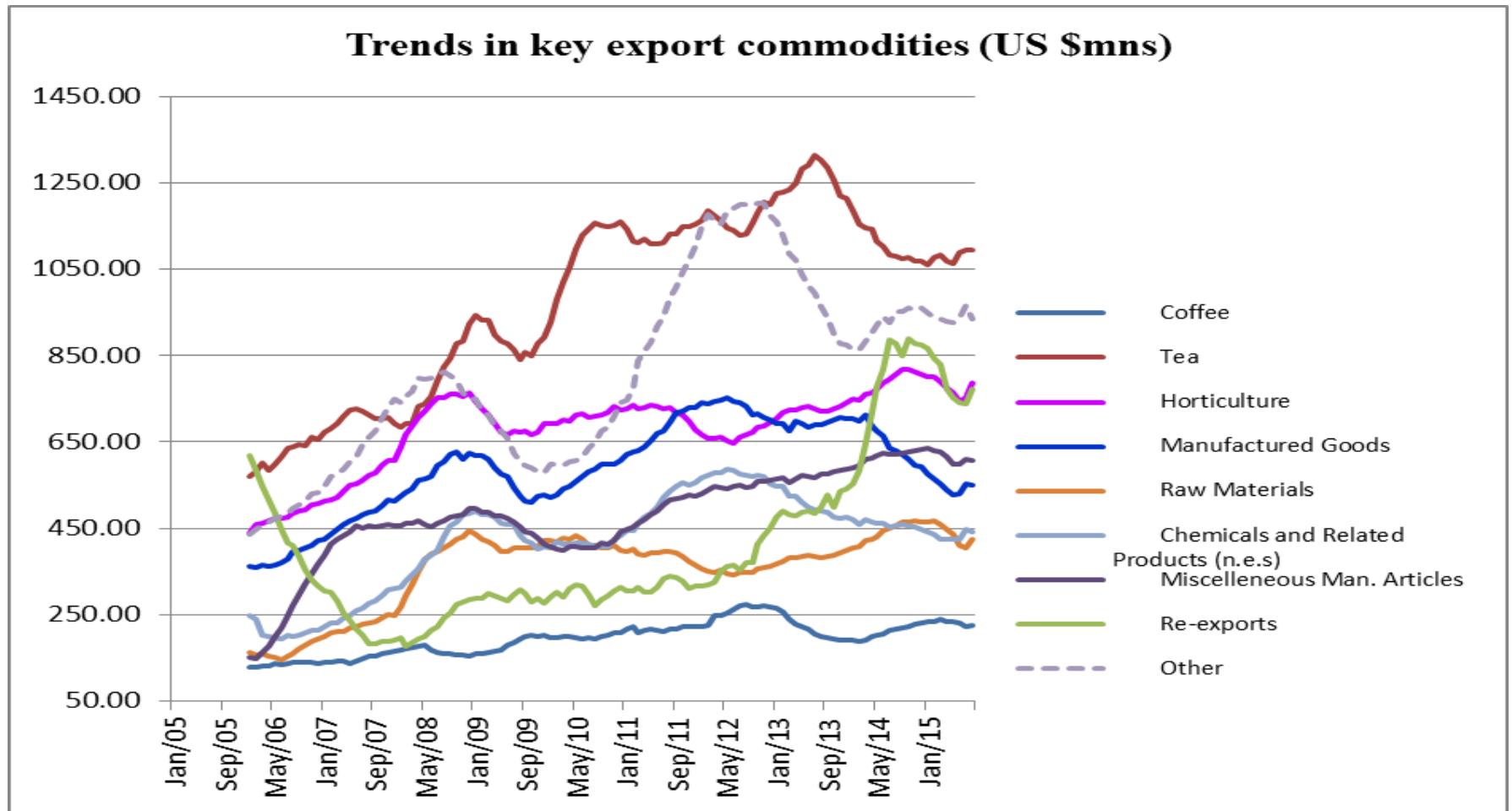
.....Contd.....

- However, export performance not impressive, notwithstanding export promotion policies and trade openness
- A surge in imports leading to trade deficit
- Paper explores the export-growth nexus in Kenya

Trade policies

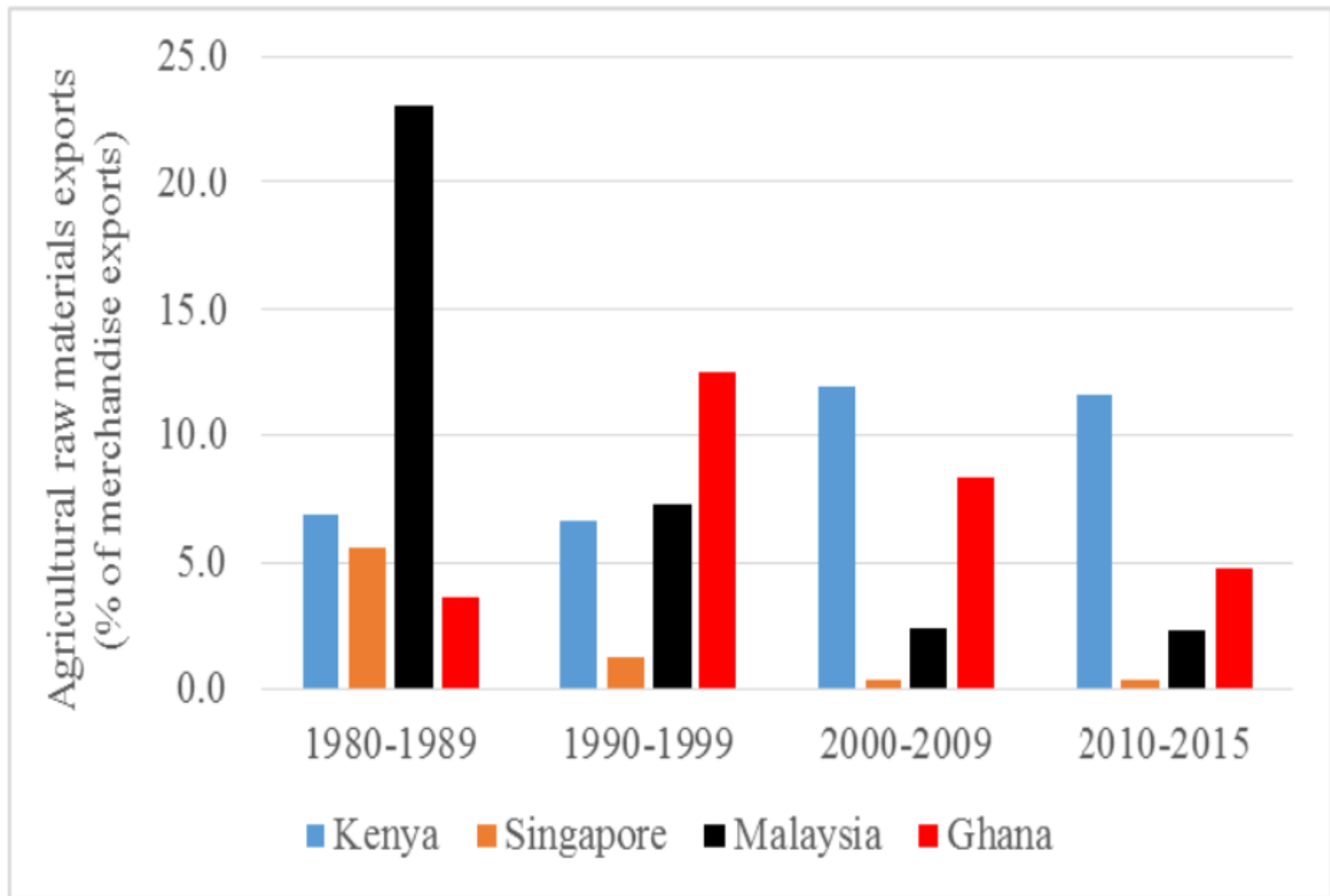
- Shift from import-substitution in the 1960s & 70s to export promotion strategies in the 1990s
 - Instituted various export promotion incentives tax holidays etc
- Extensive trade liberalization and trade openness early 1990s
 - Significant reduction in tariffs
 - Liberalization of foreign exchange market
 - Open capital account
- Regional integration initiatives-EAC/COMESA

Composition of Exports

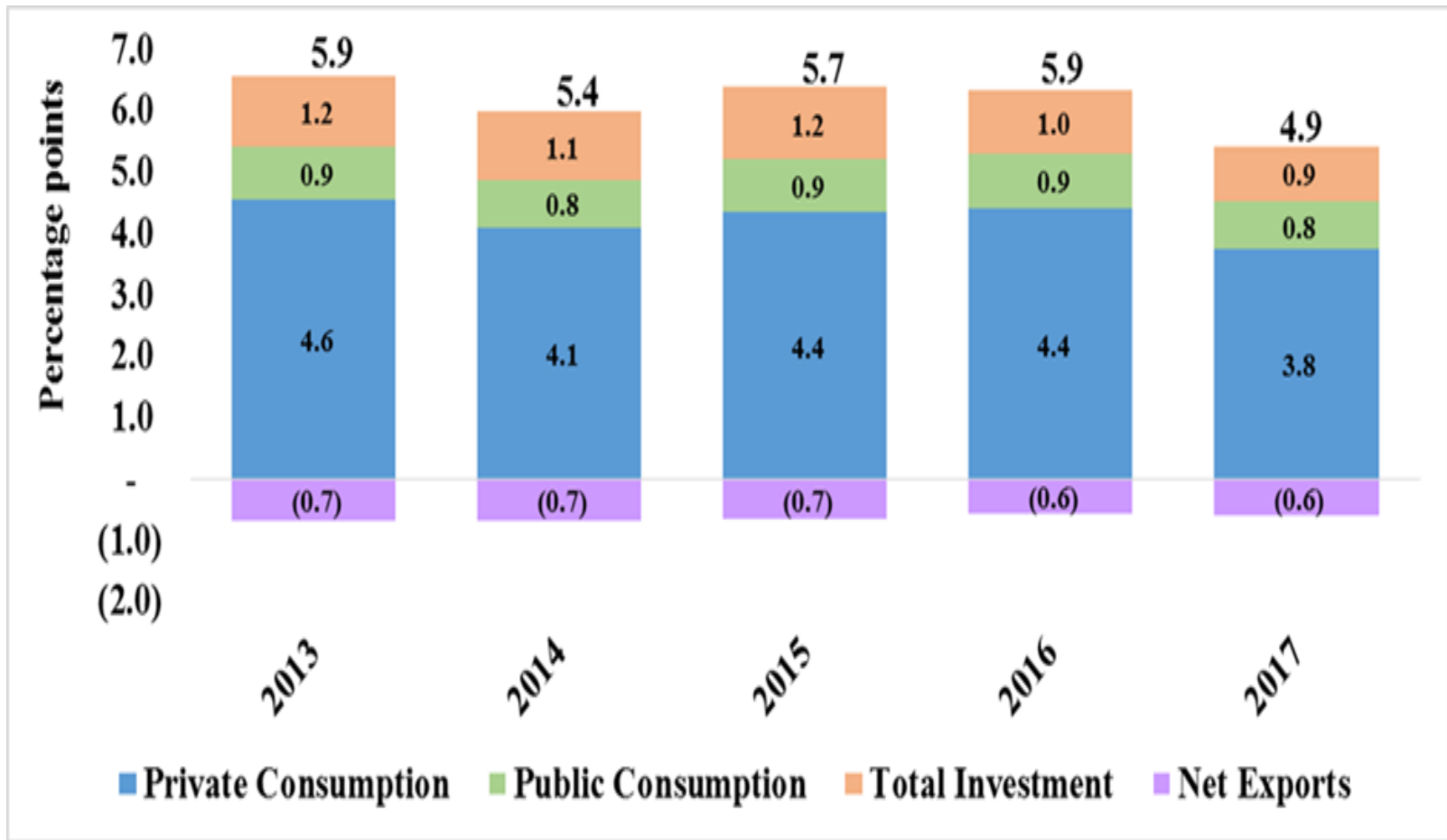


– Reliance on primary agricultural export – tea and horticulture

...Export performance and Primary Commodity Dependency



Contribution to Real GDP Growth by Components



Literature on export and growth

- Exports bridge technical progress and capital gaps (Grossman and Helpman 1990)
 - Exports transform the structure of the economy; primary to sophisticated through augmenting comparative advantage.
 - Growth augments capital formation, structural transformation and productivity which enhance comparative advantage and hence competitiveness of exports (Romer, 1989; Grossman & Helpman 1990).
 - Imports enable the economy to acquire more efficient capital goods and technologies which increase competitiveness of the economy as well as exports
 - natural resources either provides a comparative advantage for exports and growth (Helpman & Krugman 1985; Krugman 1995).

Theoretical framework....

- Endogenous growth framework- exports augment productivity through technological spillovers
- Besides labour and capital, role of exporting in the aggregate production function
- Empirical model-output as a function of:
 - Gross fixed capital formation (GFCF)
 - Exports
 - Imports
 - RER
 - LE proxy for human capital
 - Labour

Methodology.....

Estimations using VECM

Abstracting from growth model, exports enter the production function as TFP or finance imports.

Exports have long run and short run growth effects which are better captured by VECM.

VECM takes into account endogeneity between growth and export, growth export nexus

$$\Delta z_t = \sum_{i=1}^{p-1} \Gamma_i \Delta z_{t-i} + \Pi z_{t-1} + \varepsilon_t$$

Where Γ_i and Π are coefficient matrices and ε_t is a vector of Gaussian error terms. p is the lag length z_{t-i} endogenous covariates which includes output, exports, imports, labour, capital and TFP measured by real exchange rate.

Preliminary Empirical Results

- There exists a long run relationship between output, exports and imports
 - Significant role of productivity – real exchange rate implications on output and exports
 - Relatively higher speed of adjustment from long run deviation for imports (adjusts faster) than output and exports
 - Positive impact of imports on exports- key role of imported capital and intermediate goods-
 - Exports statistically insignificant - limited impact of exporting on growth
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....summary results contd.....

- Real exchange rate adjustments and imports account for most of the fluctuations in output in the SR
 - Positive impact of fixed capital formation especially for exports
 - Also analyzed results based on disaggregated output (agriculture, manufacturing & services)
 - Agriculture
 - There exist a long run relationship between agricultural output, imports and fixed capital
 - Significant role of imports and RER adjustments in explaining agricultural output growth
 - Impact of exporting statistically insignificant
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... Results – sectoral growth

- Manufacturing sector output
 - influenced by import adjustments and fixed capital formation
 - adjustments in manufactured output influence exports and impact is higher than imports
- Services output influenced by imports, gross fixed capital formation and human capital
- Finally, analysis by disaggregated exports:
 - Notable impact of manufactured exports on output growth
 - Import of machinery facilitate output and export of similar goods

Preliminary conclusion

- Exports biased towards primary agricultural goods
- Economy highly dependent on imports
- Impact of exporting in spurring growth still limited – reliance on primary products with little multiplier effects and value addition
- Manufactured exports have higher potential in driving the economy to higher growth path
- Real exchange rate changes have implications on enhancing export competitiveness
- There is need to revamp export-led growth through increased competitiveness and value addition-explore regional and global value chains

THANK YOU