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The Doha Round and Kenya:

Good and Not So Good Lessons

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The global financial crisis and spiking unemployment figures have raised the threat of escalating barriers to trade. An early conclusion to the Doha Round might help avert some of the increase in protectionism, but no one knows by how much. And while Doha will help the world economy, it will also create winners and losers across countries and across sectors within countries (Polaski, 2006). How much developing countries can win or lose depends, to a large extent, on how the issue of agricultural subsidies in developed countries is resolved. But it also depends on the definition of sensitive commodities and the effects of further liberalising trade in manufacturing goods. Developing countries will have to look very carefully at the gains and losses from proposed Doha Round agreements, the so-called "modalities". For many developing countries, the nature of any agreed package will be more important than reaching any agreement by a specific deadline.

Consider Kenya, a low human development country with an annual GDP per capita of about US$700. Kenya vigorously exports agricultural goods to the European Union (EU) and textiles to the United States, as well as a few manufacturing goods to neighbouring countries, but it imports a broad range of manufactured goods. As will be the case for many other Sub-Saharan economies, Doha is likely to have significant effects throughout the Kenyan economy and many of those effects will be closely linked to the terms of the negotiations.

According to Zepeda et al. (2009), the annual output of sectors could change up to plus or minus 10 per cent.[1] Compared to a no-Doha scenario, the study finds that Kenya's average annual total production from the food processing and agriculture sectors would be 2.7 and 0.7 per cent higher, respectively (see table). Changes would result mainly from rising exports of agricultural goods and processed foods, as well as from rising imports of processed foods and declining imports of agricultural goods. Underscoring the importance of negotiations, the study suggests that the driving force behind most of these changes is the reduction of agricultural subsidies in developed countries, particularly the commitment to eliminate export subsidies by 2013. In the case of rising imports of processed food, the driving force is the reduction of Kenya's own tariffs.

The study also shows that Doha's effect on the manufacturing and extractive industries will be negative: exports of manufacturing goods will fall while imports increase, resulting in a –2.1 per cent drop in annual output. Output will fall in all but one of Kenya's non-food industries. The key factor here is the drop in world prices triggered by the implementation of the Doha agreements and, in some cases, Kenya's own tariff reductions.

Change in Exports, Imports, and Productionby Commodity (%)*

Sector	Exports	Imports	Production
Agriculture	3.0	–2.1	0.7
Processed food	13.0	23.9	2.7
Non-food industries	–4.1	1.3	–2.1
Services	–4.1	4.0	0.2
Total	0.2	0.1	0.6

Source: Authors' computation using the country model.

* Figures represent the percentage change between the annual average figure of the Doha scenario for each of the variables and the average annual figure of the baseline.

For Kenya the overall balance is positive. Adding changes throughout the economy, the liberalisation of trade in goods under Doha would boost annual GDP by 0.2 per cent. The overall development impact would also be positive, since employment might increase, particularly among the unskilled, and poverty is likely to fall. Overall welfare would increase and consumption would rise. This is all good news for Kenya, which would probably be a winner in the Doha Round.

The overall positive balance for Kenya depends critically on how much developed countries reduce their support for agriculture and how much protection Kenya can retain for its manufacturing sector. Like many other developing countries, Kenya cannot afford to overlook details in the Doha negotiations; their priority should be to reach a good agreement rather than to meet deadlines. As Kenya reaps the benefits of Doha, it will increasingly specialise in agriculture rather than manufacturing. This will enable the country to make more intensive use of its most abundant resource: low-skilled rural workers. But the realisation of Kenya's development aspirations cannot rest on agriculture alone. Zepeda at al. (2009) posit that World Trade Organisation (WTO) rules and their implementation should allow developing countries like Kenya to acquire the necessary space to develop a competitive, high value-added manufacturing base. Locking countries like Kenya into the static comparative advantage economics of the present will not be a sustainable basis for a future global trade regime that works for developing countries.

References:

Polaski, S. (2003). *Winners and Losers.* Washington, DC, Carnegie Endowment for International Peace.

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Note:

[1] The study uses two dynamic computable general equilibrium models to analyse the effects that the liberalisation of trade in goods would have on the Kenyan economy under a likely Doha scenario, based on the state of negotiations as of July 2008.

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