



Kenya's Economic Transformation

What Structural Shift is Required?

Structural transformation

Reallocation of economic activity across the broad sectors including agriculture, manufacturing and services that accompanies the processes of modern economic growth.

(Bertold Herrendorf “et al” 2013)

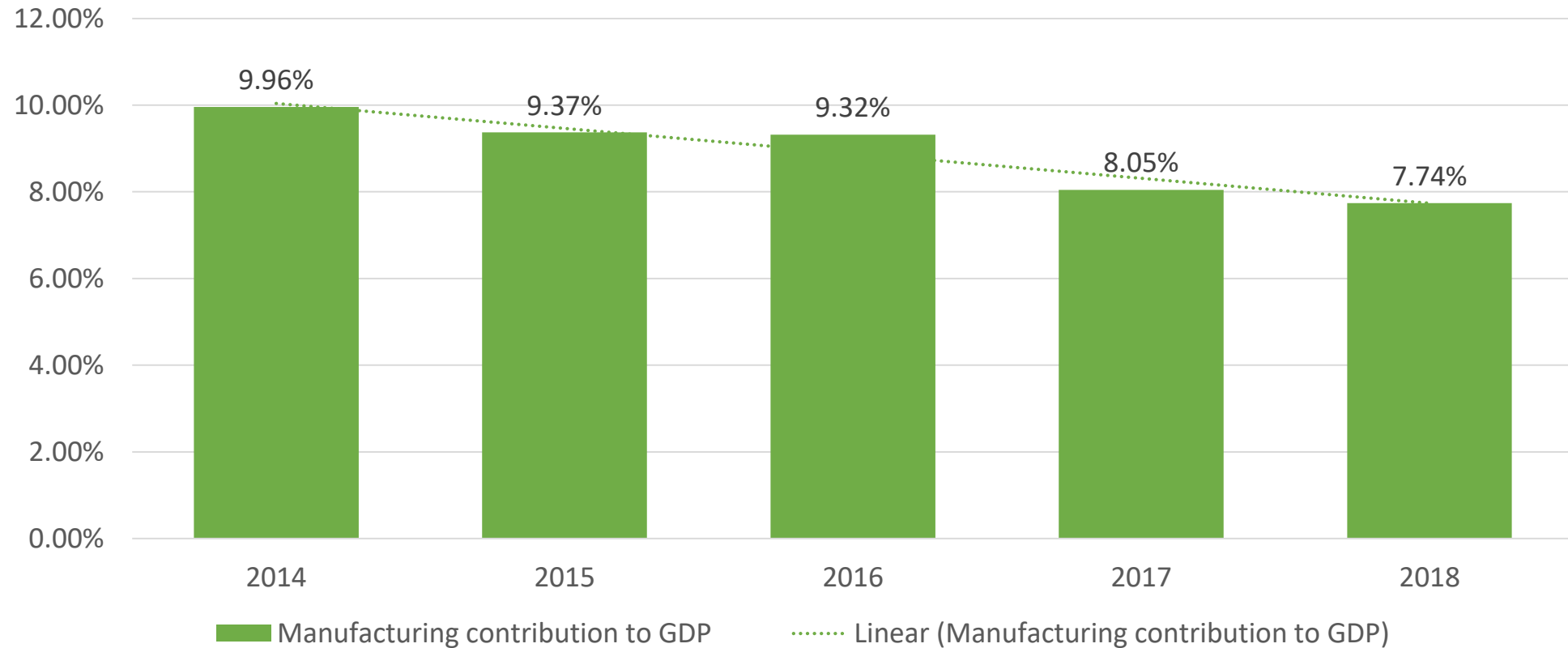
Why ST ?

- Kenya may have reached the limits of growth and productivity enhancement based on agriculture as the predominant economic activity.
- Transformation from agriculture into manufacturing and services the best path for labour and overall productivity growth in Kenya
- Sources of new employment
- Attaining the desired change into a mid-income country within a generation

What Structural Shift required for Kenya?

- Raising employment share of manufacturing
- Raising consumption share of manufacturing
- Value added share for manufacturing

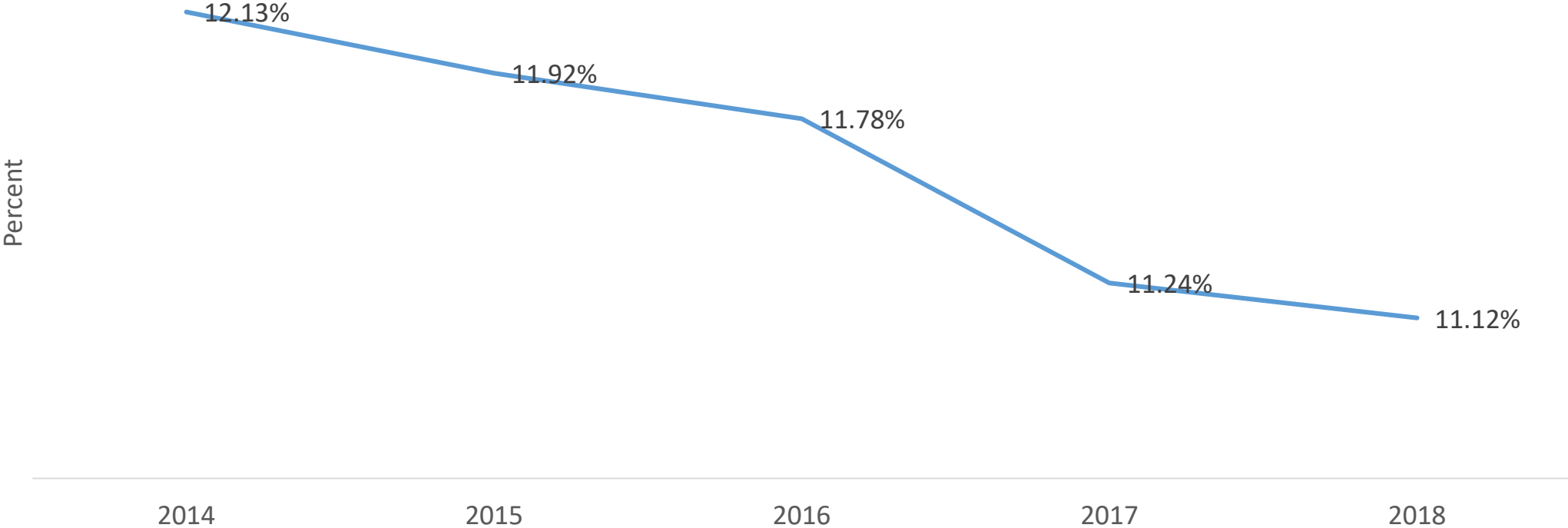
Manufacturing contribution to GDP



Source: KNBS Economic Survey

Manufacturing contribution to Total employment

— Manufact contribution to total employment



Source: KNBS Economic Survey

What Industrial Policy?

- Investment policy changes
- Regional integration
- Competition Policy
- Productivity Monitoring
- Fiscal Coherence- e.g CET protection for Steel & Timber which are intermediate goods.

Conclusions

- ST in Kenya is constrained by absence of sectoral reallocation of employment and value addition
- Fiscal policy has no space in 2019 to support structural change
- Industrial policy is not about specific manufacturing sectors or activities
- The challenge is Complexity: to “produce new goods, with new technologies”.

Selected References

1. Berthold Herrendorf 'et al'- Growth and Structural Transformation
2. Dani Rodrik- Where are we in the economics of Industrial policies?
3. John Page- The Road not Taken: Structural Change in Africa Reconsidered
4. UNECA- Macroeconomic Policy and Structural Transformation of African Economies