

IMPACT OF COVID-19 ON INTERNATIONAL TRADE AND POST-RECOVERY STRATEGIES IN KENYA

By

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The publication of this report is timely as Kenya, East Africa, Africa and the rest of the world try to gain momentum towards building resilience and sustainable economic growth and development after the devastating effects of COVID-19 pandemic.

The publication will not only help in policy formulation in dealing with future pandemics but also in making sure that lives and livelihoods are protected, economies sustained through trade in not only goods but also in services at the domestic level as well as across borders and internationally.

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Prof. Tabitha Kiriti Nganga
Chair: WTO Chairs Program

FOREWORD

Ambassador Johnson Weru's, Permanent Secretary, State Department for Trade during the high level webinar on the 28th of October 2021 said:

“The report being presented to us this afternoon is indeed very crucial not just to Kenya but also to the EAC region, the African Continent and to the rest of the world as it brings out the effects of the COVID 19 pandemic on International Trade”.

Rose Masita Mongale from the State Department for Trade a discussant in the Webinar on the 28th of October 2021'

“The analysis on the COVID 19 containment measures came out very well explaining the difference between Trade restrictive and Trade facilitative measures bringing out the need for countries to reduce on their Trade restrictive”.

Prof. Stephen Kiama Gitahi, Vice Chancellor, University of Nairobi said “....*the results of this research will inform governments and all those others concerned in developing appropriate policies to ensure economies....*”, during the high level webinar on the 28th of October 2021.

Ms. Wendele vander Wiele: First Secretary, Economic Affairs, Netherlands Embassy in Kenya of the research papers:

“COVID-19 has hit the world in ways that we never imagined. The world is so interconnected and in particular, when COVID-19 hit the world, Kenya's export of flowers to the Netherlands was heavily impacted. I don't think we can speak of post COVID-19 as yet as we are not yet out of the woods.”

ABOUT THE WTO CHAIRS PROGRAM



The WTO Chairs Program launched in 2010 with the objective of enhancing knowledge and understanding of the multilateral trading system among policy makers and academics in developing countries. This is supposed to be achieved through curriculum development, research and outreach activities by universities and research institutions.

Academic institutions awarded WTO Chairs receive support in the areas of research, curriculum development, and outreach activities. The chair-holders are selected through a competitive process. Fourteen institutions were originally selected as WTO Chairs for a four-year term in 2009. Seven institutions were added to the Program in May 2014 following a call for tenders.

The University of Nairobi was one of those selected and since then, the program has been very active in research, curriculum development and Outreach programs.

The main objectives of the Program are to:

- Support curriculum development and delivery of courses on international trade;
- Promote knowledge sharing and collating of information on international trade;
- Promote research in trade-related matters and highlight policy relevance;
- Encourage outreach activities and establish a network of engaged academics

The WTO Chairs Program works with researchers from all disciplines who are interested in International trade related matters. We work very closely with the State Department for Trade and Enterprise Development, Media, Non Government Organization and other Stakeholders in Trade Related Matters.

The current Chair of the Program is Prof. Tabitha Kiriti-Nganga who took over from Mr. Jasper Okelo in 2017. Dr. Daniel Abala is the Co-Chair.

ABBREVIATIONS AND ACRONYMS

ACIS	Automated Cargo Information System
ACP/EU	Africa Caribbean and Pacific Countries /European Union
AEO	Authorized Economic Operator
AERC	African Economic Research Consortium
AFA	Agriculture and Food Authority
AfCFTA	African Continental Free Trade Area
AfDB	Africa Development Bank
AfT	Aid for Trade
ARVs	Antiretrovirals
AU	African Union
BCOCC	Border Control Operational Coordination Committee
CAC	Customs Advisory Committee
CBC	Customs Business Centre
CBK	Central Bank of Kenya
CBS	Community based System
CEPI	Coalition for Epidemic Preparedness Innovations
CFS	Container Freight Station
COC	Certificate of Conformity
COMESA	Common Market for East and Southern African
COVID-19	Coronavirus
CRM	Customs Services Department Reform and Modernization Project
CTS	Cargo Tracking System
DBS	Doing Business
DLT	Distributed Ledger Technology
EAC	East African Community
EMA	European Medical Agency
EODB	Ease of Doing Business
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Area
GATT	General Agreement on Tariff and Trade
GCI	Global Competitive Index
GDP	Gross Domestic Product
GoK	Government of Kenya
GVCs	Global Value Chains
IATA	International Air Transport Association
ICD	Internal Container Depot
ICMS	Integrated Customs Management System
ILO	International Labor Organization
IMF	International Monetary Fund
JKIA	Jomo Kenyatta International Airport
JMC	Joint Monitoring Centre
KAM	Kenya Association of Manufacturers
KEBS	Kenya Bureau of Standards
KEPHIS	Kenya plant health inspectorate services

KES	Kenyan Shilling
KNBS	Kenya National Bureau of Statistics
KPA	Kenya Ports Authority
KRA	Kenya Revenue Authority
KRC	Kenya Railways Corporation
KTB	Kenya Tourist Board
KWS	Kenya Wildlife Service
LAPSSET	Lamu Port South Sudan Ethiopia Transport corridor
LIC	Low-Income Country
LMIC	Lower-Middle-Income Country
LPI	Logistics Performance Index
MICE	Meetings, Incentives, Conferences and Exhibitions
MoH	Ministry of Health
MoITED	Ministry of Industrialization, Trade and Enterprise Development
MOU	Memorandum of Understanding
MSMEs	Micro, small and medium enterprises
NERC	National Emergency Response Committee
NSAC	National Security Advisory Council
NTBS	Non Tariff Barriers
OBS	Other Business Services
OECD	Organization for Economic Cooperation and Development
OSBPs	One Stop Border Posts
PCR	Polymerase Chain Reaction
PPEs	Personal Protective Equipment
RCN	Railage Consignment Note
RECTS	Regional Electronic Cargo Tracking System
RO	Release Order
RVCs	Regional Value Chains
SADC	South African Development Community
SCT	Single Customs Territory
SDGs	Sustainable Development Goals
SME	Small and Medium Enterprises
SOPs	Standard operating procedures
TFA	Trade Facilitating Agreement
TFIs	Trade Facilitation Indicators
TLIP	Trade Logistics Information Pipeline
TMEA	Trade Mark East Africa
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UNECA	United Nations Economic Commission for Africa
UNFCCC	United Nations Framework Convention on Climate Change
UNWTO	United Nations World Tourism Organization
WB	World Bank
WB-TFSP	World Bank Trade Facilitation Support Program
WCO	World Customs Organization
WDI	World Development Indicator

WEF	World Economic Forum
WGI	World Governance Index
WHO	World Health Organization
WITS	World Integrated Trade Solution
WTO	World Trade Organization
WTTC	World Travel and Tourism Council

EXECUTIVE SUMMARY

The main objective of this project is to analyze the effects of the Coronavirus (COVID-19) pandemic on international trade and recommend post-recovery strategies in Kenya taking into consideration the opportunities offered by the African Continental Free Trade Area.

Many sectors have been affected in one way or another, some of them adversely since the reporting of the first COVID-19 case in Kenya on the 12th of March 2021 and especially more by the measures the Government of Kenya took to contain the spread of the pandemic. Other trading partners also took measures to also control the spread of the virus across the borders. However, these measures turned into non tariff barriers which became trade restrictive. These restrictions were in the form of quotas, embargoes, sanitary measures, import licensing, conditions or specific market requirements that made exportation or importation services and goods difficult or costly. The measures led to disruptions in supply chains of essential commodities such as testing kits, private protective equipments (PPEs) and other medical equipment. They also disrupted trade not only in the East African region, but also in the whole world. It is therefore important that the Kenya Government comes up with strategies to stop the spread of COVID-19 while at the same time protecting lives and livelihoods of its citizens.

EAC as well as other African countries should prioritize vaccination in the short term to stop the spread of the COVID-19. Trade restrictive measures which have translated into NTBs requires Kenya and other African countries to start thinking of how they can become producers as well as consumers of its own products and more so those products that are essential for human life such as pharmaceuticals and vaccines.

The global macroeconomic performance trend is a critical analysis, which illustrates countries' growth trajectory. Indeed both developing and developed world countries do experience some trends with their macroeconomic aggregates, which may be negative or positive. These aggregates are measured by the gross domestic product, employment and inflation as the most prominent in assessing their impact on; consumers, firms and governments. Therefore, the purpose of this paper on the global macroeconomic performance was to; identify the trends of these aggregates prior the COVID 19 pandemic, position when the pandemic struck and the projections past the pandemic. The evaluation took cognizant of the Governments' efforts in containing the pandemic, both at individual country level and international level in terms of appropriate policy measures with a critical examination of the efficacy and appropriateness of such policy measures. Indeed the pandemic represents substantial global macro-economic demand and supply shocks with significant adverse effects on global economic growth, employment, and poverty. Evidently prior to the pandemic outbreak, many countries experienced high levels of public debt and incidental micro-debt by households and businesses. The evaluation established that the pandemic has adversely affected the economic performance of countries. It was also established that countries should continue to experience the negative effect of the pandemic for the unforeseeable future. The conclusions therefore include effective budget policy functions of governments (stabilization, distribution, and allocation) to be undertaken for enhanced and sustainable growth process, wide dissemination of good hygiene practices and global cooperation, especially in the sphere of public health and economic development.

The trade patterns of countries in the East African Community (EAC) – Kenya, Uganda, Tanzania, Rwanda, Burundi, and South Sudan – indicate that exports and imports of goods were resilient to the COVID-19 recession. However, imports and exports of services in the region slumped during the pandemic, mainly travel services. Other Business Services (OBS), which are usually transacted online, increased during the pandemic period. Intra-EAC and intra-Africa

trade in goods were robust but weak for services during the pandemic. In the recovery phase of the pandemic, EAC governments should continue implementing trade facilitation measures to boost international trade. EAC countries should also consider boosting the services sector given the massive drop in exports and imports of services of most member states – for instance, opening the tourism sector. The massive increase in exports and imports implies that EAC countries should adopt and enhance the digitalization of services. Businesses, especially MSMEs, can also be supported to transit towards digital trade. The weak intra-EAC and intra-Africa trade in services indicate a need for further prioritization and discussion of services in the ongoing AfCFTA negotiations.

An empirical analysis of the impact of COVID-19 on Merchandise trade shows that, the spread of COVID-19 reduced exports by 0.47% and imports by 0.29%. However, over time, exporters are observed to adjust their reactions towards the spread of the disease and thus exerting an upward pressure on exports. On government measures to combat the spread of the disease, imports were the most affected, with a reduction around 0.9% while exports reduced by around 0.6%. On specific product categories, the negative impact of the spread of COVID-19 on merchandise exports was more observed on consumer goods, followed by industrial supplies and finally food and beverages. In terms of imports, the largest negative impact of the spread of COVID-19 was observed on imports of fuel and lubricants. Imports in this category fell by 37%. Generally, in terms of magnitudes of the impact, large impact is observed on government response to COVID-19 in relation to the general spread of the disease. The strict measures placed by the government, like closing of its borders are observed to affect both volumes of imports and exports in the country. The negative impact was large on imports compared to exports. However, over time, both exporters and importers began to adjust their importing and exporting reactions. These adjustments are seen to exert a positive and upward pressure on both imports and exports in the country. A review of government records like the Kenya National Budget 2021/2022 report shows that the government allocated more funds to the health sector. Specifically, it allocated Ksh.121 billion to the health sector, of which Ksh. 3.9 billion was the procurement of Covid vaccines and Ksh 9.5 billion was for the engagement of COVID-19 specialist and supplying of hospitals with equipment. Further, the finance bill proposed VAT exemptions for various medical inputs like ventilators, physiotherapy accessories, treadmills for cardiology therapy, diagnostic or laboratory reagents, electro-diagnostic apparatus, instruments, and appliances used in dental sciences, categories of medical instruments and appliances including breathing appliances. All these exemptions are expected to result in increased affordability of medical services in Kenya. Further, the measures are expected to increase investments on the health sector of the country.

The effect of the pandemic on the services sector has been severe thereby threatening businesses and their employees especially with respect to their livelihoods. The nature of the service sector is that most activities are interactive. When responding to the pandemic the transmission mechanism is varied. Public health measures limit operations of the service firms. The demand from their customers becomes lower and the supply chains get disrupted. This is then followed by difficulties in accessing finance as firms are faced with prolonged uncertainty.

This review found that activity in the accommodation sector and the restaurant subsector was severely impacted by the pandemic as international travel was suspended for much of 2020. Hotels closed or significantly scaled down their operations since movement restrictions were imposed in most countries.

Tourism and travel are a major component of the services sector especially in some developing countries where they contribute a big proportion to foreign exchange earnings as well as being a major contributor to employment creation. This sub-sector is also a major contributor to these countries' GDP.

Globally there has been an extra-ordinary rise in the twin sectors of tourism and travel in the last six decades. The industry has grown in leaps and bounds as a result of multiple factors such as increasing incomes in the west as well as technological developments in both communications and transportation.

In Kenya the pandemic has led to the decline of park visitation from March 2020 by a massive 87% in the first quarter of 2020 and given that visitation to KWS national parks and reserves is a good indicator of the performance of the tourism sector where wildlife tourism is a key component of the tourism industry.

The COVID-19 pandemic caused a dramatic fall in global foreign investments (FDI) in 2020, and has brought FDI flows to a level last seen in 2005. It has been an immense negative impact especially on the most productive of investments, the Greenfield investment in industrial and infrastructure projects. According to UNCTAD (2021) report the implication of this is that international production, the engine of global economic growth and development has been seriously affected (UNCTAD, 2021).

The pandemic caused a serious drop of FDI to Kenya as it muzzled trade arrangements across the world. The UNCTAD (2021) investment report on FDI shows that Kenya attracted US\$717 million worth of FDI investments in 2020 compared to US\$1.3 billion in 2019. This was the second straight drop considering that US\$1.6 billion was attracted in 2018. Kenya, considered to be East Africa regions powerhouse lagged its neighbors Uganda at US\$823 million and Tanzania at US\$1.013 billion. The world investment report projects a better performance on the eased COVID- 19 restrictions.

The advent of covid 19 in Kenya impacted the education sector severely leading to an abrupt closure of all learning institutions. The closures affected learners, instructors and households. There were significant social and economic consequences associated with the closures.

There have been long term ramifications with regard to education and COVID-19 especially for marginalized and most vulnerable children with heightened risk of being excluded from education for a variety of reasons. These were mainly learners from urban slums, those with disabilities, those from remote locations refugees as well as those whose families' lost livelihoods as a result of job cuts and business closures associated with COVID-19 pandemic.

The advent of COVID-19 has made it clear to the policy makers as well as the decision makers at the unit levels that the entire healthcare system needs a major overhaul with a view to making the system responsive to the needs of the citizens. It is also crystal clear that major resource investments will have to be put in the sector if there is to be a change in service delivery levels in the health sector.

The pandemic also brought to the fore the immediate need for some form of universal healthcare insurance coverage to bring about some semblance of a medical cover for the majority of the residents. The imbalance between the rural and urban areas is has also been shown to need some attention.

The first wave of COVID-19 pandemic brought in confusion to many African countries. This placed cross border trade on hold as border activities were suspended. The process led to the introduction of border restrictions and regulations to help manage cross-border transmission of the virus. It implied countries develop rapid policy measures and regulations to help contain the

spread. To encourage cross border trade, there is need for the Government of Kenya to come up with the following policies and strategies that will not only build economic resilience but also deal with future pandemics.

The Kenya government being a member of the EAC participated in the publication of COVID-19 border guidelines. But, to enhance perception of COVID-19 border regulations and how to safely trade, government authorities should develop a simplified step-by-step guides for small cross-border traders and truck drivers. Their aim should focus on easing the implementation challenges at borders.

They should make efforts to widen the scope of guidelines to facilitate movement of merchandise across the border. This will create more business opportunities and further help kick-start economic recoveries towards the “new normal”. Priority should be given towards speedy movement and clearance of essential goods and services.

Any new updates or advancements on border regulations should be made public and announced in advance to allow stakeholders to adapt to avoid conflicts at border posts. This should include sharing of updates on test certificates for drivers and other essential service providers at designated testing points and border points.

Kenya and the greater African continent through African Union should develop a common COVID-19 protocol for the region as the region is characterized by membership overlaps. This will help harmonize and coordinate the implementation of trade and transport related regulations. Mobile banking and cashless payment systems should be encouraged to control the spread through cross border trade. Mobile lending platforms should also be encouraged to facilitate credit transfers to cross-border traders. Similar guidelines should be encouraged and be issued in other countries and regions as well. There is need for the government to design a system that can be used to capture informal cross-border trade data and integrate it into the national database. However, caution must be taken to ensure that the data is not being used against the informal traders. More appropriate information and customs regulations should be provided to protect small-scale and female traders especially during the pandemic.

The Government of Kenya and its people struggled to slow down the spread of the virus using all means at their disposal, knowledge and experiences shared by other countries especially China. The quick response and swift actions managed to minimize the spike of the virus, saved lives and livelihood and economy from recession, protected businesses, companies, workers who were laid off and casual workers who stayed home because of lockdowns from the temporary disruption of their incomes caused by COVID-19. The measures stretched from providing Economic Stimulus Plan to flexibility of the private sectors like banks in regard to loan adjustments and repayments, to companies like Safaricom implementing a fee-waiver on M-PESA among many other measures implemented.

The measures to minimize the spread of the virus affected the border and behind the border trade processes. The measures and processes at the ports and border affected the efficiency of trade flows and at end led to rise in transactions cost. The main issues at the borders and behind the border ranged from clearance procedures, customs procedures and documentations, movement of goods on transit, clearance formalities at the border points, which was complicated by social distancing and testing certificate norms, Kenya closed land border and increased road blocks, restrictions on modes of transport and people among others.

The government managed to control the spike of the virus but the robustness in which the measures were enforced by the police caused people form of harassment, injuries, deaths and corruption of a higher magnitude.

Now that Covid-19 is here to stay, the government should open more special counters, green lanes and smart gates to provide round the clock clearance at critical ports; customs can conduct off-site audits via video or electronic data transmission or based the audit on the inventory data provided by enterprises rather than on-site audits; guide and train online, on clearance formalities, especially to MSMEs to lessen declaration errors and avoid procedural non-compliance; data exchange and information sharing among customs authorities in countries and the EAC region; embrace technology in trade facilitation; WTO to enforce the trade facilitation agreement and assist build capacity; regional integration should be area of focus as regards to trade facilitation. It proved that neighboring countries can access and trade easily even if there is a pandemic; the government should have retained some stimulus package for MSMEs and tax free for people of lower earning bracket (Ksh 24,000 and below) and finally, the Kenyan people should bear and pay for what they were given during the pandemic in the form of tax reductions so as to save the economy and the country which is headed to a general election in 2022 from debt default and wild fiscal deficit.

The Government of Kenya should pursue strategies to support lives and livelihoods of its citizens, support industries to remain in operation and at the same time take advantage of the opportunities offered by the regional integration, the AfCFTA, development partners in the form of trade facilitation as well as aid for trade. The COVID-19 pandemic is still spreading with the country in its fourth wave by the time of writing this report. It is therefore important for the country to stop the spread of the virus by making sure that almost everybody is vaccinated, reduce taxes of essential items such as gas, water and kerosene; continue campaigns of proper hygiene, wearing masks and keeping social distance in the short run. In the medium term, it is necessary that lives and livelihoods are protected both monetary and fiscal strategies while at the same time maintaining macroeconomic stability and fiscal sustainability. In the long run, the government should restructure the economy to increased domestic production of goods and services achieve self sufficiency and stop over reliance on a few global suppliers of goods and services, strive to have a green economy to combat the effects of climate change, diversify the economy in terms of export products, adding value to exports towards more manufactured items and reduced over reliance on exports of raw materials, have multiple sources of supply of goods and services, enhance domestic resource mobilization and diversify sources of financial resources.

Kenya should pursue policies that help in overcoming constraints to economic growth arising from factor accumulation and hence lead to exports and product diversification. Kenya should aim at increasing its levels of both domestic investments as well as foreign direct investments, addressing governance issues such as corruption, ethnic conflicts, addressing the rising fiscal deficit and lack of fiscal space through effective mobilization of domestic resources, ensure macroeconomic, monetary, industrial trade policies that foster diversification in order to contain inflationary pressure and ensure regional value chains and global value chains are not disrupted by the prevailing COVID-19 pandemic.

1.0 INTRODUCTION AND BACKGROUND

By

Prof. Tabitha Kiriti Nganga

The COVID-19 pandemic brought unprecedented implications on EAC partner states' trade. EAC countries have had to impose non-tariff barriers, including closing borders and ports of entry (sea and airports), to prevent the spread of the virus. This disrupted international trade through supply chains as traders have to incur extra costs to meet health requirements and slow border clearance procedures. Kenya mostly trades with EAC partners, specifically Uganda and Tanzania. Kenya had the 8th highest number of COVID-19 cases and deaths in Africa, respectively, as at 9th May 2021. Kenya is also among the top 10 economies in Africa by Gross Domestic Product (GDP) and total trade (exports and imports). The main objective of this project is to analyze the effects of the Coronavirus (COVID-19) pandemic on international trade and recommend post-recovery strategies in Kenya taking into consideration the opportunities offered by the African Continental Free Trade Area. This project assesses the effect of the virus on one of Africa's superstar traders by estimating the effect of the virus on Kenya's trade in EAC for exports and imports, and value chains. Ultimately, this project shall contribute towards Kenya's and EAC's trade policy in the ongoing COVID-19 pandemic with the primary outcome being safety of borders/ports for effective trade in goods and services in the East African Community (EAC) region.

The measures taken by different governments to stop the spread of COVID-19 pandemic translated to NTBs which ended up disrupting trade (global and regional value chains) not just in the East African region, but also the whole world.

1.1 Objective of the Book

The main objective of this book is to analyze the effects of the Coronavirus (COVID-19) pandemic on international trade and recommend post-recovery strategies in Kenya taking into consideration the opportunities offered by the African Continental Free Trade Area.

1.2 Organization of the Study

After the introduction chapter, study starts by a tracing of the trend of COVID-19 and the measures put in place by governments to combat the disease. This is followed by an analysis of the macroeconomic performance of the global, regional, Africa, Sub-Saharan and Kenyan situation before and during the COVID-19 pandemic. This chapter followed by an analysis of East Africa's trade patterns in terms of products, services and partners. Thereafter, an analysis of the impact of the pandemic on merchandise trade is presented followed by a chapter on the impact of COVID-19 on services and foreign direct investments. The impact of the pandemic on SMEs and on the informal cross border follows as well as the trade facilitation measures that the Kenya Government put in place to preserve lives and livelihoods of both households and businesses. The last chapter is on the Kenya's COVID-19 recovery strategies taking advantage of the opportunities afforded by the Africa Continental Free Trade Area.

2.0 COVID-19 AND MEASURES-NTBS TO COMBAT SPREAD OF DISEASE

By

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2.1 Introduction

This section describes the onset of COVID-19 in Kenya and the measures the government put in place to stop the spread of the diseases. It also describes the measures Kenya's trading partners in East Africa, Africa and the rest of the world took to control the spread of the disease. Some of these measures were trade facilitative while others were trade restrictive hence turning into Non-tariff barriers.

WHO (2021) says that all viruses evolve over time and the virus that causes COVID-19, that is SARS-CoV-2 has also evolved over time. The virus goes through a process of replicating or making copies of itself and in the process changes a little bit from what it was originally. The changes are called mutations and a virus that has one or more mutations is known as a variant of the original virus.

The likelihood of a virus mutating is dependent on whether it is circulating widely in the community and causing a lot of infections. This gives the virus a lot of opportunities to spread giving it a chance of replicating giving it more chances of undergoing changes. This mutation, depending on where the change is located in the virus's genetic material can change the virus's rate of transmission or severity of disease. The mutation can also affect the performance of vaccines, diagnosis as well as the medicines used to treat the disease the virus causes. Other effects of the mutations could be in public health and social measures.

The WTO labeling of new variants is usually using the Greek Alphabet which is easier and more practical to be discussed by not scientists. The earliest documented samples of SARS-CoV-2 were in the United Kingdom in September 2020 and was labeled Alpha on 18th December 2020; South Africa in May 2020 and was labeled Beta on the 18th of December 2020; Brazil, November 2020 and was labeled Gamma on the 11th of January 2021 and in India October 2020 and was labeled Delta on the 11th of May 2021. The Delta Variant was first diagnosed in Kenya in May 2021 and is highly contagious and spreads much faster than other the other variants and now contributes to 96.7% of all COVID-19 reported cases.

The first COVID-19 case was reported in Kenya on the 12th March 2020. By the 12th July 2021, Kenya had tested 1,183,212 people. Both the number of cumulative COVID-19 confirmed cumulative death cases has been increasing but at a slower rate than it was in the 1st quarter of 2020. By 12th July 2021 the number of COVID-19 confirmed cases was 188754 and 3722 fatalities as shown in Table 1.

Table 1: COVID-19 Confirmed & Death Cases in Kenya-March 2020-July 2021

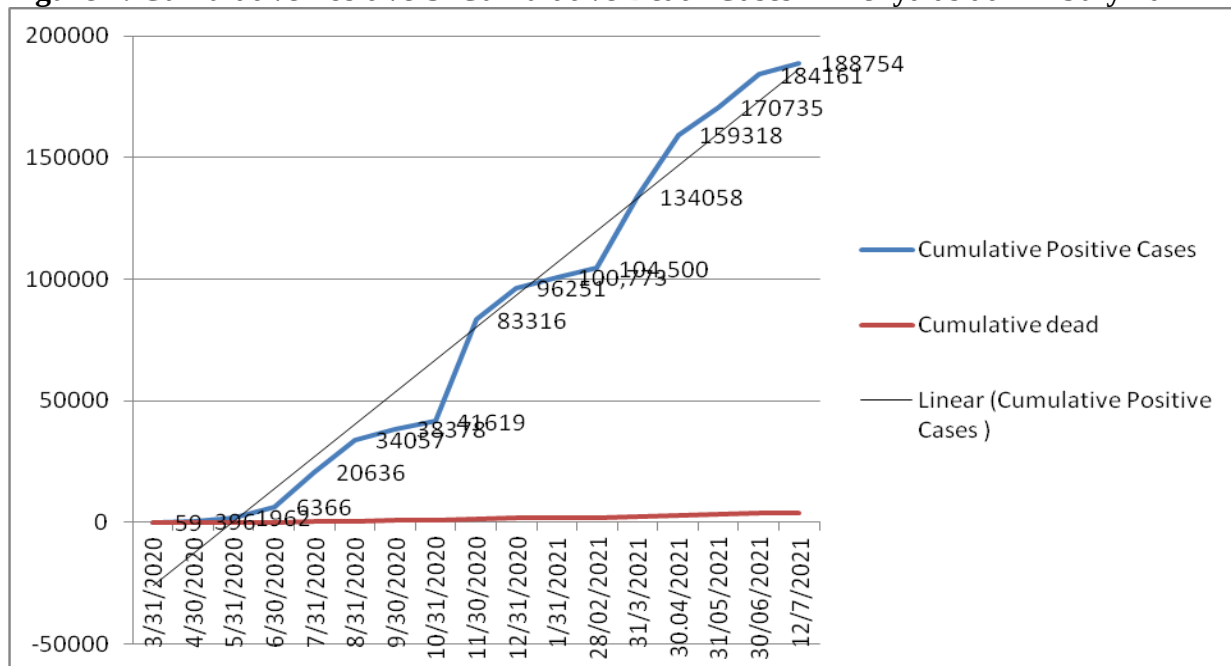
Months	Date		Cumulative Positive Cases	Cumulative dead
March	3-31-2020		59	1
April	4-30-2020		396	17
May	5-31-2020		1962	64
June	6-30-2020		6366	144
July	7-31-2020		20636	341
August	8-31-2020		34057	574
September	9-30-2020		38378	707
October	10-31-2020		41619	981
November	11-30-2020		83316	1452

December	12-31-2020		96251	1667
January	1-31-2021		100,773	1,755
February	2-28-2021		104,500	1,856
March	3-31-2021		134058	2153
April	4-30-2021		159318	2724
May	5-31-2021		170735	3172
June	6-30-2021		184161	3634
July	7-12-2021		188754	3722

Data Source: <https://www.worldometers.info/coronavirus/country/kenya/>

The number of COVID-19 positive, death and recoveries cases has been rising since March, 2020 as shown in Figure 1. By the end of October 2020, the number of COVID-19 confirmed cases were 41,619 and 981 deaths. By the end of 2020 the number of positive cases had risen to 96,251 and 1,667 persons had died of illness. This figure rose to 188,754 as at 12th July 2021 with the number of deaths rising to 3,722. Figure 1 shows the monthly reported cases of COVID-19 in Kenya comprising cumulative positive and cumulative deaths up to 12th July 2021.

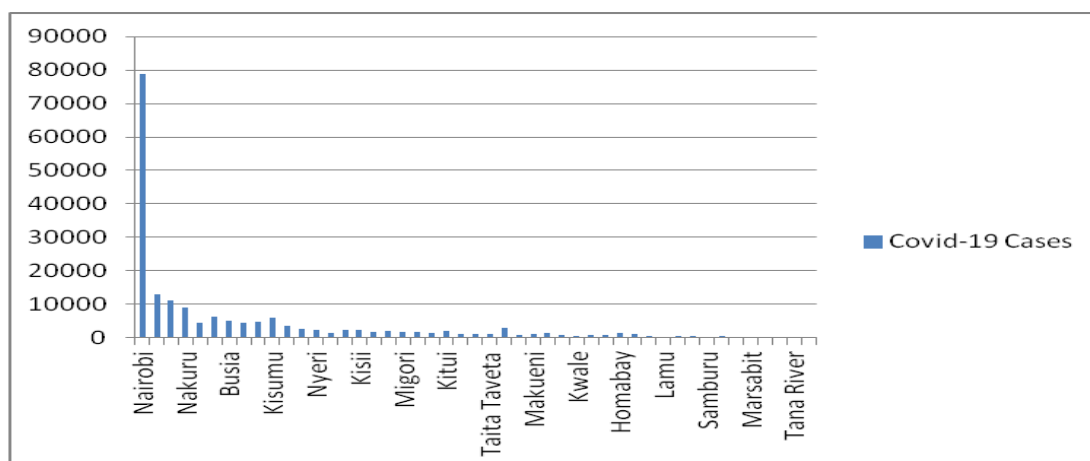
Figure 1: Cumulative Positive & Cumulative Death Cases in Kenya as at 12th July 2021



Data Source: <https://www.worldometers.info/coronavirus/country/kenya/>

The total number of recoveries and discharges for COVID-19 was 180,000 as of 13th July 2021 (Ministry of Health (MoH), 2021). The number of COVID-19 positive cases differs by counties with some counties such as Nairobi accounting for majority of cases at 78,593 while Wajir had the least number of positive cases at 103 as shown in Appendix 1 and Figure 2.

Figure 2: Distribution of COVID-19 Cases by County as at 13th July 2021



<https://www.statista.com/statistics/1136519/cumulative-coronavirus-cases-in-kenya-by-county/>

Figure 2 and Annex 1 show the distribution of the COVID-19 cases by county on the 16th of February 2021.

It is clear from Figure 2 that Nairobi had the highest proportion of COVID-19 cases accounting for 42.1% of the total number of positive cases. Nairobi is followed by Mombasa and Kiambu which accounted for 86.9% and 5.9% of all COVID-19 cases in Kenya while Wajir had the least.

2.2 Kenya Government's Response to COVID-19 Pandemic

Many sectors have been affected in one way or another, some of them adversely since the reporting of the first COVID-19 case in Kenya and especially more by the measures the Government of Kenya (GoK) took to contain the spread of the pandemic. One of measures was restriction of movement to and from certain counties such as Nairobi and Nairobi Metropolitan, Mombasa, Kilifi, Kwale as well as putting some estates in Nairobi on lockdown. A 7pm to 5am nationwide curfew was imposed for people except those offering essential services such as those offering medical services, transporting food and medical supplies. Places of work (both public and private) were closed, and workers instructed to work from home except for those offering essential services such as hospitals. Travel was also restricted for nonresidents and those who happened to arrive in Kenya immediately after this period were supposed to be quarantined for 14 days in identified isolation facilities. At the same time, all vehicles offering public services were supposed to adhere to Ministry of Health guidelines on hand washing and social distancing. All Kenyans were advised by the Ministry of Health to wear masks and practice hand washing. To decongest the health facilities, home based care of COVID-19 positive and asymptomatic patients was later introduced. Valid COVID-19 certificates were supposed to be produced at border crossings especially for track drivers ferrying goods throughout the East African region.

2.3 Non Tariff Barriers (NTBs)

International trade flows had been on the increase before the outbreak of the COVID-19 pandemic. This was as a result of reduction in tariff and non tariff barriers (NTBs), transport costs and transaction costs. However, it is important to note that while tariff and non tariff barriers were reducing, non tariff measures (NTMS) were increasing both in terms of the number of products covered and the number of countries utilizing them.

NTBs are restrictions that are unrelated to tariffs (United Nations Conference on Trade and Development (UNCTAD)(2013) & World Trade Organization (WTO)(2012). These restrictions can be in the form of quotas, embargoes, sanitary measures, import licensing, conditions or specific market requirements that make exportation or importation services and goods difficult or costly. UNCTAD classifies NTMs into two: those that are trade facilitating and those that are trade restrictive as shown in Table 2.

Table 2: UNCTAD’s Classification of Commonly Used NTMs

Trade Facilitating Measures	Trade Restricting Measures
* Tax and duty exemptions, reductions or other fiscal incentives that reduce burden of taxes due	Export ban
Regulations concerning terms of payment for imports	Requirements of license, permit or registration to export
* Licensing for the protection of public health	Prohibitions for SPS reasons
* Certification requirements for SPS reasons	Temporary ban, and suspension of issuance of licenses
Transfers of funds (monetary transfers) by the Government (to an enterprise) – Grants	Export quotas
* Anti-dumping duties	Requirements for export monitoring and surveillance
* Certification requirements for (technical barriers to trade TBT reasons	Prohibition for the protection of public health
Support for consumers or producers not elsewhere specified	Other pre-shipment inspection formalities that are specified elsewhere
E325 Prohibition for the protection of public health	Authorization requirements for importing certain products TBT reasons
* Product quality, safety, or performance requirements for TBT reasons	
* Authorization requirements for importing certain products TBT reasons	

* Implies that measures can be relaxed to facilitate trade

Source: UNCTAD (2021), <https://unctad.org/topic/trade-analysis/non-tariff-measures/COVID-19-and-ntms>

Some of the NTMs help expedite trade of such goods, thus ensuring adequate supplies for the source country. For example, exemptions from paying duties and taxes; relaxing SPS requirements and easing of non-automatic licensing requirements on imported medical supplies. However, export bans; quotas; requirements of licenses, permits or registration to export on medical supplies adversely affect trade and in the process impact negatively on the availability of essential goods in import-dependent countries, more so the most vulnerable ones. In majority of cases, NTMs are imposed without coordination with trading partners and they end up disrupting global value chains and in the process act as barriers to the smooth flow of trade in goods and services. Some NTMs such as requirement for export monitoring and surveillance help ensure that the exported product is safe and of high quality but they end up delaying exports due to the additional inspections and checks imposed. Most of the NTBs were largely premised on domestic law citing public health and safety as a reason to institute measures which ended up impacting not only internal trade but also cross border and international trade.

Many countries imposed non-tariff barriers such as closure of borders to movement of persons, banning the crossing of borders by persons using such means as bicycles, motorcycles, and wheel carts, restricting border crossing to only transit cargo trucks, mandatory COVID-19 screening at the borders, 14 day quarantine of new arrivals, closure of the non-essential businesses, curbing meetings, social gatherings and night curfews. These acted as stumbling blocks on trade flows in the local and global economy. The additional border controls, disruption in transport and associated logistics led to a rise in trade costs estimated to account for up to a

third of the decline in world trade of from 12% to 32% (Organization for Economic Cooperation and Development (OECD), 2020).

Also some governments channeled traffic through fewer border crossings; reintroduced border controls that had previously been removed and even conducted at-the-border health checks. The six partner states of the East African Community failed to harmonize COVID-19 measures. These NTMs placed additional demands on border control agencies that were also carrying out their usual functions while at the same time implementing containment measures such as social distancing (OECDa, 2020). The measures also caused massive traffic snarl-ups at border crossings. For example, at the Kenya-Uganda border towns of Malaba and Busia during the initial stages of COVID-19, long queues of trucks stretched up to 65km on the Kenyan side as the Ugandan authorities imposed compulsory COVID-19 tests on Kenyan truck drivers before they entered the country. At the Rwanda-Tanzania border crossing of Rusumo, Tanzanian truck drivers were forced to hand cargo over to Rwandan counterparts who took it onwards to Kigali. In some cases, flights were cancelled, ships stopped in high seas as sea and inland ports were considered super spreaders of COVID-19 infections. While borders remained open for freight transportation, there was a slowdown in logistic flows as drivers were subjected to border controls for quarantine purposes.

The enhanced border checks led to border delays at the in most countries with the East African Community counties included. Before COVID-19, it had taken cargo around 3.5 days to be transported from Mombasa to Kampala, 7 days to Kigali, 10 days to the DRC and 14 days to South Sudan. The NTMs taken by the authorities more than doubled the amount of time taken to transport goods. For example, the measures increased the amount of time taken to transport goods from Mombasa to Kampala from 3.5 to 7-10 days while it took 21 days to Kigali and far longer to the DRC and South Sudan leading to an increase in the cost of moving goods around the region (Collins, 2020).

To enter the Schengen region of the European Union from 1st of July 2021, a traveler is now required to have a COVID-19 Vaccination certificate which should clearly show the type of vaccine the traveler has been vaccinated with. The European Medical Agency (EMA) has a list of vaccines accepted in the European region. AstraZeneca manufactured by the Serum Institute of India is not one of the approved vaccines in the Schengen region. However, the European Union has issued an advisory to Member States to issue and verify certificates for all those vaccinated with one of the vaccines approved by EMA but also permitted the Member States to issue such passports and accept them for those vaccinated with vaccines by other manufacturers. The differences in the vaccines accepted by the European Member States have created confusion among travelers and will act as an NTB for those travelers from countries that are not eligible to enter the European Union if the vaccine received is deemed not acceptable to the particular destination country.

The measures have also led to a disruption in supply chains of essential commodities such as testing kits, private protective equipments (PPEs) and other medical equipment leading to low testing capacities, diagnosis and treatment. For example, Kenya used to source the automatic testing kits reagents from the United States. On the 6th of September 2020, United States government placed an embargo on exportation of any reagents for Roche and Abbott machines. This stoppage forced Kenya to scale down testing for COVID-19 resulting to running two systems, a manual system and an automatic Polymerase Chain Reaction (PCR) system.

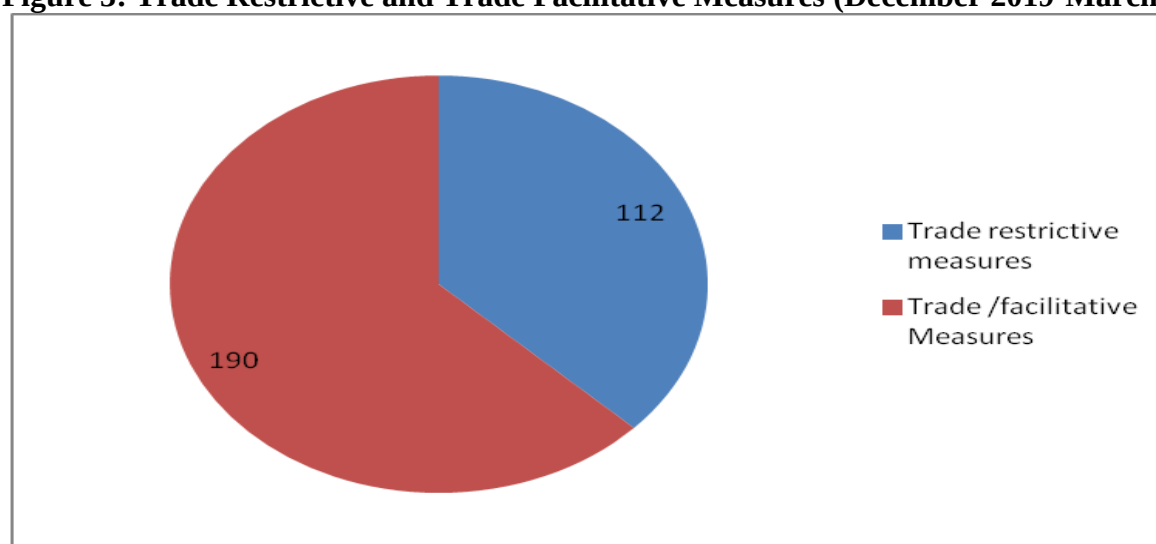
The COVID-19 pandemic measures also brought about disruptions in supply chains all over the world especially pharmaceutical supplies for reproductive health; Antiretroviral drugs (ARVs),

hypertension, diabetes, medical equipments including PPEs, masks, and vaccines among others. The disruption led to increased demand worldwide and developing countries like Kenya found themselves cut off from their suppliers who also needed the same products and they preferred satisfying local demand first. Developed countries also placed huge orders for these products leaving little for the poor and developing countries.

For example, most large scale vaccine manufacturers are the United States, European Union and the India sub-continent. The regions imposed restrictions on exports of vaccines as well as raw materials and equipments for its production which disrupted the entire vaccine production and distribution process. These regions also stockpiled more than 60% of the world's vaccines before they were even approved for use (Peters and Prabhakar, 2021).

Export restrictions were not just on vaccines. More than 80 countries placed embargoes on exports of personal protective and medical and goods especially in the initial months of the COVID-19 pandemic leading to severe supply chain disruptions. UNCTAD (2021) found that almost 40% of all trade restrictive NTMs had been terminated by March 15, 2021 but about 60% of these measures were still in place even in 2021. Figure 3 shows the trade restrictive and trade facilitative measures between December 2019 and March 2021.

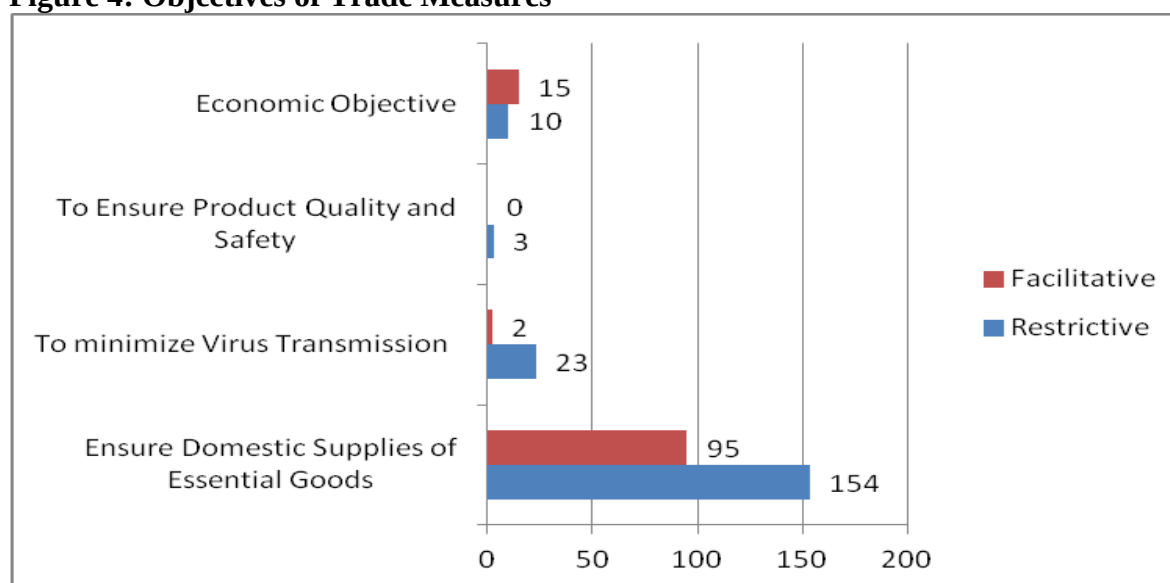
Figure 3: Trade Restrictive and Trade Facilitative Measures (December 2019-March 2021)



Source: UNCTAD (2021), <https://unctad.org/topic/trade-analysis/non-tariff-measures/COVID-19-and-ntms>

As Figure 3 shows, there were 190 trade restrictive (barriers) measures compared to only 112 trade facilitative measures imposed by various countries in the world between December 2019 and March 2021. According to UNCTAD 2021, the objectives of these measures are shown in Figure 4.

Figure 4: Objectives of Trade Measures



Source: UNCTAD (2021), <https://unctad.org/topic/trade-analysis/non-tariff-measures/COVID-19-and-ntms>

As Figure 4 shows, majority of the measures were taken with the objective of ensuring domestic supplies of essential goods.

2.4 Conclusion and Key Message

The measures taken by different government to combat the spread of COVID-19 translated to NTBs which disrupted trade not only in the East African region, but also the whole world. It is therefore important that the Kenya Government comes up with strategies to stop the spread of COVID-19 while at the same time protecting lives and livelihoods of its citizens.

EAC as well as other African countries should prioritize vaccination in the short term to stop the spread of the COVID-19.

Trade restrictive measures which have translated into NTBs requires Kenya and other African countries to start thinking of how they can become producers as well as consumers of its own products and more so those products that are essential for human life such as pharmaceuticals and vaccines.

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Appendix 1: COVID-19 Cases in Kenya by County as at 13th July 2021

Number	County	Population (2019 Census)	COVID-19 Cases
1.	Nairobi	4,397,073	78953
2.	Mombasa	1,208,333	12924
3.	Kiambu	2,417,735	11036
4.	Nakuru	2,162,202	9079
5.	Kajiado	1,117,840	4628
6.	Uasin Ngishu	1,163,186	6329
7.	Busia	893,681	4970
8.	Kilifi	1,453,787	4368
9.	Machakos	1,421,932	4773
10.	Kisumu	1,155,574	6048
11.	Kericho	901,777	3581
12.	Meru	1,545,714	2604
13.	Nyeri	759,164	2220
14.	Laikipia	518,560	1603
15.	Kakamega	1,867,579	2231
16.	Kisii	1,266,860	2227
17.	Turkana	926,976	1753
18.	Bungoma	1,670,570	2019
19.	Migori	1,116,436	1667
20.	Muranga	1,056,640	1630
21.	Tranzonia	990,341	1593
22.	Kitui	1,136,187	1965
23.	Garissa	841,353	1249
24.	Embu	608,599	1117
25.	Taita Taveta	340,671	1111
26.	Siaya	993,183	2963
27.	Kirinyaga	610,411	858
28.	Makueni	987,653	1008

29.	Nandi	885,711	1420
30.	Narok	1,157,873	742
31.	Kwale	866,820	610
32.	Nyandarua	638,289	951
33.	Bomet	875,689	932
34.	Homabay	1,131,950	1325
35.	Nyamira	605,576	1194
36.	Baringo	666,763	598
37.	Lamu	143,920	343
38.	Isiolo	268,002	411
39.	Vihiga	590,013	614
40.	Samburu	310327	236
41.	Tharaka Nithi	393,177	452
42.	West Pokot	621,241	296
43.	Marsabit	459,785	268
44.	Elgeyo Marakwet	454,480	228
45.	Mandera	867,457	278
46.	Tana River	315,943	128
47.	Wajir	781,263	103
48.	Total	47,564,300	187,636

Kenya National Bureau of Statistics <https://www.knbs.or.ke/?p=5621> and
<https://www.statista.com/statistics/1136519/cumulative-coronavirus-cases-in-kenya-by-county/>

3.0 GLOBAL MACROECONOMIC TRENDS IN THE FACE OF THE CORONAVIRUS PANDEMIC-THE WAY INTO THE FUTURE

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3.1 Introduction

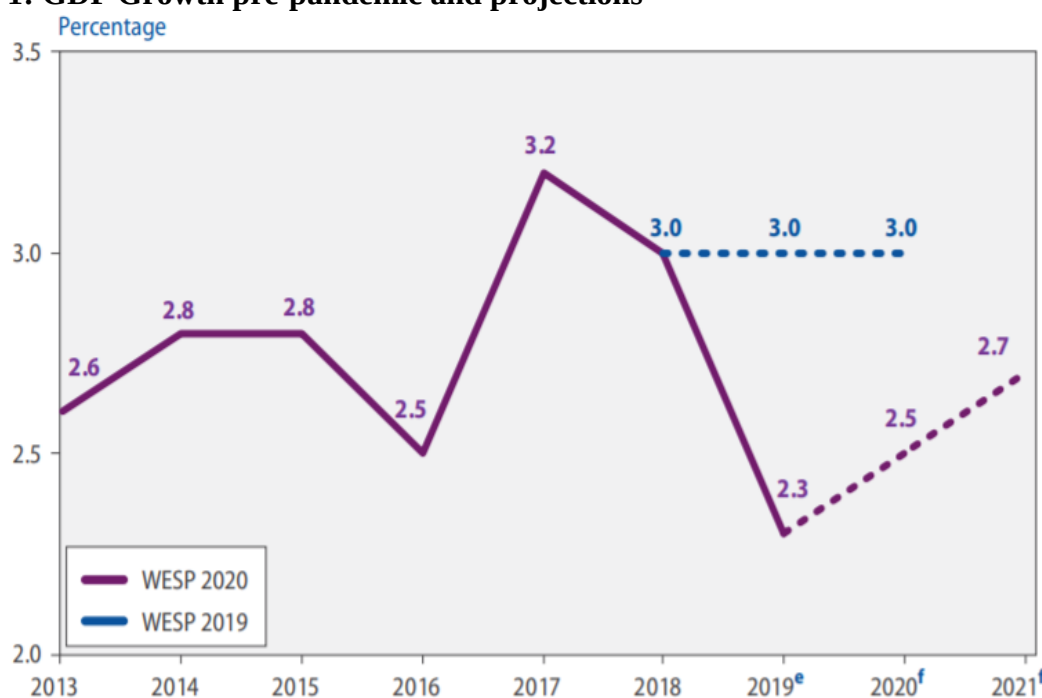
We need to appreciate that macroeconomics is the study of the aggregate impact of households and enterprises and how these aggregate effects affect individual households and firms. Indeed economic output, as measured by gross domestic product, employment, and inflation are the three major components of macroeconomics. Macroeconomics aims to foresee economic situations in order to assist consumers, businesses, and governments to make decisions as necessary. It therefore serves well to examine recorded trends of these macroeconomic parameters globally with due regard to the impact of the COVID-19 pandemic.

3.2 Global Macroeconomic Trends

The World Economic Situation and Prospect (WESP), 2019 report showed a declining global economy and predicted a 3 % global growth rate in 2019 and 2020. However, Global growth slumped to a ten-year low of 2.3 % in 2019 according to the United Nations Report. It was predicated though that, going forward, with average global gross product growth of 2.5 % in 2020 and 2.7 % in 2021, a slight recovery was expected. Per capita income growth was predicted to average 1.5 % in 2020 and 1.7 % in 2021, with significant differences between regions. This scenario was forecast without any incidental COVID-19 pandemic effects.

Effectively, the actual, estimated and forecast GDP trend globally is illustrated as in the figure below. The growth rates in many developed countries had risen to close to their potentials in 2018, with low record of unemployment rates. It is important to appreciate that the employment levels do define the aggregate demand trends and subsequent production levels. World Employment and Social Outlook 2020 report recorded global unemployment rate of 2019 at 5.4 per cent and which was projected to remain constant for two subsequent years. Within this perspective one notes that any such global growth projections from 2020 when the COVID-19 pandemic struck was and is bound to change.

Figure 1: GDP Growth pre-pandemic and projections



Notes: The country level figures are aggregated using 2010 market exchange rates where e = estimates and f = forecast

Source: United Nations Department of Economic and Social Affairs (UN DESA)

As was projected rightly the world economy was expected to decline by 3% in 2020 as a result of the COVID-19 epidemic, worse than the 2008-09 financial crisis. It is of interest to note that the global economic progress remained uneven across regions. However East and South Asia recorded relatively strong growth trajectory while several other large economies posted a decline in per capita income. This was as a result of risks which majorly included tightening of global financial conditions, escalating trade disputes mainly between the US and China, sharp downturn in global car production and sale, slowdown in demand by China and global climate risks.

Significantly so was the sharp decline from 3.9 % in 2018, growth in global trade in goods and services to a post-crisis low of 0.3 % in 2019. Whereas it was projected that global trade growth would increase marginally to 2.3 % in 2020 and 3.2 % in 2021, according to WESP 2020, such forecast has obviously been affected due to the COVID-19 crisis which struck in early of 2020 and has progressed into 2021 although with some level of containment measures. Commodity prices, meanwhile, remained flat in 2019 as global economy slowed and trade concerns weighed on demand.

Trade policies shifted rapidly in 2019 leading to heightened volatility in global financial market. The rise of trade tensions between the United States and China, as well as monetary policy adjustments by major Central Banks, have primarily impacted recent movements in global financial markets. Furthermore, the gap between financial markets and real-world activity is widening.

Again it was noted that global net capital flows to emerging economies did not vary in 2019 and was likely to pick up steam as a result of liberal monetary policies and increased investor demand. Portfolio flows, which include equities and debt flows, appear to have remained

sensitive to trade tensions since 2019 in emerging economies. Despite commitments by donor countries to increase development funds, net official development aid (ODA) flows dropped for the second year in a row in 2018.

It indeed of interest to note that in the year 2020, most advanced economies entered the pandemic period with historical low interest rates and relatively higher levels of public debts. In the circumstance it has been projected that economies would emerge from the pandemic with even higher public debts due to the need to institute economic recovery measures amongst countries.

The world public debt situation has over time been on the upward trajectory. The United Nations Conference on Trade and Development (UNCTAD) identified heavy indebtedness as the worldwide economy's defining feature in 2019 (UNCTAD, 2019). Global debt exceeded four times the global Gross Domestic Product, with debt expansion being more pronounced in government and non-financial corporate sectors. In 2017, developing countries' aggregate debt rose to almost 190 % of their Gross Domestic Products, the highest level ever recorded.

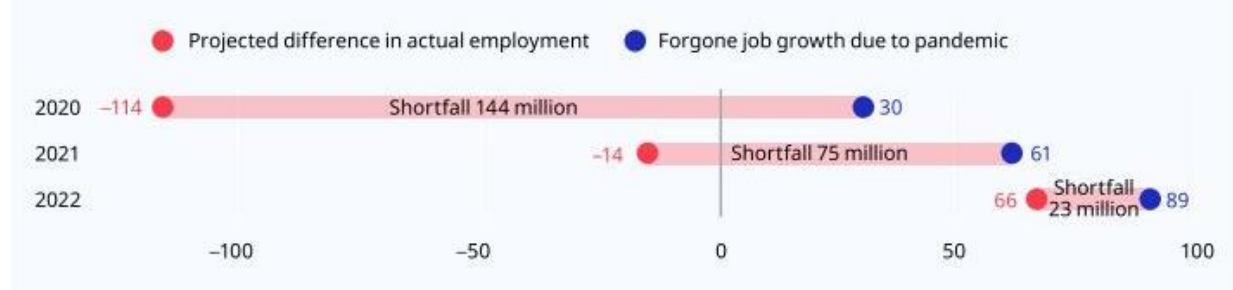
Today, the global economic recovery has gained strength with UN Department of Economic and Social Affairs projects that in 2021 the global gross product is projected to grow by 5.4 %, and by 4.1 % in 2022. The report further projects that developed countries are expected to grow by 5% in 2021, a % age point greater than previously predicted. Growth in developing countries is expected to increase by 0.4 % age points to 6.1 % in 2021. Suggestions are that the current global recovery will be faster than any of the previous global recession recoveries since World War II due to possible proactive macroeconomic policy measures that are likely to facilitate growth in aggregate demand and subsequent rise in total production.

It is also important to point out that employment situation globally has a significant bearing on aggregate demand. Growth rates in many developed countries were observed to have risen close to their potentials in 2018, with low record of unemployment rates. World Employment and Social Outlook 2020 report recorded global unemployment rate of 5.4 per cent 2019 and was projected to remain the same for the subsequent two years, but again the projections would have been affected negatively due to the COVID-19 situation.

However, it is projected that in 2022, global unemployment is anticipated to reach 205 million individuals, a significant increase from 2019's figure of 187 million (International Labour Organisation, 2021). This translates to a 5.7 % unemployment rate. A rate like this was last recorded in 2013, excluding the COVID-19 crisis period. Notwithstanding the global unemployment situation, it is expected that if the overall pandemic situation does not worsen, global job recovery shall accelerate in the second half of 2021 going into 2022. But we note that due to unequal vaccine access and the limited capability of most developing countries to sustain large fiscal stimulus measures, the expected job recovery situations shall be uneven across countries. The decline in employment has resulted in a significant drop in labour income and, as a result, an increase in poverty. In comparison to 2019, an additional 108 million employees around the world are now classified as poor or extremely poor, implying that they and their families subsist on less than US\$3.20 per person per day (World Bank Group, 2020).

Women were particularly affected by the COVID-19 crisis. In 2020, women employment fell by 5%, compared to 3.9 % for men. In addition, a higher proportion of women dropped out of the labor market and became inactive. Increased family responsibilities as a result of the COVID-19 crisis and subsequent lockdowns have also increased the possibility of gender roles being "re-traditionalized." On the other hand, youth employment declined 8.7% globally in 2020, compared to 3.7 % for adults, with middle-income nations experiencing the steepest decline.

Figure 2: Pandemic-induced global shortfall in jobs relative to 2019 (in millions)



Note: The red dots denote the projected difference in actual employment relative to 2019. The blue dots denote the development that would have been expected had there been no pandemic, hence showing forgone employment growth. The numbers inside the bars refer to the total pandemic-induced shortfall in jobs in a given year (that is, the shortfall due to the combination of actual employment losses and forgone employment growth)

Source: International Labour Organisation (ILO) Estimates

Essentially, global employment growth perspective shall continue to be dampened in the short and even in the medium terms due to unexpected sustained effect of the COVID-19 pandemic. However, with the notable sustained efforts to control and manage the spread of the pandemic globally, it is hoped that global employment recovery is expected to accelerate towards the second quarter of 2022. It is projected that with such effective efforts by countries, the pandemic related disruptions in the various sectors shall be greatly minimized.

3.3 COVID-19 and Macroeconomic performance.

The global economy has been hit by an unprecedented economic shock as a result of the COVID-19 epidemic. The IMF estimates that global output will decrease by over 3 % age points in 2020, with this trend expected to be replicated across all nations regardless of their level of economic prosperity (IMF, 2021). There is now a realistic route to resolving the immediate crisis by focusing on a mass vaccination program that is unprecedented in terms of speed and scope. Nevertheless, implementation is expensive and challenging, and the pandemic's long-term repercussions on aspects such as health effects, skill development, and the rapid growth and spread of technology remain to be unknown.

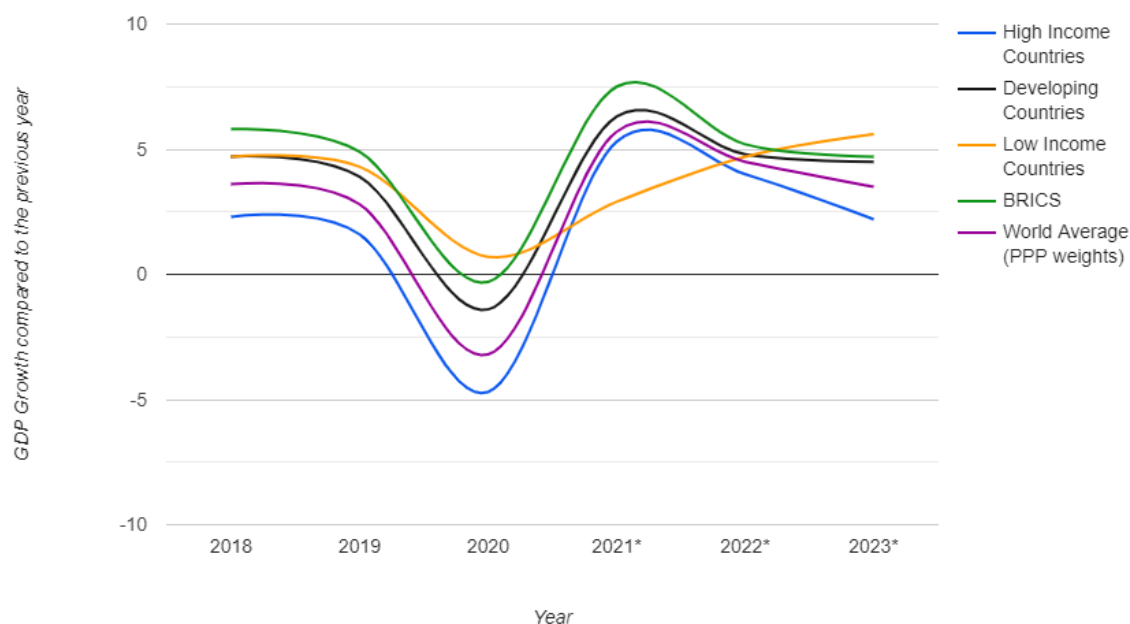
In the face of the COVID-19 pandemic, global economic collaboration and partnerships can be essential in ensuring the fastest and smoothest possible recovery from the epidemic and reducing the danger of a repeat crisis. It can also help to reduce the long-term costs of the pandemic's unprecedented impact while maximizing the advantages of national efforts to recover. International economic cooperation usually increases during or after a major economic crisis, most notably after the Second World War through the Marshall Plan and the establishment of the Institutions that fall under the International Bank for Reconstruction and Development. This cooperation was also witnessed during the 2008-09 global financial crises resulting to the formation of an intergovernmental forum comprising of nineteen countries and the European

Union and generally referred to as the G20. The crisis also led to a number of initiatives being pronounced at the London Summit of 2009.

With the current global crisis, international cooperation is being used to underpin global liquidity, such as the global scientific effort to develop vaccines, the G20 initiative known as known as the Debt Service Suspension Initiative, or DSSI, whose objective is to ensure the suspension of debt service payments by the poorest economies, and the Federal Reserve's establishment of "US dollar swap lines." For example, the World Bank has recently increased its response and commitment to assist many countries, and has called on all official bilateral creditors, as well as the International Monetary Fund, to suspend debt payments from International Development Association countries that have requested deferment (Ataguba, 2020). The political atmosphere of the previous four years, which has seen international disputes intensify and confidence between countries erode, has been a major element undercutting a cooperative approach. In part, this reflects the Trump administration's mind-set of "America First," but there has also been a growing divide between the West and certain other big economies, most notably the People's Republic of China, over core values.

The figure 3 below does illustrate the GDP growth trend for countries in terms of the actual positions prior to 2020 when the pandemic struck and the projections subsequent of the pandemic. Countries' recovery speed shall essentially be a faction of the domestic policy measures, international cooperation and the efficiency of such measures that shall witness a slowdown of the spread of the pandemic. Cooperation between countries in the area of vaccine availability and vaccinations shall still remain very significant in the realization of faster economic recovery.

Figure 3: Growth rate of GDP from 2018 to 2023 projections



Source: Statista, Compilation from African Economic Outlook

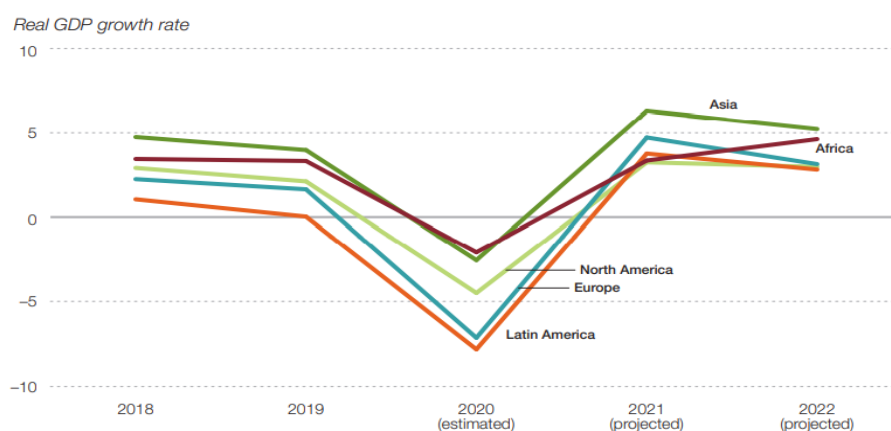
3.4 Macroeconomic Trends in Africa

In 2020, the African continent was hampered by the global epidemic with real GDP declining by 2.1 %, but this is expected to grow by 3.4 % in 2021. Budgetary balances and debt burdens were

directly impacted by the subsequent economic crisis in 2020. Africa's fiscal deficits were 4.6 % in 2019 and are expected to nearly double to 8.4 % in 2020.

Africa's overall current account deficit was forecast at 5.5 % of GDP in 2020, with 4.1 % and 2.7 % projected in 2021 and 2022, respectively. Trade deficits and net factor payments overseas have been the primary drivers of current account deficits. Africa's 3.6 % GDP growth in 2019 was insufficient to accelerate economic and social progress and alleviate poverty. Job creation has not kept pace with the requirement to provide possibilities to the 29 million young people who enter working age each year. Domestic demand, which accounts for 69 % of Africa's total growth since 2000, has largely influenced Africa's GDP growth trajectory, as opposed to productivity gains. Between 2000 and 2018, Africa's labour productivity remained unchanged. Exports of oil, minerals, and agricultural goods account for 88 % of Africa's total exports.

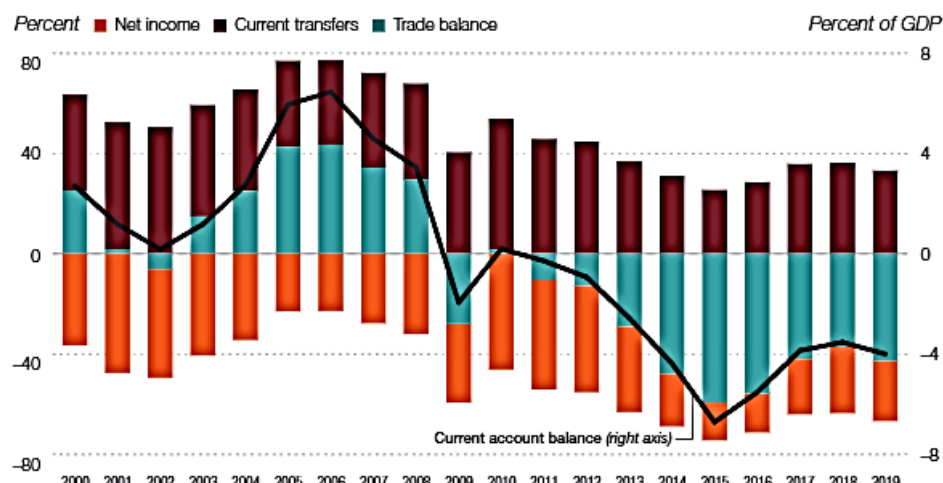
Figure 4: Growth Performance and Outlook of the African Continent amid the COVID-19 Pandemic.



Source: African Development Bank Statistics and IMF World Economic Outlook Database

However, in the short to medium term, Africa's average debt-to-GDP ratio is predicted to rise by 10 to 15 % age points due to product diversification and value addition endeavours by governments. The COVID-19 pandemic has significantly affected the production processes in the Continent like other regions. Mass vaccination of the populace is indeed one of the broadly accepted measures of managing the pandemic. Effectively it is projected that Africa would need roughly 1.5 billion doses of vaccine to vaccinate 60% of its population, which is the projected minimum requirement for achieving hard immunity (Nkengasong, et. al. 2020). According to Africa CDC, the vaccine, as well as the methods and infrastructure required for distribution, will cost between \$7 billion and \$10 billion. It should however be noted that as a result of the pandemic's impact, there were some stimulus spending in the African continent.

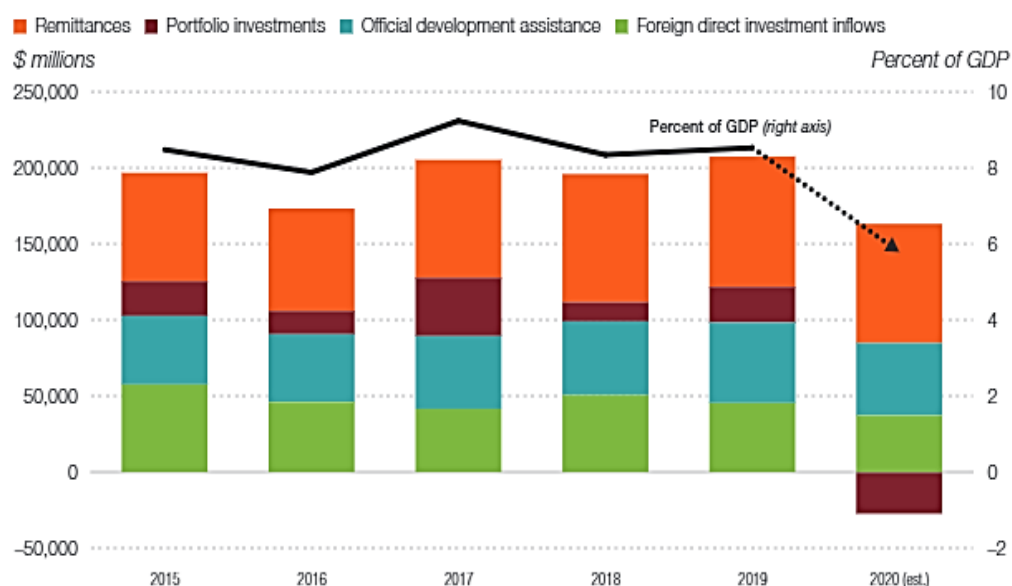
Figure 5: Current account balance decomposition for the African Continent, 2000-2019



Source: African Development Bank and African Economic Outlook.

Africa's inflation rate stayed constant at 10.4% in 2020, with core inflation growing in many nations. Africa's currency depreciated significantly due to disruptions in external financial flows (remittances, foreign direct investment, portfolio investment, and official development assistance). Exchange rate volatility continued to increase as a result of the reversal of external financial inflows. Exchange rate volatility wreaked havoc on tourism-dependent and resource-intensive economies the most. Between 2019 and 2020, major inflows into Africa, such as foreign direct investment (FDI), portfolio investments, remittances, and official development assistance (ODA), decreased. FDI flows are expected to fall by 18 % in 2020, from \$45.37 billion in 2019 to \$37.20 billion in 2020. Indeed Foreign direct investment (FDI), tourism, and overseas development assistance (ODA) inflows to Africa all decreased as a result of COVID-19 infections and the relatively weak control measures. The immediate impact on health systems and related expenditures for most countries in the region was initially minor due to decreased infection rates. However, when the infections increased, spending on the health sector was severely impacted.

Figure 6: Financial flows into Africa.



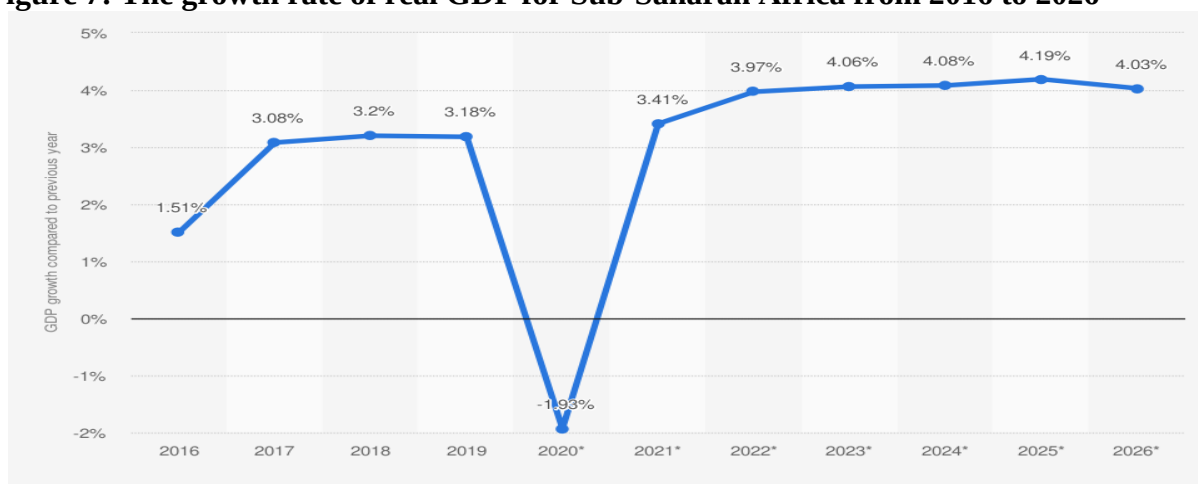
Source: Calculations from; AfDB, UNCTAD, OECD, World Bank and IMF Balance of payments statistics data bases.

The total financial flows into the African Continent have averagely been declining since 2019 which have further negatively affected the growth and development process.

3.5 Macroeconomic Performance in Sub-Saharan Africa.

According to the World Bank's Africa 2021 Report, economic activities in Sub-Saharan Africa fell by 2% in 2020. Despite the fact that the region's outlook appear to have improved since October 2020, the -1.9 % decline in 2020 is still the lowest on recorded. In 2021, Sub-Saharan Africa is projected be the world's slowest-growing region, and as the global economy recovers, the region risks lagging further behind. However, due to strong agricultural growth and a faster-than-expected rebound in commodity prices, the region's resilience in the face of the global pandemic is expected to be critical in the recovery process. The epidemic, as unexpected, threw the region into its first recession in almost 25 years. On a per capita basis, the region's activities decreased by roughly 5%. The public debt situation worsened and continued to worsen. Sub-Saharan Africa's recovery is however predicted to differ from country to country, with the three largest economies, Nigeria, South Africa, and Angola, expected to rebound in 2021. According to current projections, many African countries' per capita GDP will not regain pre-crisis levels until the end of 2025. The lack of vaccine access and the region's fiscal constraints are projected to have an impact on the prognosis. As a result, during the next five years, the growth gap between Sub-Saharan Africa and the rest of the globe is anticipated to expand even more.

Figure 7: The growth rate of real GDP for Sub-Saharan Africa from 2016 to 2026



Source: IMF, Statista Compilation 2021

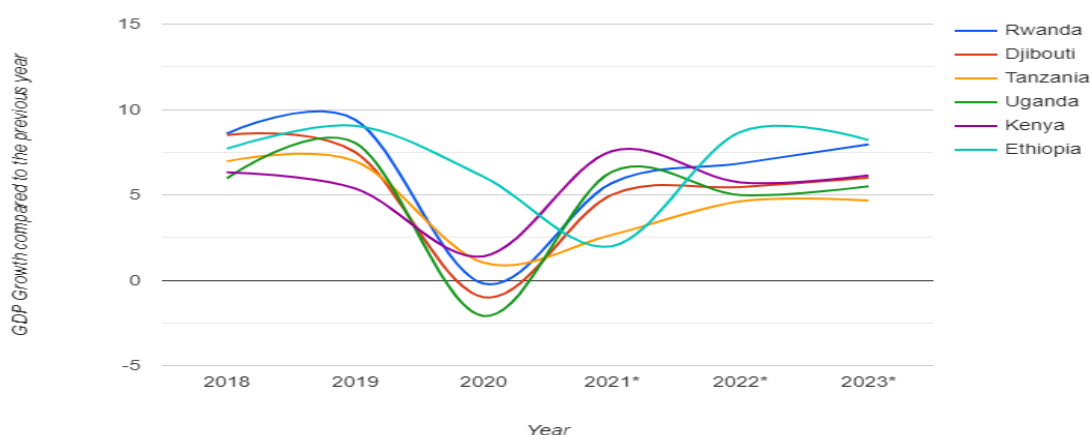
The growth trajectory illustrated above is not likely to change in the very short term due to the slow rate of management of the COVID-19 pandemic and the sustained growth of the fiscal deficits and subsequent growth of the public debts.

3.6 Macroeconomic Performance in East Africa Region

East Africa appears to have been the most resilient region during the epidemic, owing to a lower reliance on primary commodities and a higher degree of diversification. According to the OECD, the region grew by 5.3 % in 2019 and is expected to expand by 0.7 % in 2020. In 2021 and 2022, real GDP growth is expected to be 3.0 % and 5.6 %, respectively. Djibouti, Kenya, Tanzania, and Rwanda are expected to expand at the fastest rates in East Africa, with 9.9%, 5.0 %, 4.1 %, and 3.9 %, respectively.

According to African Development Bank report 2020, East Africa is the fastest growing region within the continent with Ethiopia, Djibouti, Kenya, Rwanda, Tanzania and Uganda being the drivers of the region. In 2018, the region's average growth rate was 4.9 %, and in 2019, it was 5.3 %, compared to 3.3 % and 3.4 % for Africa as a whole over the same period. The region's growth rate declined by 0.7 % in 2020, but it still outperformed Africa's general decline of 2.1 %.

Figure 8: Growth rate of real GDP from 2018 to 2023 projections.



Source: Statista, compilation from African Economic Outlook

The East African region growth and development processes like other regions of the globe has been adversely affected by the COVID-19 pandemic. The projected growth trends in the region though moderate are expected to be sustainable based on the effectiveness of COVID-19 control and management measures coupled with sustainable public debt management.

3.7 Macroeconomic Performance in Kenya.

Kenya's GDP growth in 2020 was expected to slow to 1.4 % from 5.4 % recorded in 2019, according to Africa Economic Outlook 2021. The decline in the growth projections is as a result of the COVID-19 Pandemic. The coronavirus outbreak had a significant impact on economic activities in practically every sector of Kenya's economy in 2020, with the tourist and services industries taking the brunt of the damage. However, Kenya's growth rate is projected to return to its long-term average of around 6% in 2021 and 2022. This scenario is only possible with appropriate COVID-19 containment measures and implementation of sustainable public debt policies.

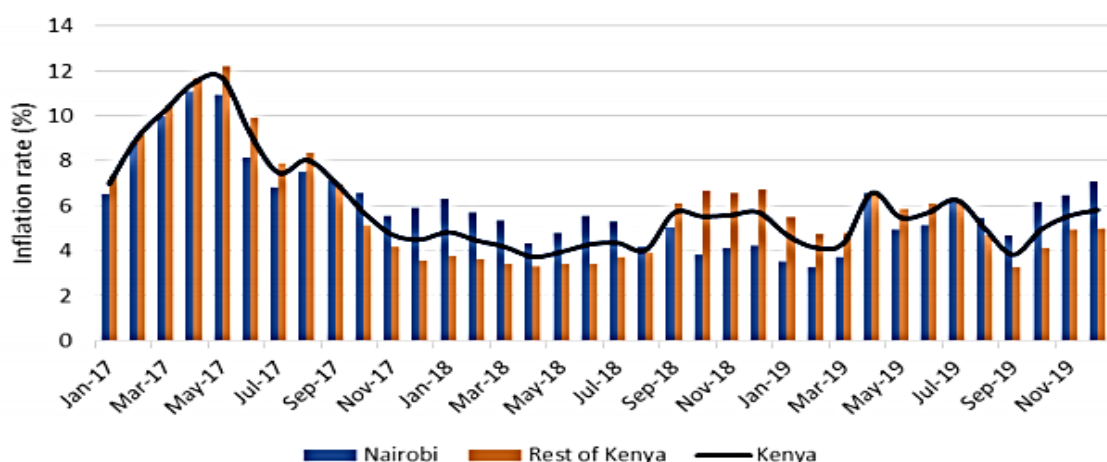
Figure 9: Kenya's annual real GDP and real GDP per capita growth and poverty rates



Data source: Kenya National Bureau of Statistics (Various Issues) Economic surveys.

Due to weaker aggregate demand, Kenya's inflation rate is predicted to drop to 5.1 %. Year-on-year total inflation has however remained within the Government goal range since the end of 2017, according to Kenya's National Treasury (2020). As a result of lower food costs, the inflation rate fell to 4.4 % in August 2020, down from 5.0 % in August 2019. Indeed as a result of tax revenue shortages and higher health-care spending, the country's fiscal deficit is forecast to rise to 8.3% of GDP. The country's current account deficit is forecast to shrink to 5.4 % of GDP. This is expected to happen due to the projected rise in the country's overall earnings from exports of primary goods and services including earnings from tourism. Notably Kenya's Foreign exchange reserves fell to 7.8 billion dollars by the end of 2020, down from 8.96 billion dollars in 2019 due to reduced net inflows as a result of international lockdowns to contain the COVID-19 pandemic. Effectively Kenya's national currency depreciated by 8.9% to KShs 110 per US dollar in 2020, down from KShs 101 in 2019.

Figure 10: Inflation trend in Kenya by Region



Data
source

Source: Central Bank of Kenya (2019) monthly economic indicators, Dec. 2019

The Country's monthly inflation during the last three years pre-COVID-19 pandemic (2017-2019) averaged at 5.1 %. But inflation during the partial lockdowns and minimal economic activities slightly declined due to reduced consumption as a result of reduced total incomes for the populace.

3.8 Effect of COVID-19 on Labour Force Participation and Fiscal Deficits

The COVID-19 crisis indeed accelerated and continues to accelerate the unemployment situation worldwide. Effectively the labour force participation rates across sectors significantly crashed and continue to be at low levels compared to the pre-COVID situation. In the circumstance, countries have been left to make choices between ending the lockdowns which were instituted so as to revive people's livelihoods and risking the ravages of the COVID-19 pandemic. However, given the various containment measures globally, there appears to be an exit strategy from lockdown based on the pandemic positivity rates across countries. Efforts to effectively control the virus transmission rate would therefore define some form of optimal work/lockdown cycle and improve the painful trade-offs faced by policymakers. What is critical then is how to balance the COVID-19 situation and the worker's welfare in the absence of lockdowns. Incidentally, it would appear that the most appropriate lockdown exit strategy would be sector based (workplace risk of exposure). Some sectors are more exposed to the virus transmission than others and hence would form the basis of deciding which sector to reopen earlier and where to institute relatively strict containment measures.

Due to the COVID-19 pandemic, budget deficits and constraints in many countries was evident in 2020 through to 2021 and likely to continue though at different rates across countries. This scenario is as a result of a significant decline in public revenues, coupled with high costs of dealing with health and economic issues due to the pandemic. The general budget deficits, and especially in the developing countries, due to the negative impact of the COVID-19 pandemic, will for the unforeseeable future affect the eventual realization of the Sustainable Development Goals in the various countries. The sharp reduction in public revenues due to the pandemic

implies that many countries will and continue to experience difficulties in financing economic and socio recovery.

Rightly it is observed that COVID-19 pandemic introduced significant fiscal pressures for many countries as they needed more expenditure on health and other socio-economic issues to mitigate the impact of the pandemic. Such fiscal pressures are experienced within the background of declining government revenues. In the circumstance of fiscal pressures and deficits, governments globally are trying to address these inadequacies through a number of ways which include, additional borrowing and public expenditure adjustments. Despite such measures, governments, and especially the developing and low income countries, have encountered large budget deficits and heavy public debt with the consequential effect of debt stress.

3.9 An Overview of the global Economic Recovery.

Due to notable proactive COVID-19 control and management measures globally, there is some clear positive recoveries in a few key economies. In the circumstance the global economy is expected to rise at a rate upwards of 5% in 2021, marking the highest growth of economic resurgence in the last eight decades. Indeed many newly industrializing countries are still dealing with the COVID-19 pandemic and its implications, according to the June 2021 Global Economic Prospects (World Bank, 2021). Despite the expected recovery, worldwide output will be around 2% lower by the end of the year than it was before the pandemic. By 2022, with economies still strained by the COVID-19 pandemic and its containment measures, over two-thirds of nations categorized as emerging market and developing countries will not be able to recover their per capita income losses that were occasioned by the pandemic. In low-income nations where vaccination has lagged, the pandemic's consequences have nullified poverty alleviation successes and exacerbated vulnerability and other long-standing challenges.

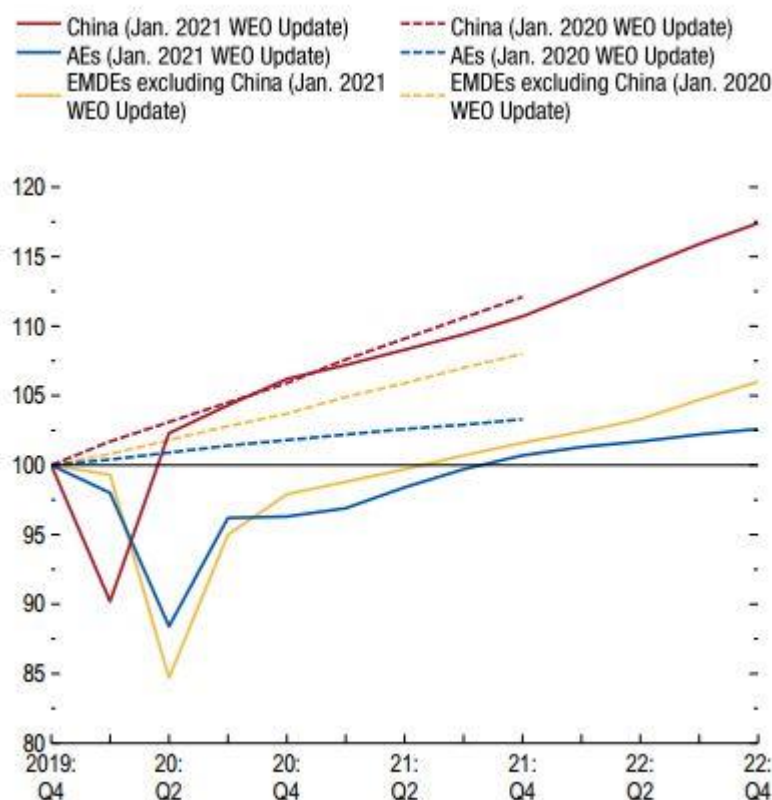
Rightly large-scale government backing and the easing of pandemic restrictions are predicted to boost growth in markets such as the United States to almost during 2021. Growth in other advanced economies is also in the upward trajectory, albeit to a lesser extent. Among emerging economies and developing countries, the largest growth is expected in China which is predicted to climb to over 8% in 2021, reflecting a rise in aggregate demand. In 2021, aggregate demand, market growth and asset prices are predicted to boost emerging markets and developing economies to 6% growth. In many countries, however, a resurgence of COVID-19 cases and slow vaccination efforts, coupled with the loss of governmental aid in some circumstances, are slowing recovery. Except for China, these groups of economies are predicted to recover at a relatively slow rate of 4.4 %. The growth of emerging markets and developing countries is therefore predicted to decline to 4.7 % in 2022. This effectively implies that growth in this group of economies will not be adequate to make up for losses experienced during the 2020 recession. Production in 2022 is expected to be 4.1 % lower than pre-pandemic estimates and hence a significant negative impact on the aggregate demand trends. Apart from 2020, low-income economies are predicted to expand at their slowest rate in 2021 largely due to the slow pace of vaccination and ineffective management and containment measures. Low-income economies are predicted to grow at a rate below 3 % in 2021, climbing to over 4.5 % in 2022. The output of these countries is predicted to be 4.9 % lower in 2022 than it was before the outbreak.

Even before the COVID-19 crisis, major growth drivers globally were predicted at lower rates, and the trend is likely to be accelerated by the pandemic's devastated effects on the demand and

supply chains. Furthermore, the majority of emerging market and developing nations' per capita income is predicted to remain below pre-pandemic levels, resulting in worsening deprivations in health, education, and the general living standards.

Global Economic Prospects (World Bank Jan.2020) indicated that lowering trade costs, such as cumbersome logistical and customs processes, might aid emerging market economies countries in their recovery by facilitating trade. Due to higher shipping and logistics costs, trade costs in these countries still presented a significant challenge to trade. This position of low trade and trading activities before the COVID-19 pandemic was pronounced with the striking of the pandemic. To reverse this situation then, efforts should be in place to strengthen transportation infrastructure and governance, encourage greater information sharing, and boost competition in domestic logistics, retail, and wholesale commerce effectively resulting to significant cost reductions (Felsenthal & Young, 2021).

Figure 11: World Economic Outlook Economic Forecast



Notes: AEs = advanced economies; EMDEs = emerging market and developing economies; WEO = World Economic Outlook

Source: IMF Estimates

Connecting emerging economies through trade and international value chains has been a crucial engine of economic growth and subsequently lifting many people out of poverty. Despite this, current trends predict that global trade growth will slow down over the next decade, according to World Bank Group Vice President for Equitable Growth and Financial Institutions Gill, 2020. As poor nations recover from the COVID-19 epidemic, lowering trade prices will create an environment conducive to re-engaging in global supply chains and re-igniting trade growth.

Indeed in recognition of the world trade trend, the “Ottawa Group” which is a coalition of countries has regularly met and proposed actions and ideas on reforming the World Trade Organization (WTO) in response to COVID-19 pandemic. This forum has discussed trade and health issues related to equitable access to vaccines, including export restrictions on essential medical goods, manufacturing capacity for vaccines, intellectual property rights (IPRs), and the transfer of technology to enhance the international trading activities.

This group continues to stress on the importance of addressing export restrictions which constrain supply chain of essential medical supplies and particularly the COVID-19 vaccines. This is an effort which supports the WTO’s initiative on the acceleration of production and distribution of effective, safe and affordable COVID-19 vaccines which is expected to speed up global economic recovery.

3.9 Conclusions and Policy Implications

This paper aims to illustrate worldwide macroeconomic trends and projections in the face of the current COVID-19 pandemic, as well as present data on a variety of potential disease-related economic implications. Rightly a variety of policy solutions have been implemented to cushion economies and populations since the outbreak of the COVID-19 pandemic. In the short term, governments have made concerted efforts to ensure that economies that had been damaged continue to function amid the epidemic situation. When the pandemic struck, governments reacted differently in the face of real and financial and other related growth stress. It was indeed and continues to be imperative that governments play critical role in implementing appropriate macroeconomic policies such as lowering of interest rates and expansionary fiscal policies to facilitate growth. This is particularly so because the pandemic's shock is obviously a multifaceted crisis that necessitates monetary, fiscal, and health policy responses.

Quarantining people and limiting large-scale social interaction have shown to be successful responses in many countries. Widespread adoption of appropriate hygiene practices, as described by Mckibbin,et.al., (2020) appear low-cost and high-effective responses which incidentally reduced the spread of the COVID-19 infections and hence low social-economic cost to a country. Global cooperation has also been emphasized as critical, particularly in the areas of public health and economic development. All countries, notably the world's most powerful economies, must take part actively in the attempts to control and manage the pandemic for the common good.

Effective budget policy functions of governments should be undertaken cognizant of the COVID-19 pandemic for socioeconomic enhancement and sustainability. Thus, effective budget policy functions of governments should be undertaken with due regard of the pandemic and more especially the application of governments’ public expenditure measures.

Wide dissemination of good hygiene practices should continuously be encouraged as it is a low cost and highly effective endeavor.

Global cooperation, especially in the sphere of public health and economic development, should be the focus for countries now that the COVID-19 pandemic has brought in a new normal globally.

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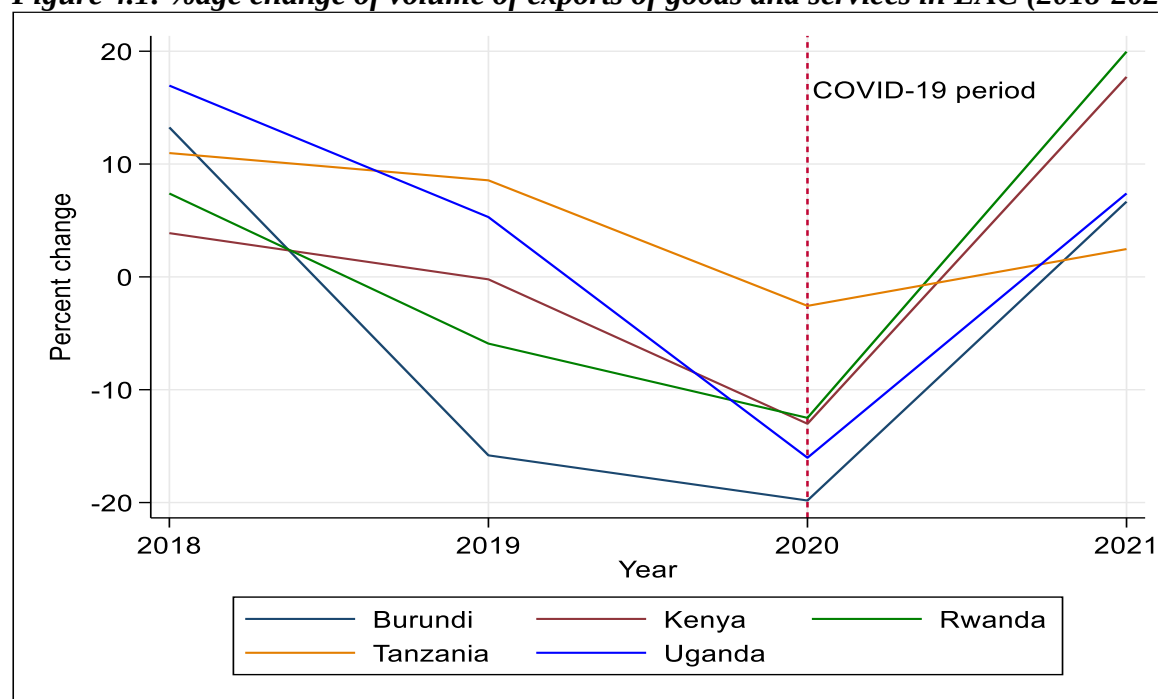
4.0 EAST AFRICAN COUNTRIES TRADE PATTERNS (PRODUCTS, SERVICES, PARTNERS)

by
Socrates Majune Kraido

4.1 Introduction

This section highlights the trade performance of East African Countries (EAC) from 2018 to 2021. Trade is assessed by products and partners for both goods and services. EAC has six countries; Kenya, Uganda, Tanzania, Burundi, Rwanda and South Sudan. Figure 4.1 plots the %age change of the volume of exports of goods and services in EAC countries between 2018 and 2021 except for South Sudan whose data is unavailable. Exports of all countries improved in 2018 as their %age changes were positive. However, all countries experienced a drop in 2019. The magnitude of the collapse was least in Kenya and Tanzania while Burundi's was massive, from 13% in 2018 to -16% in 2019. COVID-19 further disrupted exports of EAC countries. As shown in Figure 3.1, Burundi had the greatest slump in exports in 2020 (-20%) followed by Uganda (-16%), Kenya (-12%), Rwanda (-10%) and Tanzania (-3%) respectively. All EAC countries are projected to increase their exports in 2021. Rwanda is expected to experience the highest export growth (20%) followed by Kenya (18%), Uganda (7%), Burundi (6.7%) and Tanzania (2.5%) in that order.

Figure 4.1: %age change of volume of exports of goods and services in EAC (2018-2021)

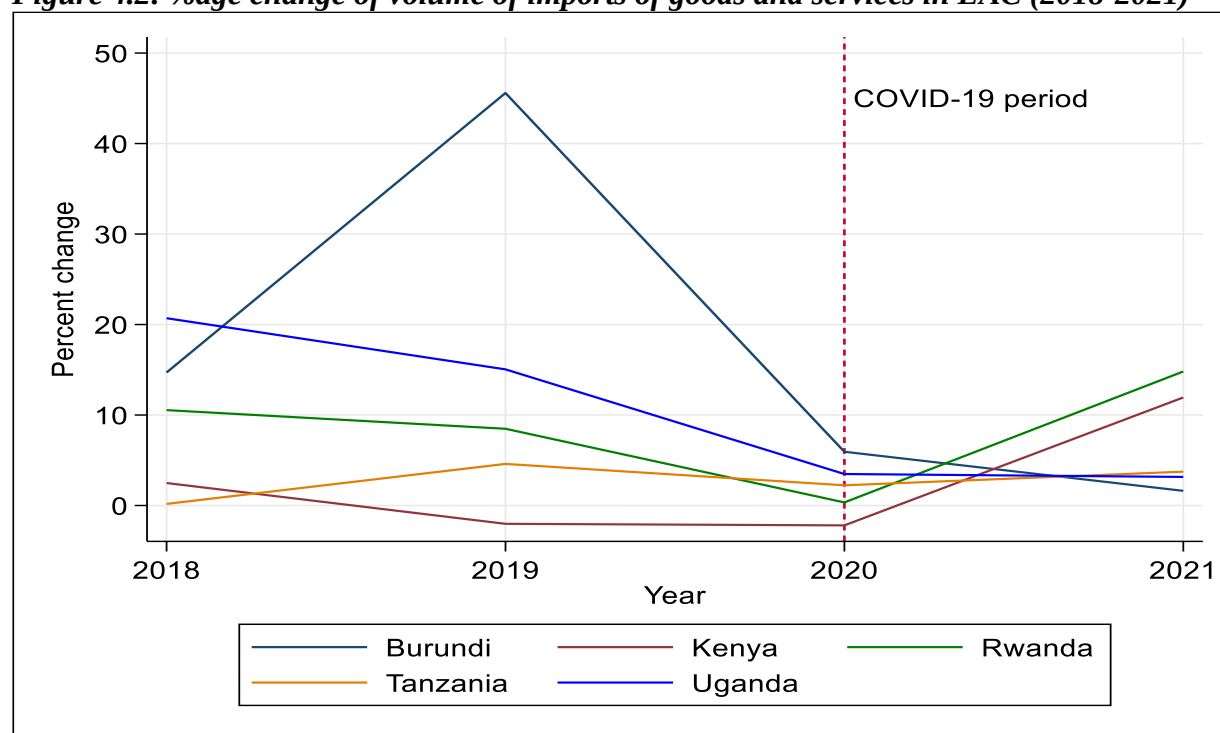


Source: IMF (2021)

The %age change of volume of imports of goods and services in EAC countries between 2018 and 2021 is shown in Figure 4.2. All countries had a positive change in imports of goods and services in 2018. Uganda and Burundi experienced the highest growth rates while Kenya and Tanzania had the least growth rates. Only Burundi (31%) and Tanzania (4%) experienced growth in imports in 2019. Other countries experienced a collapse but remained positive except for Kenya. The advent of COVID-19 in 2020 led to a drop in imports in all EAC countries. The magnitude of the collapse was highest in Burundi (40%) followed by Uganda (12%), Rwanda

(8%), Tanzania (2%) and Kenya (0.2%) respectively. Imports of all EAC countries are expected to increase in 2021 except for Burundi. Rwanda and Kenya have the highest growth projections while Uganda and Tanzania are set to have the least growth.

Figure 4.2: %age change of volume of imports of goods and services in EAC (2018-2021)



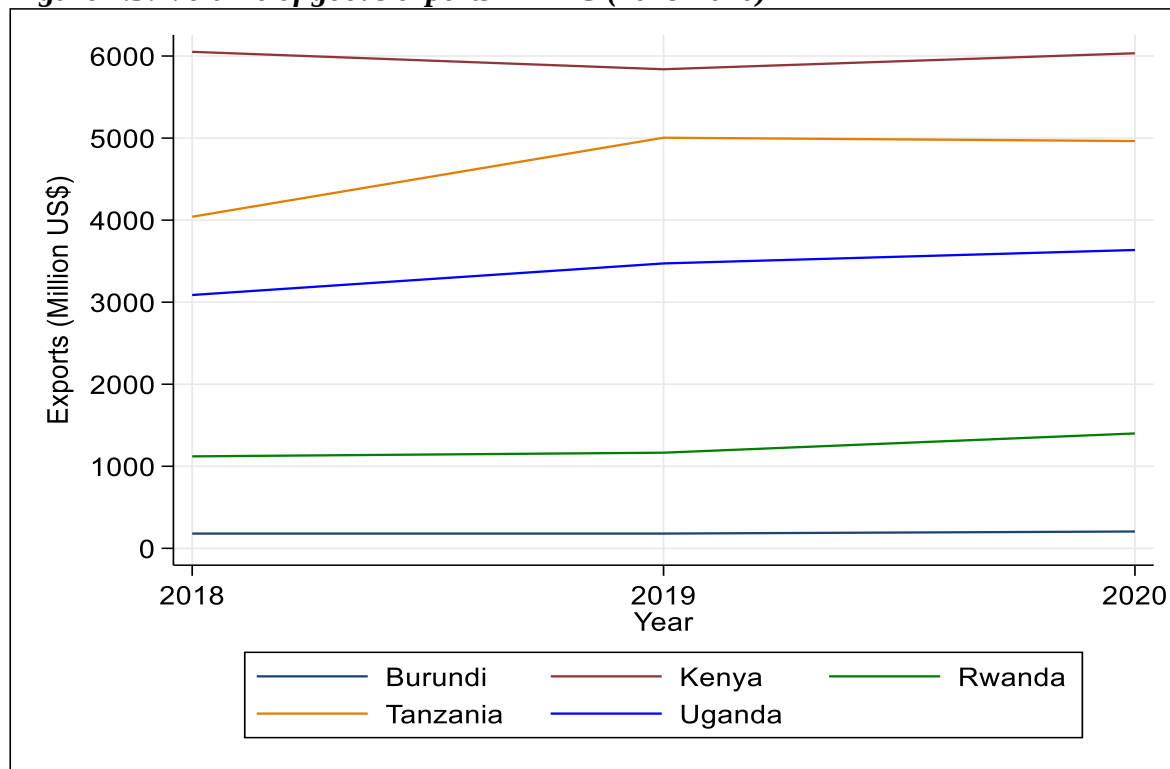
Source: IMF (2021)

The next section discusses the trend of exports and imports in EAC for goods and services separately. Therein, the trend of goods and service trade, trade partners and respective products are discussed.

4.2 Goods

Figure 4.3 displays the trend of merchandise exports (millions of US\$) from EAC countries to the world between 2018 and 2020. Kenya is the top exporter of goods in EAC followed by Tanzania, Uganda, Rwanda and Burundi respectively. Kenya exported goods worth US\$ 6,052 million in 2018 but declined by about US\$ 213 million in 2019 and later increased to US\$ 6,034 million in 2020. Exports from Uganda, Burundi and Rwanda have consistently grown between 2018 and 2020 despite the occurrence of COVID-19 in 2020. Tanzania's growth in exports has also been consistent notwithstanding a US\$ 41 million drop between 2019 and 2020 due to COVID-19.

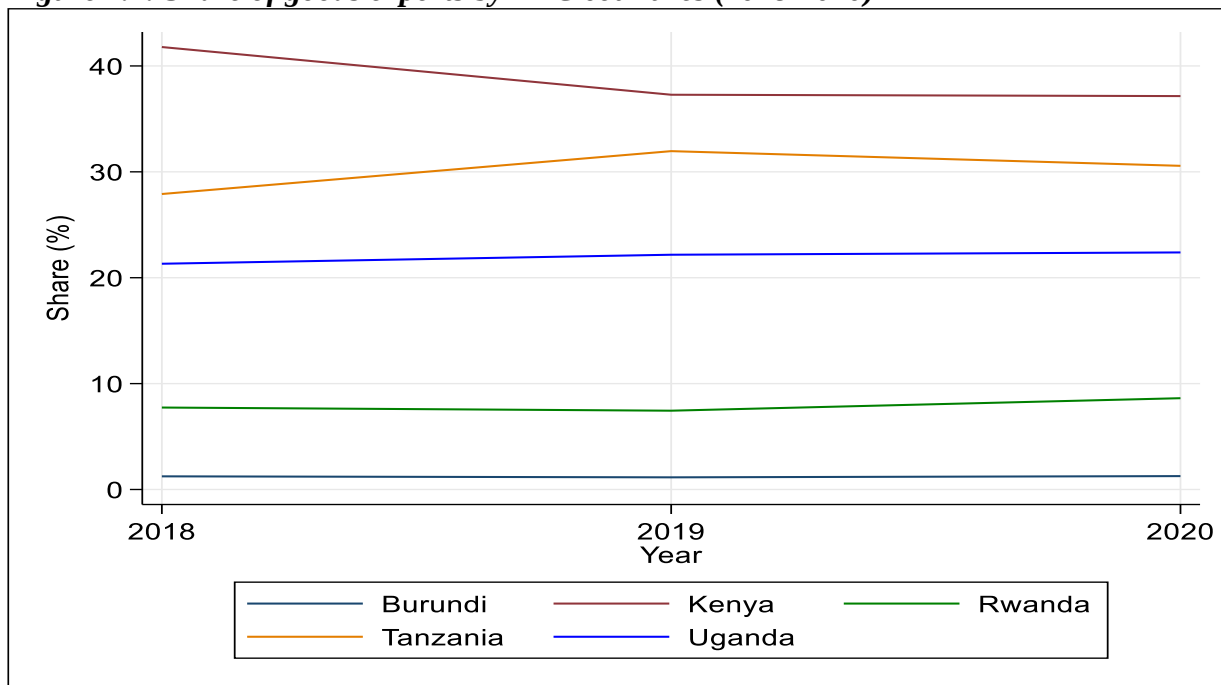
Figure 4.3: Volume of goods exports in EAC (2018-2020)



Source: WTO (2021)

In terms of shares of total exports, Figure 4.4 shows that Kenya made up 42% of exports from EAC in 2018. However, this rate reduced to about 37% in 2019 and 2020. Tanzania had the second highest share of exports in EAC: from 28% in 2018 to 32% in 2019 and 31% in 2020. Uganda's and Rwanda's shares of EAC exports have been approximately 22% and 8% respectively, between 2018 and 2020. Burundi has accounted for the least share of exports in EAC, making up about 1.2%, on average, between 2018 and 2020.

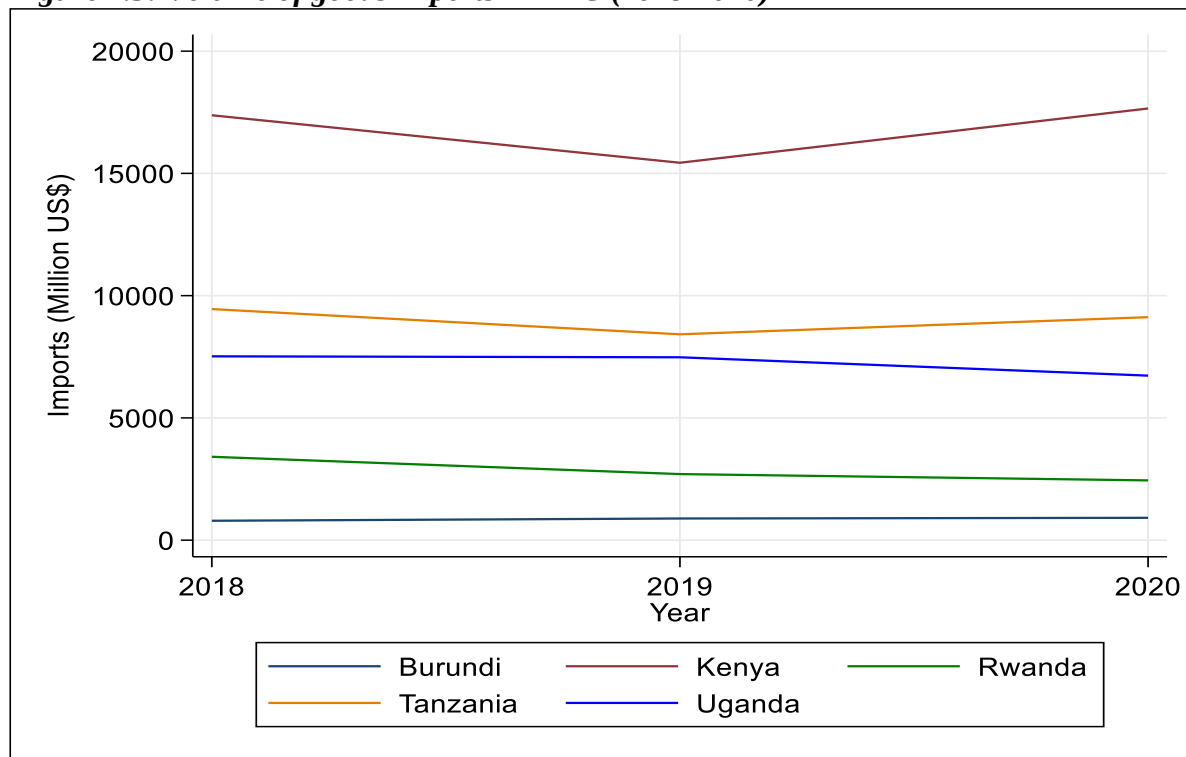
Figure 4.4: Share of goods exports by EAC countries (2018-2020)



Source: WTO (2021)

Figure 4.5 plots the trend of merchandise imports (millions of US\$) by EAC countries from the world between 2018 and 2020. Kenya is the top importer of merchandise in the region followed by Tanzania, Uganda, Rwanda and Burundi respectively. Kenya imported goods worth US\$ 17,378 million in 2018 which dropped to US\$ 15,435 million in 2019 and later increased to US\$ 17,655 million in 2020. Tanzania's imports were US\$ 9,452 million in 2018 but dropped by US\$ 1,033 million in 2019 and improved by US\$ 701 in 2020. Uganda's imports consistently grew from 2018 to 2020 with an average of US\$ 7,243 million over the period. Conversely, Rwanda's imports declined between 2018 and 2020 with an average of US\$ 2,853 million. Burundi's imports of goods have grown from US\$ 793 million in 2018 to US\$ 887 million and US\$ 914 million in 2019 and 2020 respectively.

Figure 4.5: Volume of goods imports in EAC (2018-2020)

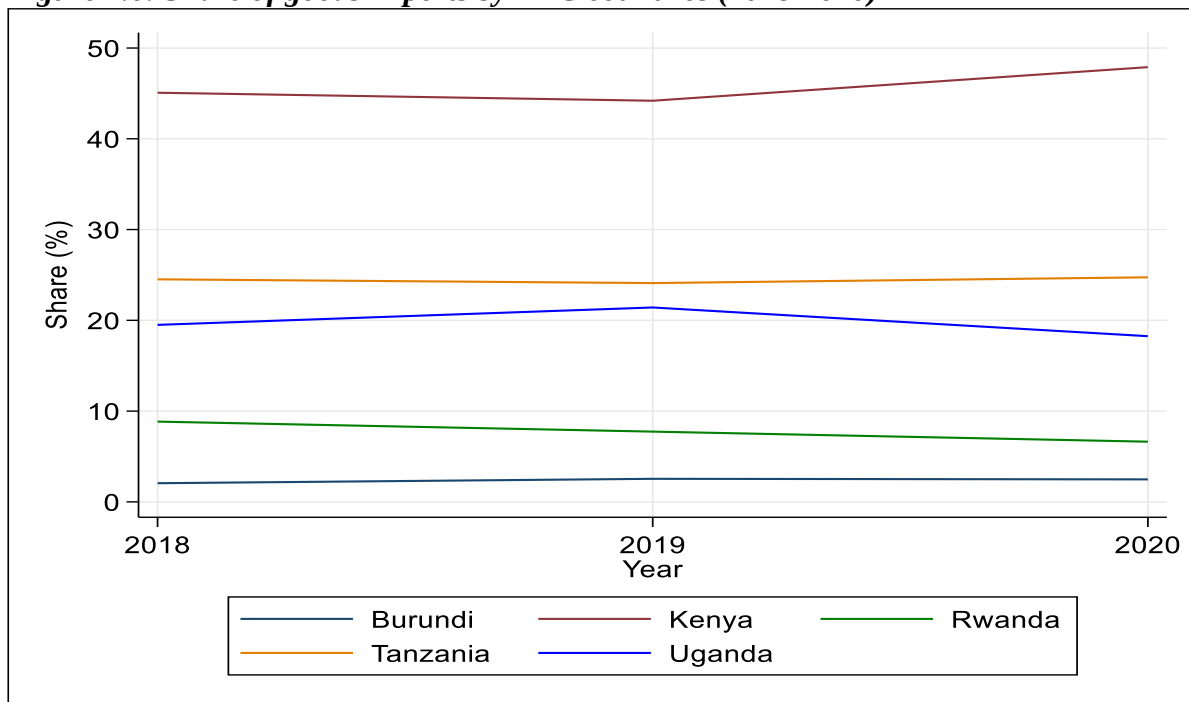


Source: WTO (2021)

Figure 4.6 shows the share of imports by EAC countries between 2018 and 2020. On average, Kenya accounted for 46% of all imports by EAC countries between 2018 and 2020. Tanzania was the second highest importer of goods in EAC with an average share of 24% over the three years. Uganda's share fluctuated from 20% in 2018 to 21% in 2019 and 18% in 2020. This implies that the country was negatively affected by COVID-19 in 2020. Rwanda's share of imports in EAC declined from around 9% in 2018 to 7% in 2020, possibly due to COVID-19. Burundi accounted for 2.4% of imports in EAC on average, between 2018 and 2020.

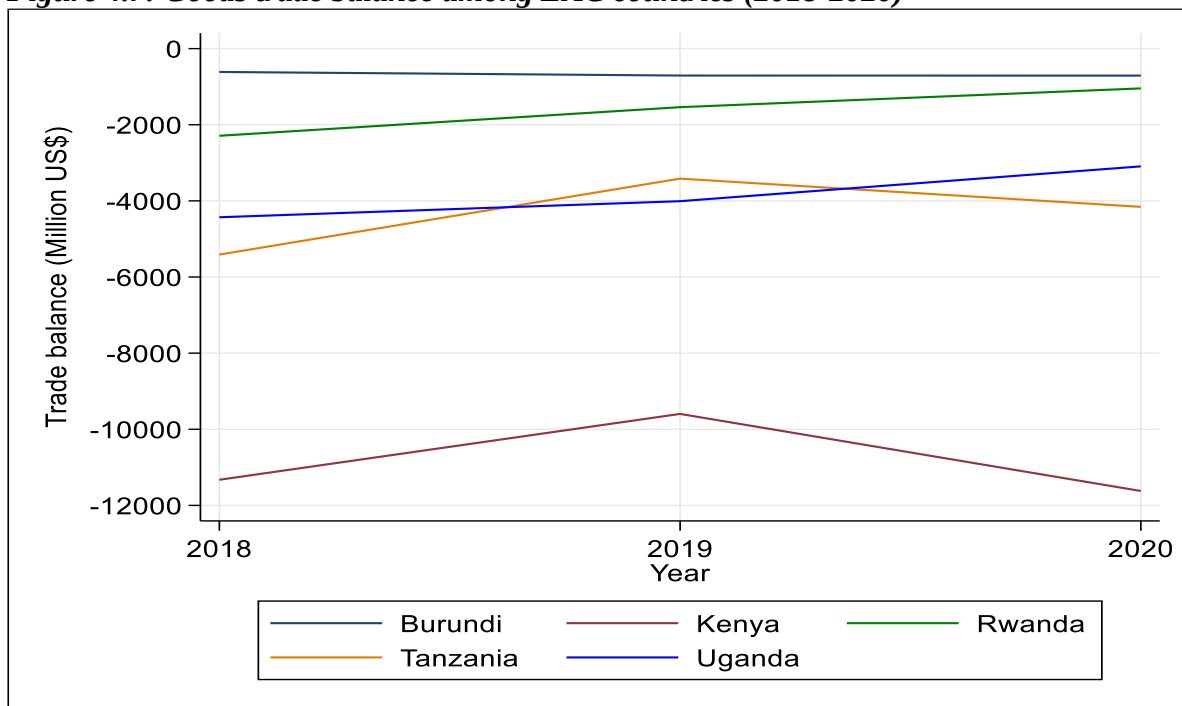
The trade balance of goods (exports minus imports) for EAC countries between 2018 and 2020 is plotted in Figure 4.7. We find that all EAC countries had a trade deficit over the three years, meaning that imports surpassed exports. Burundi had the least deficit which was constant at around US\$ 676 million. Rwanda had the second least trade deficit which shrunk over time, suggesting growth in exports. Uganda's deficit also compressed over the years while that of Kenya and Tanzania fluctuated. Both countries experienced a surge in the deficit in 2020 indicating that the volume of imports surpassed exports during the COVID-19 period.

Figure 4.6: Share of goods imports by EAC countries (2018-2020)



Source: WTO (2021)

Figure 4.7: Goods trade balance among EAC countries (2018-2020)



Source: WTO (2021)

Table 4.1 and Table 4.2 display the share of the top ten export and import products among EAC countries from 2018 to 2020 respectively. Apart from Tanzania, coffee, tea, mati and spices, and natural/cultured pearls, precious stones were the top two export products in EAC countries. The

second column of Table 4.1 shows that these two products account for 70.1% of Burundi's exports. In Kenya, coffee, tea, matī and spices accounted for a quarter of exports between 2018 and 2020. On average, coffee, tea, matī and spices, and natural/cultured pearls, precious stones accounted for over a half of exports from Rwanda and Uganda between 2018 and 2020. Other major products that were exported by Burundi, Kenya, Rwanda and Uganda were: ores, slag and ash; mineral fuels, oils & products of their distillation; etc; and iron and steel. In general, the four countries mainly exported food products while Tanzania exported manufactured intermediate commodities such as electrical machinery equipment parts thereof; sound recorder etc⁸. This indicates that Tanzania largely participates in Global Value Chain (GVC) trade through forward linkages⁹. According to Misati and Ngoka (2021), Tanzania's export landscape has transitioned from dominance of primary products in the 1990s to technology-intensive manufactures. This has mainly been boosted by the growth in physical infrastructure, institutional quality and labour productivity. The top ten export products made up at least 55% of total exports in EAC countries with Burundi and Rwanda having the highest rates (93.7% and 89% respectively). The region's high dependence on a few products reflects low export product diversification.

All EAC countries mainly imported mineral fuels, oils, and products of their distillation; etc as shown in Table 4.2. This product comprised 20.8% of Tanzania's imports while it makes up 19.1%, 17.8%, 18.3%, and 15.3% of imports by Burundi, Kenya, Rwanda and Uganda respectively. Other top import products by all EAC countries were: pharmaceutical products; iron and steel; and nuclear reactors, boilers, machinery and mechanical appliance; parts. Cereals and animal/veg fats & oils & their cleavage products; etc were among the top food products that were imported by EAC countries between 2018 and 2020. The top ten import products account for at least 62.1% of imports by EAC countries while the highest share was 71.5% in Tanzania. Therefore, there is little product diversification in terms of imports just like exports by EAC countries.

⁸ Refer to Johnson and Noguera (2012) the definition of intermediate goods.

⁹ Forward GVC participation means a country mainly exports intermediate commodities that are used in other countries' exports. Backward linkages is when a country's exports are mainly composed of imported intermediate inputs

Table 4.1: Top ten export products by EAC countries (average between 2018 and 2020)

Burundi		Kenya		Rwanda		Tanzania		Uganda	
Product	%	Product	%	Product	%	Product	%	Product	%
Coffee, tea, mati and spices	37.2	Coffee, tea, mati and spices.	25.7	Natural/cultured pearls, prec stone	31.2	Electrical mchy equip parts thereof	9.4	Natural/cultured pearls, prec stone	32.3
Natural/cultured pearls, prec stone	32.9	Live tree & other plant; bulb, root	11.1	Coffee, tea, mati and spices.	22.6	Nuclear reactors, boilers, mchy & m	9.0	Coffee, tea, mati and spices.	15.7
Ores, slag and ash	8.0	Mineral fuels, oils & product of their distillation; etc	5.2	Ores, slag and ash.	17.1	Furniture; bedding, mattress, matt	7.3	Fish & crustacean, mollusc & other	4.1
Prod.mill.indust; malt; starches	5.7	Edible vegetables and certain roots	4.5	Salt; sulphur; earth & stone; plaster	5.1	Articles of iron or steel.	4.7	Cereals	4.1
Beverages, spirits and vinegar	2.8	Edible fruit and nuts; peel of citr	3.8	Prod.mill.indust; malt; starches;	4.7	Vehicles o/t railway/tramway roll-stock	4.6	Mineral fuels, oils & product of their distillation; etc	3.7
Tobacco and manufactured tobacco	2.5	Art of apparel & clothing access, n	3.8	Residues & waste from the food indu	3.0	Plastics and articles thereof.	4.5	Edible vegetables and certain roots	2.7
Mineral fuels, oils & product of their distillation; etc	1.4	Ores, slag and ash.	3.6	Edible vegetables and certain roots	1.7	Salt; sulphur; earth & stone; plaster	4.3	Sugars and sugar confectionery.	2.5
Iron and steel	1.3	Tobacco and manufactured tobacco su	2.5	Miscellaneous edible preparations.	1.5	Toys, games & sports requisites; pa	4.2	Cocoa and cocoa preparations.	2.3
Vehicles o/t railway/tramway roll-stock	1.1	Animal/veg fats & oils & their clea	2.3	Mineral fuels, oils & product of their distillation; etc	1.2	Residues & waste from the food indu	4.0	Iron and steel.	2.1
Nuclear reactors, boilers, mchy & m	0.8	Iron and steel.	2.1	Iron and steel.	1.0	Fish & crustacean, mollusc & other	3.1	Dairy prod; birds' eggs; natural ho	2.1
Total	93.7	Total	64.6	Total	89.0	Total	55.2	Total	71.5

Source: WITS (2021)

Table 4.2: Top ten import products by EAC countries (average between 2018 and 2020)

Burundi		Kenya		Rwanda		Tanzania		Uganda	
Product	%	Product	%	Product	%	Product	%	Product	%
Mineral fuels, oils	19.1	Mineral fuels, oils &	17.8	Mineral fuels, oils	18.3	Mineral fuels, oils &	20.8	Mineral fuels, oils	15.3

& product of their distillation; etc		product of their distillation; etc		& product of their distillation; etc		product of their distillation; etc		& product of their distillation; etc	
Vehicles o/t railway/tramw roll-stock	8.1	Nuclear reactors, boilers, mchy & m	9.5	Electrical mchy equip parts thereof	9.4	Nuclear reactors, boilers, mchy & m	11.8	Natural/cultured pearls, prec stone	14.5
Pharmaceutical products.	7.3	Electrical mchy equip parts thereof	7.3	Nuclear reactors, boilers, mchy & m	9.2	Vehicles o/t railway/tramw roll-stock	9.7	Nuclear reactors, boilers, mchy & m	7.6
Iron and steel.	6.5	Vehicles o/t railw/tramw roll-stock	7.1	Cereals	5.1	Electrical mchy equip parts thereof	6.0	Vehicles o/t railw/tramw roll-stock	7.1
Cereals	5.7	Iron and steel.	5.4	Natural/cultured pearls, prec stone	4.0	Plastics and articles thereof.	5.7	Electrical mchy equip parts thereof	5.4
Nuclear reactors, boilers, mchy & m	5.2	Cereals	5.0	Animal/veg fats & oils & their clea	3.6	Iron and steel.	5.0	Plastics and articles thereof.	5.2
Electrical mchy equip parts thereof	5.0	Plastics and articles thereof.	4.5	Iron and steel.	3.5	Articles of iron or steel.	3.6	Iron and steel.	4.9
Salt; sulphur; earth & stone; plaster	4.5	Animal/veg fats & oils & their clea	4.0	Articles of iron or steel.	3.1	Pharmaceutical products.	3.3	Pharmaceutical products.	4.2
Fertilisers	3.8	Pharmaceutical products.	3.6	Pharmaceutical products.	3.1	Miscellaneous chemical products.	2.9	Animal/veg fats & oils & their clea	3.6
Other made up textile articles; set	3.4	Paper & paperboard; art of paper pu	2.7	Plastics and articles thereof.	2.8	Animal/veg fats & oils & their clea	2.8	Cereals	3.3
Total	68.7	Total	66.9	Total	62.1	Total	71.5	Total	71.1

Source: WITS (2021)

Table 4.3 outlines the export shares of top twenty goods trade partners of EAC countries between 2018 and 2020. The United Arab Emirates was by far the top trading partner of most EAC countries. Over a third of Burundi's and Uganda's exports were to the United Arab Emirates (UAE) while the country imported 25.4% of Rwanda's exports throughout the study period. Whereas it appeared among the top twenty, the UAE played a lesser role in Kenya and Tanzania where it accounted for 5.3% and 1.3% of exports from these countries respectively.

Table 4.3 also shows that intra-EAC export trade is strong - Kenya, Uganda, Tanzania and Rwanda appeared among the top twenty export trading partners of each EAC country. Consequently, intra-Africa export trade in goods is strong among EAC countries. Especially in Tanzania whose bulk of exports, 58.1%, was to fellow African countries between 2018 and 2020. Uganda exported 39.3% of its products to Africa while African countries imported 24.8%, 24.4% and 19.9% of products from Kenya, Burundi and Rwanda. Outside Africa, China, the United Kingdom (UK) and the United States of America (USA) were the major trading partners of all EAC countries. Particularly in Kenya where the three countries accounted for close to 18% of total exports. Overall, there is little market diversity in exports of most EAC countries: at least 90% of exports from Burundi, Rwanda and Uganda were to the top twenty trading partners (see Table 4.3).

Table 4.4 displays results of the shares of imports of goods by trading partners of EAC countries from 2018 to 2020. China was by far the top import trading partner of EAC countries. About 21.3% of Kenya's goods imports were from China. Tanzania, Rwanda, Uganda and Burundi imported 20.7%, 19.2%, 16.9% and 14.2% worth of goods, respectively, from China. India, UAE and Saudi Arabia were the other top import trading partners as they featured among the top seven for all EAC countries.

Kenya, Uganda and Tanzania were among the top import partners of EAC countries. Since these were the original members of the EAC, this result implies their dominance and importance in trading with other countries within the EAC region. South Africa and Egypt were also top import trading partners of EAC countries from Africa. Outside Africa, EAC countries majorly imported products from Japan, Russia, Germany, the UK and the USA. Overall, the top twenty trading partners made up a significant portion of goods that were imported by EAC countries: 89.6% for Burundi, 83.3% for Kenya, 84% for Rwanda, 85.8% for Tanzania and 84.6% for Uganda.

Table 4.3: Top twenty goods export partners for EAC countries (average between 2018 and 2020)

Burundi		Kenya		Rwanda		Tanzania		Uganda	
Country	%	Country	%	Country	%	Country	%	Country	%
United Arab Emirates	34.8	Uganda	10.3	United Arab Emirates	25.4	Rwanda	18.7	United Arab Emirates	33.2
Congo, Dem. Rep.	10.4	Pakistan	8.8	Switzerland	9.5	Kenya	9.2	Kenya	14.4
Pakistan	7.0	United States	8.2	Congo, Dem. Rep.	8.4	Congo, Dem. Rep.	8.5	South Sudan	9.8
Switzerland	5.7	Netherlands	7.9	United Kingdom	5.4	Zambia	7.3	Congo, Dem. Rep.	6.5
Belgium	5.3	United Kingdom	7.2	Pakistan	5.4	Uganda	5.3	Italy	3.7
Germany	4.1	United Arab Emirates	5.3	Hong Kong	5.1	United States	4.1	Rwanda	3.0
Singapore	3.5	Tanzania	5.0	Singapore	4.6	China	3.9	Netherlands	2.7
Egypt	3.5	Rwanda	3.5	Uganda	3.9	Indonesia	3.7	Germany	2.6
China	3.2	Egypt	3.2	Lithuania	3.8	Malawi	3.2	Tanzania	2.2
Uganda	3.1	South Sudan	2.5	Belgium	2.7	Belgium	2.7	Belgium	2.0
United Kingdom	2.5	Congo, Dem. Rep.	2.3	United States	2.5	South Africa	2.5	Sudan	2.0
Rwanda	2.1	China	2.2	Thailand	2.2	Australia	2.1	United States	1.4
Oman	1.8	Somalia	2.1	Burundi	2.1	Hong Kong	1.9	Burundi	1.4
Somalia	1.7	Germany	2.0	Kenya	1.9	Vietnam	1.9	India	1.4
Sudan	1.6	France	1.4	China	1.8	Ethiopia	1.8	Hong Kong	1.3
Tanzania	1.6	Saudi Arabia	1.3	South Sudan	1.6	Netherlands	1.7	Spain	1.2
Kenya	1.4	Sudan	1.3	Tanzania	1.2	United Kingdom	1.6	China	1.0
United States	1.2	Russia	1.3	India	1.1	Mozambique	1.6	Indonesia	0.8
Zambia	0.6	Belgium	1.1	Kazakhstan	1.0	India	1.3	Malaysia	0.6
Italy	0.6	India	1.1	Sudan	0.9	United Arab Emirates	1.3	Turkey	0.5
Total	95.6	Total	78.3	Total	90.4	Total	84.4	Total	91.7

Source: WITS (2021)

Table 4.4: Top twenty goods import partners for EAC countries (average between 2018 and 2020)

Burundi		Kenya		Rwanda		Tanzania		Uganda	
Country	%	Country	%	Country	%	Country	%	Country	%
Saudi Arabia	16.1	China	21.3	China	19.2	China	20.7	China	16.9
China	14.2	India	10.6	India	9.4	India	14.3	India	11.9
United Arab Emirates	7.8	United Arab Emirates	7.9	United Arab Emirates	8.7	United Arab Emirates	10.2	Kenya	8.6
India	7.5	Saudi Arabia	7.2	Kenya	7.5	Saudi Arabia	6.7	United Arab Emirates	8.5
Tanzania	5.9	Japan	5.5	Tanzania	6.7	South Africa	5.1	Tanzania	6.7
Kenya	5.1	South Africa	3.5	Uganda	4.7	Japan	4.7	Saudi Arabia	5.9
Uganda	4.6	United States	3.3	Saudi Arabia	4.1	Kenya	2.9	Japan	4.4
Zambia	4.1	Indonesia	3.1	Switzerland	3.2	United States	2.8	South Africa	3.6
Japan	4.0	Germany	2.5	South Africa	3.0	Germany	2.6	Indonesia	2.7
Belgium	3.7	Egypt	2.4	Germany	2.6	Turkey	2.0	Netherlands	1.9
France	2.3	Uganda	2.1	Turkey	1.9	United Kingdom	2.0	United States	1.8
Russia	2.3	Russia	2.0	Belgium	1.8	Malaysia	1.7	Germany	1.8
Germany	2.1	United Kingdom	1.8	Indonesia	1.7	Indonesia	1.6	The Gambia	1.4
Denmark	2.0	Netherlands	1.8	United States	1.7	Switzerland	1.5	Egypt	1.4
South Africa	1.8	Malaysia	1.8	Russia	1.6	Thailand	1.4	Zimbabwe	1.4
United Kingdom	1.4	Tanzania	1.4	Sweden	1.6	Korea, Rep.	1.3	Malaysia	1.3
United States	1.4	France	1.4	Pakistan	1.3	France	1.2	Russia	1.3
Egypt	1.2	Italy	1.3	Cameroon	1.1	Italy	1.1	United Kingdom	1.1
Netherlands	1.1	Pakistan	1.3	Egypt	1.1	Netherlands	1.0	Namibia	1.0
Hong Kong, China	1.0	Turkey	1.1	Thailand	1.1	Norway	1.0	Zambia	1.0
Total	89.6	Total	83.3	Total	84	Total	85.8	Total	84.6

Source: WITS (2021)

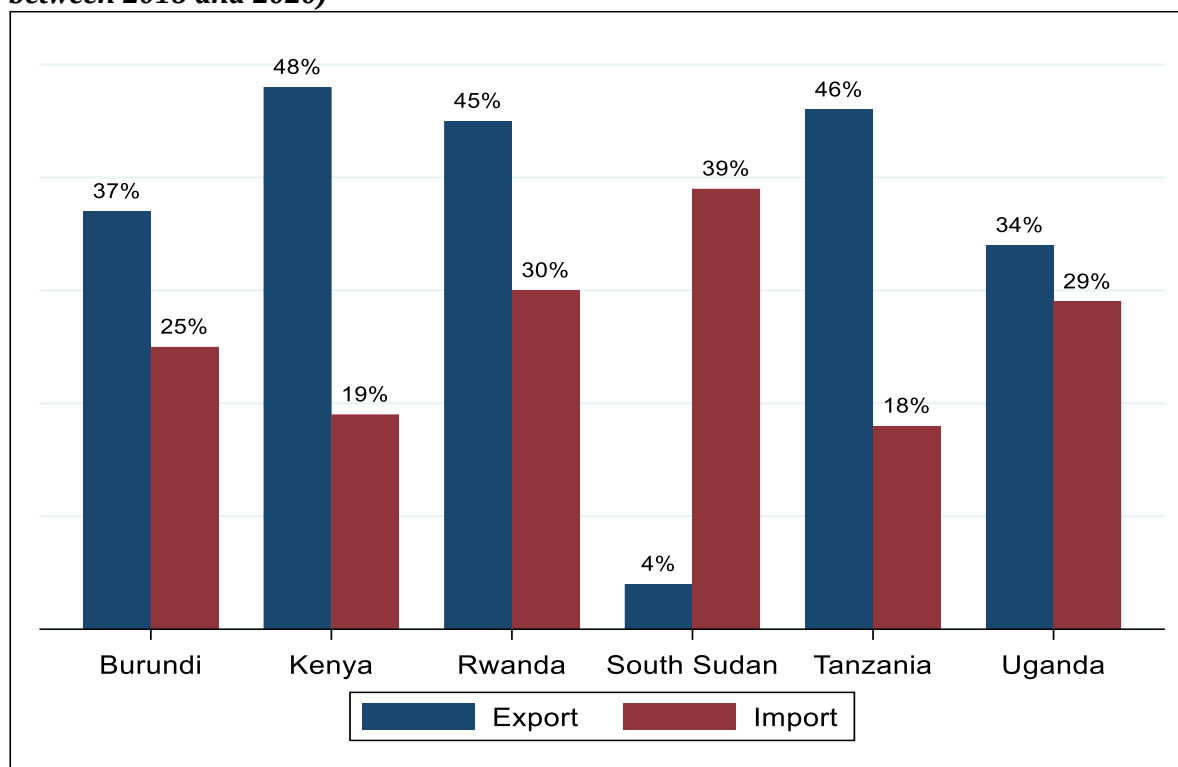
4.3 Services

Services are defined in two ways in international trade: by mode of supply and digit-level classification. According to the General Agreement on Trade in Services (GATS), services are supplied in four modes (WTO, 2021a). Mode 1 is cross-border service supply where neither the supplier nor the consumer physically interact to consume a service e.g financial services. Mode 2, consumption abroad, is where the service consumer has to move to where the supplier is located. e.g tourism. Mode 3, commercial presence, is where legal agents (persons or firms) move to the consumer's country of residence and set up a franchise to supply services such as banks. Mode 4 involves the movement of natural persons to the consumer's resident to temporarily provide the services such as medical officers. Mode 5, which entails services that are embodied in export/import products such as software, is under consideration (Cernat and Kutlina-Dimitrova, 2014; Antimiani and Cernat, 2018). The International Monetary Fund (IMF) through the Extended Balance of Payments Services Classification of 2002 and 2010 categorizes services into one, two, and three-digit level classifications. One-digit level classification has twelve major service export sectors which are further disaggregated into twenty-seven sectors at the two-digit level and sixty-six sectors at the three-digit level.

Trade in services is fast shaping the frontier of knowledge in international trade not only as a direct contributor to the value chain (financial, and information and communication services, etc.) but also indirectly through servicification or embeddedness in high value-added manufacturing (Cernat and Kutlina-Dimitrova, 2014; Visagie and Turok, 2021). Previously perceived as non-tradable, most services are now tradable and significantly contribute to the trade basket of countries worldwide. For instance, the proportion of services in total world exports has risen from below 10% in the early 1970s to about 25% in 2014 (Loungani et al., 2017).

In EAC, Figure 4.8 shows that Kenya has the highest share of services in total exports. Between 2018 and 2020, services exports contributed to 48% of total goods and services exports in Kenya. The share was 46% in Tanzania, 45% in Rwanda, 37% in Burundi, 34% in Uganda and 4% in South Sudan. In terms of imports, the ratio of services in total goods and services imports was highest in South Sudan (39%), followed by Rwanda (30%), Uganda (29%), Burundi (25%), Kenya (19%) and Tanzania (18%).

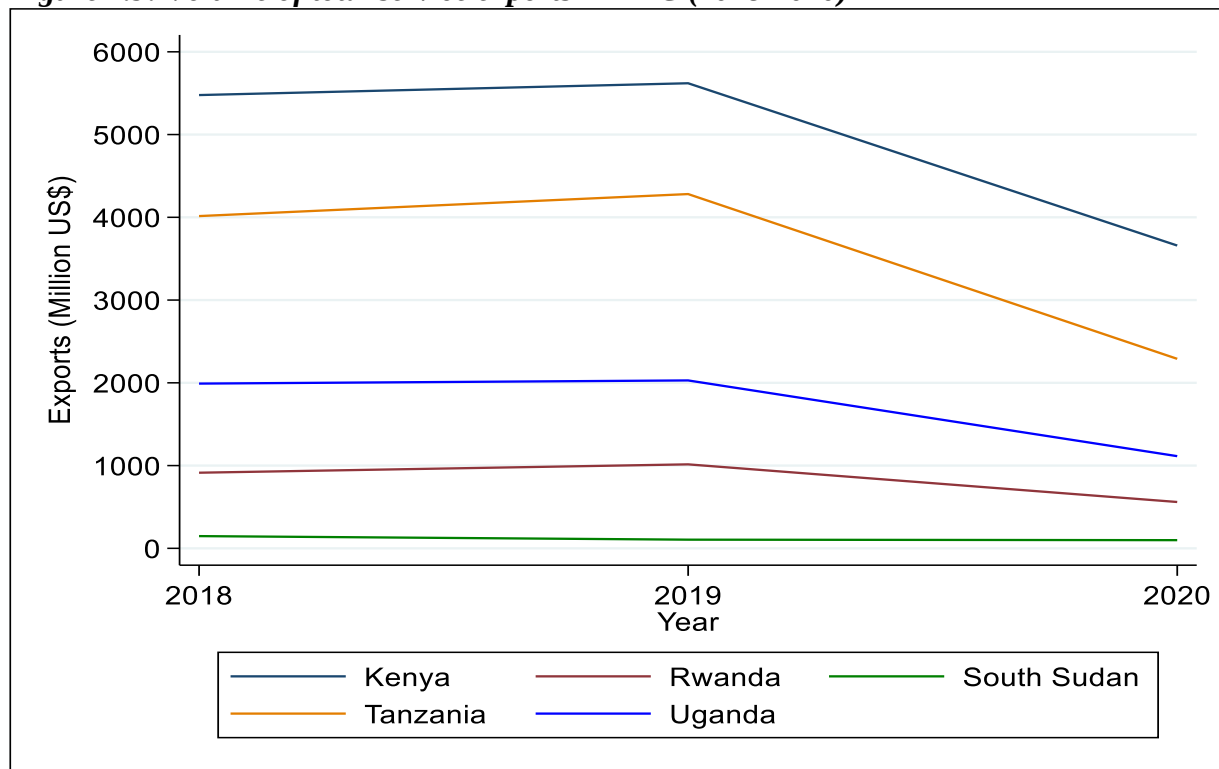
Figure 4.8: Share of services in total exports and imports among EAC countries (average between 2018 and 2020)



Source: World Bank (2021)

Figure 4.9 displays the value of total service exports from EAC countries to the world between 2018 and 2020. Kenya was the top exporter of services in EAC. It was followed by Tanzania, Uganda, Rwanda and South Sudan. Kenya exported services worth US\$ 5,477 million in 2018 which rose to US\$ 5,620 million in 2019 and later dropped by US\$ 1,961 million in 2020. Thus, indicating COVID-19 reduced exports of services in Kenya. Exports of services were also disrupted by COVID-19 in Tanzania. According to Figure 4.9, Tanzania exported services worth US\$ 4,015 million in 2018 and US\$ 4,281 million in 2019 but declined to US\$ 2,290 million in 2020. Uganda's service exports in 2018 and 2019 were US\$ 1,991 million and US\$ 2,029 million respectively but reduced by US\$ 915 million in 2020. Rwanda's service exports reduced by US\$ 455 million in 2020 after initially increasing by US\$ 101 million between 2018 and 2019. The average service exports from South Sudan between 2018 and 2020 was US\$ 117 million but they consistently slumped from US\$ 148 million in 2018 to US\$ 99 million in 2020.

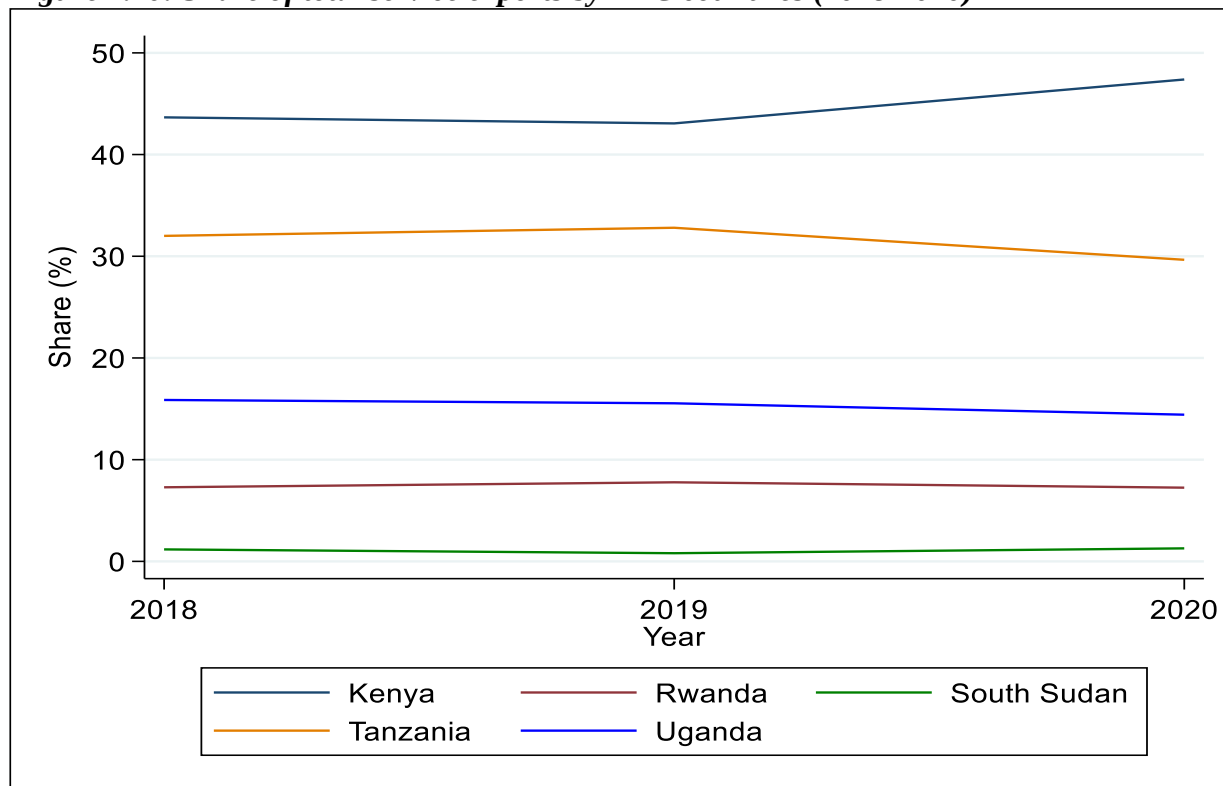
Figure 4.9: Volume of total service exports in EAC (2018-2020)



Source: WTO (2021)

Kenya accounted for 43% and 44% of service exports from EAC countries in 2018 and 2019 respectively as shown in Figure 4.10. The share increased to 47% in 2020 despite the COVID-19 pandemic. Tanzania, the second highest exporter of services in EAC, accounted for a third of EAC service exports in 2018 and 2019. Nonetheless, this share declined to 30% in 2020 due to COVID-19. The share of Uganda's service exports in total EAC service exports reduced from 16% in 2018 and 2019 to 14% in 2020. The share of service exports in EAC from Rwanda declined by 1% in 2020 (from 8% to 7% of overall EAC service exports). The contribution of South Sudan service exports in total EAC service exports increased slightly between 2018 and 2020 (from 0.8% to 1.3%).

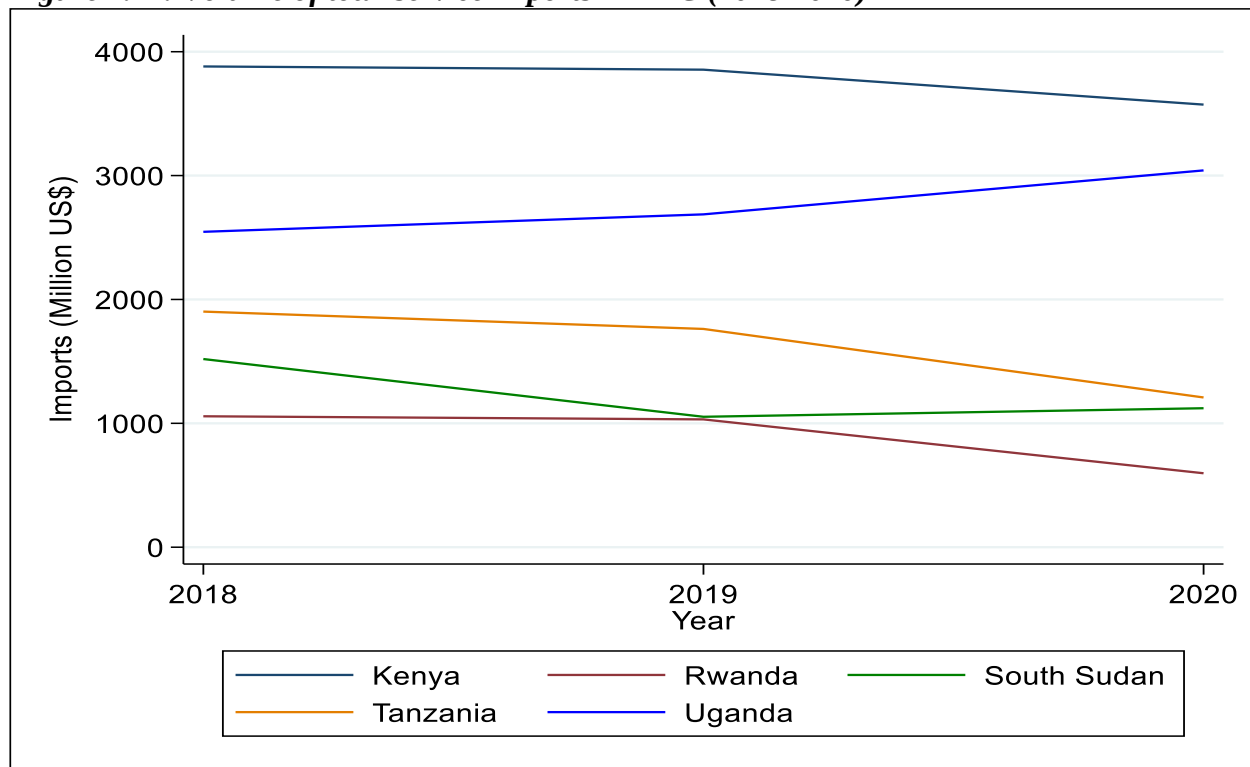
Figure 4.10: Share of total service exports by EAC countries (2018-2020)



Source: WTO (2021)

Figure 4.11 displays the volume of total service imports by EAC countries from the world between 2018 and 2020. Kenya was the top importer of services in EAC, absorbing services worth US\$ 3,881 million in 2018, US\$ 3,855 million in 2019 and US\$ 3,573 million in 2020. This indicates that the occurrence of COVID-19 in 2020 led to a decline in service imports, by US\$ 282 million, in Kenya. Uganda was the second highest importer of services in EAC. Contrary to Kenya, imports of services by Uganda consistently rose from US\$ 2,546 million in 2018 to US\$ 2,687 million in 2019 and US\$ 3,042 million in 2020. Tanzania was third in rank of importing services in EAC. The value of service imports in Tanzania persistently diminished from 2018 to 2020: US\$ 1,902 million in 2018, US\$ 1,762 million in 2019 and US\$ 1,209 million in 2020. Therefore, imports of services in Tanzania were on a decline even before COVID-19. South Sudan was the fourth importer of services in EAC. The trend of service imports in South Sudan fluctuated between 2018 and 2020. It first declined by US\$ 466 million between 2018 and 2019 and later increased by US\$ 69 million in 2020. Rwanda was the least importer of services in EAC, ranging from US\$ 1,057 million in 2018 to US\$ 1,032 million in 2019 and US\$ 597 million in 2020.

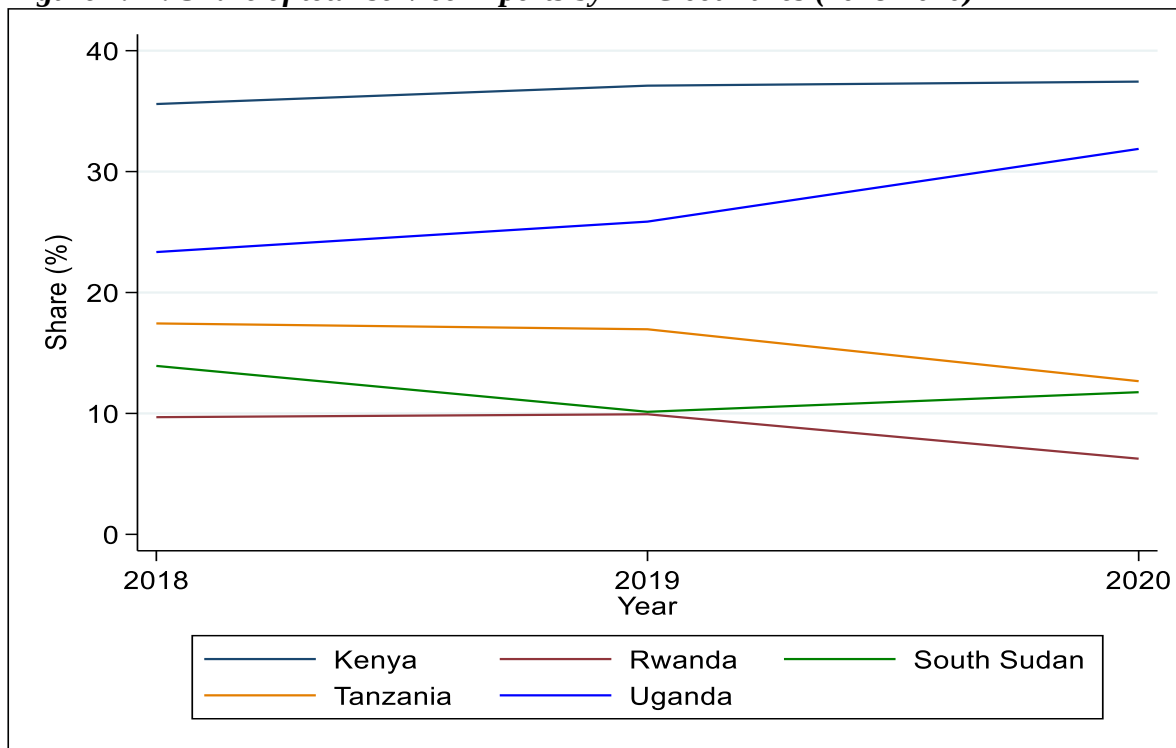
Figure 4.11: Volume of total service imports in EAC (2018-2020)



Source: WTO (2021)

Slightly over a third of service imports in EAC in 2018 were by Kenya as shown in Figure 4.12. The share was 36% in 2019 and 37% in 2020. Kenya was followed by Uganda which accounted for 23% of service imports in EAC in 2018. The ratio later increased to 26% in 2019 and 32% in 2020. Hence, reinforcing the result in Figure 4.11 that Uganda's imports of services increased during the COVID-19 period. The share of services imports in EAC from Tanzania reduced from 17% in 2018 and 2019 to 13% in 2020. South Sudan's share of services imports in EAC oscillated between 14% in 2018, 10% in 2019 and 12% in 2020. Rwanda's share of services imports in EAC ranged from around 10% in 2018 and 2019 to 6% in 2020.

Figure 4.12: Share of total service imports by EAC countries (2018-2020)

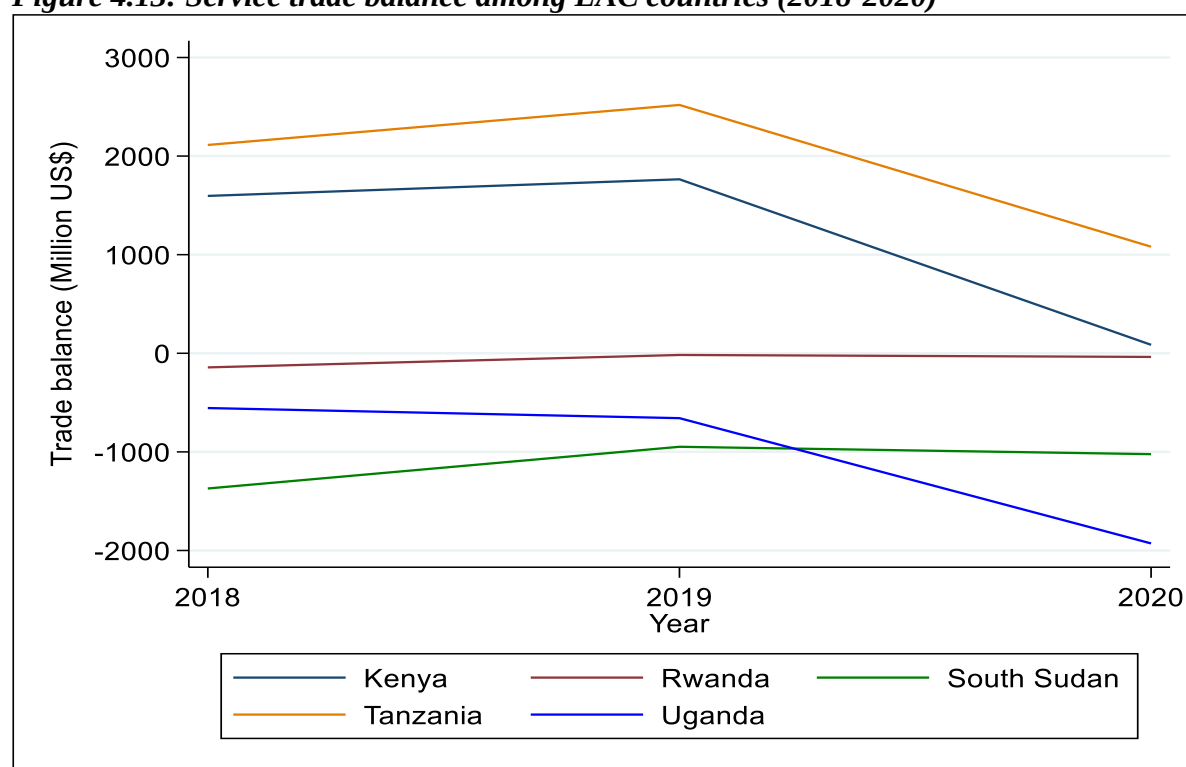


Source: WTO (2021)

Figure 4.13 indicates that only Kenya and Tanzania had a trade surplus in services trade between 2018 and 2020. Tanzania had the greatest magnitude of the two countries. Rwanda's deficit in service trade declined over time, indicating an improvement in service exports. Uganda's trade deficit was lower than that of South Sudan before 2020. However, it worsened in 2020, surpassing that of South Sudan. This implies that service imports significantly increased in Uganda compared to exports during the COVID-19 period.

Table 4.5 outlines the share of service categories in total services that were exported by EAC countries to the world between 2018 and 2020. The first part of the table shows that travel services were the most exported service from EAC in 2018 and 2019. They accounted for an average of 45.3% of total service exports by EAC countries for the two years. Travel services entail personal travels such as tourism and business travels. Transport services, which comprise air, sea and courier transport services, accounted for around a third of total EAC service exports in 2018 and 2019. Our results corroborate findings of other studies which show that travel and transport services are the major export services in Africa and the world (Loungani et al., 2017; Were and Odongo, 2019).

Figure 4.13: Service trade balance among EAC countries (2018-2020)



Source: WTO (2021)

The third highest service that was exported from EAC in 2018 and 2019 is telecommunications, computer, and information services whose share in total EAC service exports was around 6%. This was followed by financial services and Other business services (OBS). OBS entails professional and management consulting services; research and development services; and technical, trade-related, and other business services (Loungani et al., 2017). Insurance and pension services accounted for an average of 2.3% of total EAC service exports between 2018 and 2019. The share from construction services was 1.5% while charges for the use of intellectual property n.i.e, and personal, cultural, and recreational services accounted for less than 1% of total service exports in EAC, between 2018 and 2019, respectively.

The occurrence of COVID-19 in 2020 largely affected travel services in EAC. The share of travel services reduced by 8.6% between 2019 and 2020. That of transport services increased by about 15%. Therefore, transport services surpassed travel service exports during the COVID-19 period. The same scenario transpired at the global level where the fall in travel services was more than three times that of transport services in 2020 due to COVID-19, 63% against 19% (WTO, 2021b). Other services which declined in EAC in 2020 were: financial; insurance and pension services; telecommunications; computer, and information services; and charges for the use of intellectual property n.i.e. Financial services contracted by over two times while insurance and pension services declined by 4.5 times. This indicates that EAC's financial services were disrupted by COVID-19 as it has been established by other studies such as Afreximbank (2021). Services whose exports increased in 2020 in EAC were: construction; OBS; and personal, cultural, and recreational services.

At the country level, Table 4.5 shows that only Kenya predominantly exports transport services in EAC. Rwanda, Tanzania, and Uganda mainly export travel services whose share was between 60.4% and 67.8% in 2018 and 2019. South Sudan majorly exports OBS. Travel services are the

second most exported service by Kenya while transport services are number two in terms of export shares in Rwanda and Tanzania. OBS is the second most exported service in Uganda. It is closely followed by transport services. Charges for the use of intellectual property n.i.e are the second highest service exports from South Sudan. Kenya had the highest share of insurance and pension, and financial services in the EAC region in 2018 and 2019. This affirms the finding by Were and Odongo (2019) that Kenya has a comparative advantage in these services.

Table 4.5 further indicates that about three-quarters of service exports from Kenya were transport while the rest were travel in 2020. The share of travel services in Rwanda and Uganda shrunk by 20% and 23% respectively in 2020¹⁰. This implies that COVID-19 restrictions such as bans on international travels and closure of borders negatively impacted the tourism sector of these countries. In contrast, transport service exports from these countries increased in 2020 – by 14% and 8% in Rwanda and Uganda respectively. This could have been caused by measures such as the conversion of passenger planes into cargo planes which kept transport services active (Majune, 2020). Of the remaining services, only construction service exports condensed in Rwanda. Exports of all the remaining services improved in Uganda.

¹⁰Kenya and Tanzania are not included in this discussion because only transport and travel services were considered in 2020 and thus their shares could be misleading. For instance, the share of transport services in Kenya in 2020 was 73.5%, indicating a 26% increase from 2019. However, this could not be true since only two services are considered in 2020 and the real value of Kenya's transport export could have been lower than the 2019 value.

Table 4.5: Shares of export services in EAC (average between 2018 and 2020)

	Overall EAC			Kenya			Rwanda		
Service	2018	2019	2020	2018	2019	2020	2018	2019	2020
Transport	32.4%	34.3%	49.2%	42.5%	47.5%	73.5%	28.4%	28.6%	42.0%
Travel	45.1%	45.5%	36.9%	23.3%	21.8%	26.5%	60.4%	61.4%	41.7%
Construction	1.4%	1.6%	2.5%	-	-	-	5.5%	5.2%	4.4%
Insurance and pension	2.7%	1.8%	0.4%	5.4%	3.6%	-	0.2%	0.1%	0.7%
Financial	5.8%	4.7%	2.0%	12.8%	10.3%	-	2.0%	1.9%	3.7%
Charges for the use of intellectual property n.i.e	1.0%	0.8%	0.4%	1.5%	1.4%	-	-	-	0.3%
Telecommunications, computer, and information	6.0%	6.1%	2.1%	12.4%	13.6%	-	2.8%	2.7%	6.8%
Other business	5.4%	5.0%	6.4%	1.9%	1.7%	-	0.8%	0.1%	0.3%
Personal, cultural, and recreational	0.3%	0.1%	0.2%	0.2%	0.2%	-	-	-	-
	South Sudan			Tanzania			Uganda		
Service	2018	2019	2020	2018	2019	2020	2018	2019	2020
Transport	7.9%	-	-	30.7%	31.7%	63.4%	11.9%	10.7%	19.0%
Travel	0.7%	-	-	61.2%	60.9%	36.6%	65.8%	67.8%	45.0%
Construction	15.7%	3.8%	-	1.0%	0.9%	-	4.3%	6.2%	8.5%
Insurance and pension	-	-	-	0.3%	0.5%	-	0.4%	0.5%	1.4%
Financial	1.4%	2.9%	-	-	-	-	1.3%	1.6%	4.1%
Charges for the use of intellectual property n.i.e	17.1%	8.7%	-	0.6%	0.7%	-	0.6%	0.9%	1.0%
Telecommunications, computer, and information	0.7%	-	-	6.2%	5.2%	-	3.2%	1.3%	3.5%
Other business	42.1%	84.6%	-	0.0%	0.0%	-	12.1%	10.8%	17.1%
Personal, cultural, and recreational	14.3%	-	-	-	-	-	0.3%	0.2%	0.5%

Note: Shares are calculated based on the value of services that were exported in a specific year in a particular country. Hence, in years where the portion of exports of a specific service increased, readers should be careful to note that it is only the share of whatever was exported in that year but the absolute values in US\$ might have dropped when compared to the previous year. This explanation is appropriate for 2020 shares for Kenya and Tanzania.

Source: WTO (2021)

Table 4.6 shows the share of service categories in service imports in EAC from 2018 to 2020. The first section of the table shows that EAC countries mostly import transport services followed by OBS and travel services respectively. The EAC region imported about 46% and 52% of transport services in 2018 and 2019 respectively. The average share of OBS in 2018 and 2019 was 21% while that of travel service was 15% over the two years. Construction services were the fourth highest import followed by insurance and pension, and financial services. All the remaining services - charges for the use of intellectual property n.i.e; telecommunications, computer, and information; and personal, cultural, and recreational – had an average of less than 2% between 2018 and 2019.

The pandemic reduced the share of transport service imports in 2020 by 2.5%. Travel services also slumped, by 8% in 2020. This indicates that the travel restrictions that were imposed by EAC's trading partners during the COVID-19 period reduced the movement of people (for purposes of tourism and business) from the EAC region to them. Other services whose imports declined during the COVID-19 period were: construction (3.2%), insurance and pension (0.5%), financial (2.2%), and charges for the use of intellectual property n.i.e (1.7%). OBS services increased by 17.8% in 2020 possibly because most of these services are transacted online yet online trading increased during the COVID-19 period (WTO, 2021b). Imports of personal, cultural, and recreational service imports in EAC also increased in 2020.

Most EAC countries chiefly import transport services except Tanzania whose import of travel services almost equals that of transport services. The average share of transport service imports in total service imports in Kenya, Rwanda, South Sudan, Tanzania and Uganda between 2018 and 2019 was 40%, 53%, 85%, 36% and 57% respectively. Only Rwanda and Tanzania exported travel services whose share in total service imports was more than 35% in 2018 and 2019. OBS was the third highest import in Kenya, Rwanda, Tanzania and Uganda in 2018 and 2019. Kenya had the largest share of insurance and pension, and financial services imports in the EAC region. In 2020, imports of transport services increased in Rwanda. However, it declined by 10% in Uganda. Imports of travel services in 2020 massively declined in Rwanda (18%) and Tanzania (15%). OBS imports improved, particularly in Uganda whose increase was 18% compared to 2019¹¹.

¹¹ Similar to exports, we do not discuss the share of imports by service categories in Kenya and Tanzania to avoid misleading the reader.

Table 4.6: Share of import services in EAC (average between 2018 and 2020)

	Overall EAC			Kenya			Rwanda		
Service	2018	2019	2020	2018	2019	2020	2018	2019	2020
Transport	46.3%	52.2%	49.7%	39.3%	41.1%	92.6%	54.4%	52.0%	62.1%
Travel	15.8%	14.2%	6.2%	6.5%	5.6%	7.4%	38.2%	38.8%	21.0%
Construction	6.0%	5.7%	2.5%	11.4%	11.4%	-	1.1%	1.0%	1.0%
Insurance and pension	3.1%	2.8%	2.3%	4.1%	3.6%	-	1.1%	1.3%	1.7%
Financial	2.8%	2.7%	0.5%	6.1%	6.2%	-	0.6%	0.5%	1.0%
Charges for the use of intellectual property n.i.e	1.6%	1.7%	-	3.7%	3.5%	-	-	-	-
Telecommunications, computer, and information	2.1%	1.2%	1.2%	1.5%	1.6%	-	1.7%	1.8%	3.3%
Other business	22.1%	19.2%	37.1%	27.4%	27.1%	-	3.0%	4.5%	8.3%
Personal, cultural, and recreational	0.1%	0.2%	0.5%	0.0%	0.0%	-	-	0.1%	1.7%
	South Sudan			Tanzania			Uganda		
Service	2018	2019	2020	2018	2019	2020	2018	2019	2020
Transport	72.8%	97.2%	-	32.2%	39.6%	75.8%	56.1%	58.2%	48.3%
Travel	1.2%	-	-	40.1%	39.0%	24.2%	7.4%	7.4%	2.0%
Construction	2.4%	-	-	3.4%	2.2%	-	3.2%	4.1%	2.9%
Insurance and pension	0.7%	0.2%	-	3.0%	3.7%	-	3.0%	2.7%	2.4%
Financial	3.5%	1.5%	-	1.2%	1.0%	-	0.2%	0.3%	0.4%
Charges for the use of intellectual property n.i.e	0.1%	0.1%	-	0.3%	0.4%	-	0.4%	1.2%	-
Telecommunications, computer, and information	11.5%	0.1%	-	1.4%	1.7%	-	1.1%	0.8%	0.9%
Other business	7.6%	0.8%	-	18.3%	12.2%	-	28.3%	24.7%	42.8%
Personal, cultural, and recreational	0.1%	-	-	0.1%	0.2%	-	0.3%	0.5%	0.3%

Note: Shares are calculated based on the value of services that were imported in a specific year in a particular country. Hence, in years where the portion of imports of a specific service increased, readers should be careful to note that it is only the share of whatever was imported in that year but the values in US\$ might have dropped when compared to the previous year. This explanation is appropriate for 2020 shares for Kenya and Tanzania.

Source: WTO (2021)

The USA is by far the highest service export trading partner of EAC countries as per Table 4.7. The USA imported 17.8% of services from Burundi between 2018 and 2019. Kenya, Rwanda, Tanzania and Burundi exported 17.5%, 16%, 9.3% and 12.1% of their services to the USA. Canada was also a top twenty service export trading partner of EAC countries from North America, specifically for Burundi, Kenya and Rwanda. The remaining top trading partners were mainly spread across Europe (Germany, France, United Kingdom etc.) and Asia (China, India, Japan, UAE, Saudi Arabia etc.).

Both intra-EAC and intra-Africa service export trade are weak. Table 4.7 shows that Kenya was the only EAC country that appeared among the top twenty trading partners of EAC countries (Uganda and Tanzania). Other African countries which appeared among the top trading partners of some EAC countries were: Algeria, Angola, Egypt, South Africa and Nigeria. These countries are also among the top ten importers of services in Africa (Ayoki, 2018), suggesting that EAC countries mainly export services to “superstar” service traders in Africa. Overall, over 82% of service exports from Burundi were to their top twenty trading partners. The share for Kenya was 72.4% and 73%, 74.2% and 75.1% for Rwanda, Tanzania and Uganda respectively. Therefore, EAC countries have a weak market diversification as a bulk of their exports is absorbed by a few countries.

Table 4.8 shows that EAC countries mostly imported services from the USA between 2018 and 2019. The country accounted for 15% of Burundi’s service imports. The share of imports from the USA to Kenya, Rwanda, Tanzania and Uganda between 2018 and 2019 were 17.4%, 23.8%, 13.2% and 14.6% respectively. The remaining top import trade partners of EAC countries were majorly from Europe (the UK, Netherlands, France etc.) and Asia (India, China, Japan, Singapore etc.). Besides the USA, Canada was the only trading partner from North America which appeared among the top twenty. Albeit, only for Kenya and Rwanda. At intra-EAC level, only Burundi imported most services from fellow EAC countries – Kenya, Uganda and Tanzania. Kenya was also among the top import partners of Tanzania and Uganda. Egypt and South Africa were the only non-EAC countries, from Africa, to appear among the top import partners of Burundi, Kenya and Uganda. In general, the top twenty import partners accounted for 82.5% of Burundi’s imports, 77.7% of Kenya’s imports, 73.9% of Rwanda’s imports, 75.4% of Tanzania’s imports and 77% of Uganda’s imports. This suggests a low market diversification by EAC countries.

Table 4.7: Top twenty services export partners for EAC countries (average between 2018 and 2019)

Burundi		Kenya		Rwanda		Tanzania		Uganda	
Country	%	Country	%	Country	%	Country	%	Country	%
United States	17.8	United States	17.5	United States	16.0	United States	9.3	United States	12.1
Germany	10.4	United Kingdom	11.9	China	6.3	China	7.8	United Kingdom	10.8
United Arab Emirates	9.1	Germany	4.6	United Kingdom	5.8	India	7.3	Germany	6.1
China	7.0	Netherlands	4.0	Germany	5.1	Germany	5.8	Switzerland	4.6
Switzerland	6.5	China	3.9	Netherlands	3.9	Japan	5.7	China	4.2
France	5.2	Switzerland	3.6	India	3.6	United Kingdom	5.2	United Arab Emirates	4.0
Singapore	3.9	India	3.1	Singapore	3.6	Switzerland	4.7	India	3.7
Japan	3.5	France	3.0	Belgium	3.5	France	4.3	Hong Kong, China	3.3
Saudi Arabia	3.5	Saudi Arabia	2.5	France	3.4	United Arab Emirates	3.9	Singapore	3.1
India	3.0	United Arab Emirates	2.4	Switzerland	3.4	Saudi Arabia	2.8	Netherlands	3.1
Belgium	2.6	Japan	2.3	Hong Kong, China	3.1	Italy	2.6	Saudi Arabia	2.7
Ireland	1.7	Italy	1.8	Australia	2.8	Netherlands	2.4	Denmark	2.3
Canada	1.3	Denmark	1.6	Japan	2.6	Belgium	1.8	Kenya	2.2
Netherlands	1.3	Hong Kong, China	1.6	Korea, Republic of	1.7	Korea, Republic of	1.7	Spain	2.2
Algeria	0.9	Korea, Republic of	1.6	Canada	1.5	Singapore	1.7	Japan	2.2
Angola	0.9	Australia	1.6	Ireland	1.5	Hong Kong, China	1.7	France	2.1
Australia	0.9	Egypt	1.4	Italy	1.5	Denmark	1.5	Italy	1.9
Denmark	0.9	Ireland	1.3	Sweden	1.5	Kenya	1.5	Belgium	1.8
Egypt	0.9	Singapore	1.3	Saudi Arabia	1.2	South Africa	1.3	Nigeria	1.4
Iraq	0.9	Canada	1.2	Spain	1.2	Spain	1.3	Republic of Korea	1.3
Total	82.2	Total	72.4	Total	73.0	Total	74.2	Total	75.1

Source: WITS (2021)

Table 4.8: Top twenty services import partners for EAC countries (average between 2018 and 2019)

Burundi		Kenya		Rwanda		Tanzania		Uganda	
Country	%	Country	%	Country	%	Country	%	Country	%

United States	15.0	United States	17.4	United States	23.8	United States	13.2	United States	14.6
India	7.3	United Kingdom	10.2	United Kingdom	4.8	India	8.3	United Kingdom	10.6
United Kingdom	6.6	India	8.3	India	4.4	China	8.2	India	7.9
Belgium	6.3	China	6.0	Singapore	3.7	United Kingdom	6.2	China	5.3
China	5.9	United Arab Emirates	3.6	Netherlands	3.6	United Arab Emirates	5.5	Hong Kong, China	4.6
United Arab Emirates	5.9	Singapore	3.3	China	3.5	Japan	3.7	United Arab Emirates	4.5
Netherlands	4.5	Ireland	3.3	Belgium	3.4	Singapore	3.6	Japan	3.7
Hong Kong, China	4.1	Japan	3.3	Germany	3.1	Hong Kong, China	3.3	Singapore	3.3
Switzerland	4.1	France	3.1	Hong Kong, China	2.7	Netherlands	3.0	France	3.1
France	3.6	Netherlands	3.1	Sweden	2.5	France	2.9	Kenya	3.1
Japan	3.2	Hong Kong, China	2.7	France	2.5	Germany	2.6	Germany	2.5
Germany	2.5	Germany	2.3	Japan	2.4	Switzerland	2.1	Netherlands	2.3
Kenya	2.3	Egypt	1.7	Switzerland	2.4	Kenya	2.0	Switzerland	2.1
Singapore	2.3	Spain	1.6	Ireland	2.1	Spain	1.8	Egypt	1.9
Tanzania	2.3	Switzerland	1.4	Spain	2.1	Sweden	1.6	Spain	1.6
Egypt	1.8	Luxembourg	1.3	Australia	1.6	Turkey	1.6	Belgium	1.2
Canada	1.4	Republic of Korea	1.3	Republic of Korea	1.5	Australia	1.5	South Africa	1.2
Turkey	1.4	Denmark	1.3	Finland	1.4	Thailand	1.5	Denmark	1.2
Uganda	1.4	Australia	1.2	Canada	1.3	Republic of Korea	1.5	Italy	1.1
Italy	0.9	Canada	1.2	United Arab Emirates	1.2	Denmark	1.3	Turkey	1.1
Total	82.5	Total	77.7	Total	73.9	Total		Total	77.0

Source: WITS (2021)

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5.0 IMPACT OF COVID-19 ON MERCHANDISE TRADE IN KENYA

By

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5.1 Introduction

Earlier predictions of the effects of COVID-19 on global effects showed there would be extensive effects on trade (WTO 2020). Two reasons were attributed to this, first, COVID-19 was observed to be both a demand and supply shock, thus the shock was likely to create potential spillover effects on the supply chains and highly affect trade-dependent countries (Fernandes, 2020). Secondly, the protectionist measures adopted by countries, in response to the virus, were observed to have a direct effect on the flow of trade among countries. Some of these measures included direct bans on trade and shutting of borders to prevent movement of people, goods and services. Certainly, as the virus spread internationally, many countries took actions to limit the spread, through social isolation policies, such as shutting educational institutions, limiting work and restricting the mobility of people. The preventive actions have had an immediate and significant impact on trade (Maliszekwa, Mattoo & Mensbrugghe 2020). Actually, Friedt (2021) shows that, COVID-19 has caused one of the greatest contractions in international trade ever since the great trade collapse.

African trade, especially exports, were predicted to greatly decline due to COVID-19. The argument was that most of the exports from African countries, especially to developed countries like United States, China, Japan, Germany, France, Italy and United Kingdom, would greatly fall due to the strict measures taken by these nations to combat the spread of the virus (Kassa, 2020). These nations form the main destinations of Africa's exports, thus closing their borders was expected to significantly affect Africa's merchandise trade. The effect was mainly expected to affect exports through the network of global value chains. This was so because most industries in developed nations import raw materials from African markets.

A review by Mold & Mveyange (2020) on impact of COVID-19 on Kenya's trade shows that, the impact of COVID-19 was more observed on imports compared to exports. However, this review does not empirically analyse the impact of COVID-19, it just generally shows the changes in trends of the values and volumes of trade. Lashitew & Socrates (2020), focus mainly on the lockdown policies. This study complements this string of research by also analysing the impact of the spread of COVID-19 on merchandise trade in Kenya. To do this, the study sets the stage by giving a review of the composition and geography of Kenya's merchandise trade in the second section of the paper. The third section follows with brief literature review on channels which COVID-19 is likely to affect merchandise trade. The fourth section discusses the methodology and the data used in the analysis. Finally the fifth section discusses the findings of the study and provides policy recommendations.

5.2 Kenya's Trade: Composition and Geography

5.2.1 Composition of Kenya's Merchandise trade

As seen from table 1, Kenya's merchandise imports have been increasing over years. In 2010 the value of total merchandise imports were approximated to be \$12,093 million while in 2019 they were approximately \$17,655 million. This represented an increase of more than 50% in a span of 9 years. Among the top imports are manufactures, machinery and transport equipment, fuels and mining products. The least of merchandise imports are clothing together with integrated circuits and electronic components.

Table 1: Kenya's Merchandise imports (Million US Dollars)

Product/Sector	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total merchandise	12093	14782	16290	16358	18396	16093	14107	16687	17378	17655
Manufactures	7160	8171	9558	9995	11731	11032	9632	10308	10931	10674
Machinery and transport	3528	3637	4674	4532	6036	5341	4292	4703	4558	4642
Fuels and mining products	2752	4225	4243	3996	4201	2662	2252	2937	3595	3487
Fuels	2575	4025	4044	3779	3964	2444	2052	2728	3385	3277
Agricultural products	1588	2103	2195	2037	2117	2008	1941	3375	2730	2804
Food	1407	1902	1961	1820	1895	1788	1714	3154	2441	2484
Chemicals	1545	1919	2053	2245	2353	2346	2190	2301	2513	2345
Transport equipment	1352	1333	1855	1683	2956	2515	1373	1800	1678	1842
Automotive products	762	803	966	1062	1255	1297	941	932	1037	1002
Iron and steel	528	700	657	921	844	887	731	808	964	957
Office and telecom equipment	843	788	890	847	636	646	744	805	682	645
Pharmaceuticals	338	439	481	459	583	616	587	538	590	579
Textiles	277	369	324	346	405	381	341	393	461	486
Telecommunications equipment	600	511	555	571	443	462	468	443	418	398
Electronic data proc& and office	225	257	310	250	176	164	236	303	179	208
Clothing	64	55	64	67	65	45	71	131	165	160
Integrated circuits and electronic	17	20	25	26	18	19	40	59	85	39

Source: WTO Data Portal (www.data.wto.org/)

Merchandise exports have slightly remained constant over years as seen on table 2. In 2010 total exports were around \$5,169 million while in 2019 they were \$5,839. This represented an increase of around 13% over a span of 9 years. Among the main merchandise exports are agricultural products, food and manufactures, while the least exports are electronic data processing equipment together with integrated circuits and electronic components.

Table 2: Kenya's Merchandise exports (Million US Dollars)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Merchandise	5169	5756	6127	5856	6115	5906	5695	5747	6052	5839
Agricultural	2861	3129	3227	3157	3105	3134	3175	3470	3568	3251
Food	2320	2502	2599	2531	2407	2528	2518	2762	2855	2524
Manufactures	1688	2095	2208	2186	2050	1830	1763	1634	1762	1777
Fuels and mining	308	380	404	333	842	842	709	630	708	735
Chemicals	449	592	644	565	542	473	458	460	508	485
Fuels	209	250	254	218	605	603	470	354	387	447
Clothing	189	247	241	279	325	283	298	315	340	338
Machinery & transport	253	272	320	316	246	233	286	186	245	297
Iron and Steel	147	202	177	189	148	124	131	119	128	151
Pharmaceutical	73	84	139	118	129	120	139	124	131	116
Transport equipment	78	83	84	96	75	69	69	59	89	97
Automotive products	49	50	46	53	43	45	50	41	67	64
Textiles	60	60	70	61	62	66	50	42	41	45
Office and telecom	69	69	96	67	26	31	84	24	21	23
Telecommunications	31	28	31	39	13	19	72	12	9	10
Electronic data equip	37	39	63	24	10	7	7	6	7	8
Integrated circuits	1	2	3	3	3	4	5	6	5	5

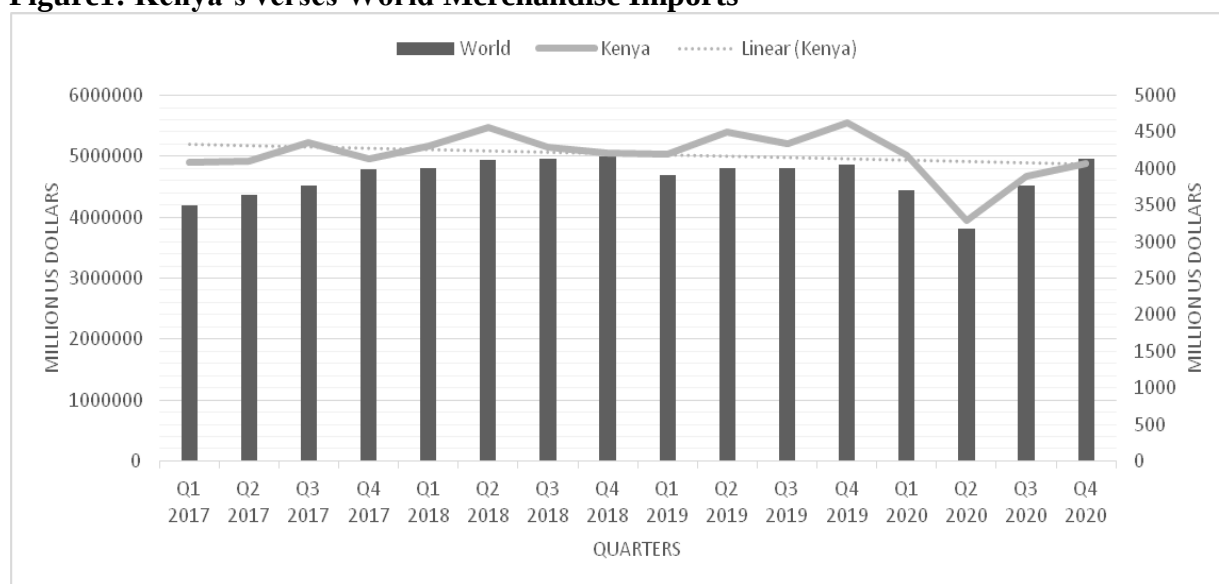
Source: WTO Data Portal (www.data.wto.org/)

A comparison of table 1 and table 2 shows that the values of exports are lower than imports in all product categories. This shows that Kenya has been incurring a trade deficit in merchandise trade. Trade deficit in 2010 was \$6,924 million while in 2019 it was \$11,816 million. This represented an increase in trade deficit of more than 50% in a span of 9 years.

5.3 Kenya's Merchandise trade before and during COVID-19 period

Kenya's merchandise imports have fairly been increasing at a similar rate with world imports as seen on figure 1. A notable decline of both Kenya and world imports is observed to begin in quarter 4 of 2019 when COVID-19 began.

Figure1: Kenya's versus World Merchandise Imports



Source: WTO Data Portal (www.data.wto.org/)

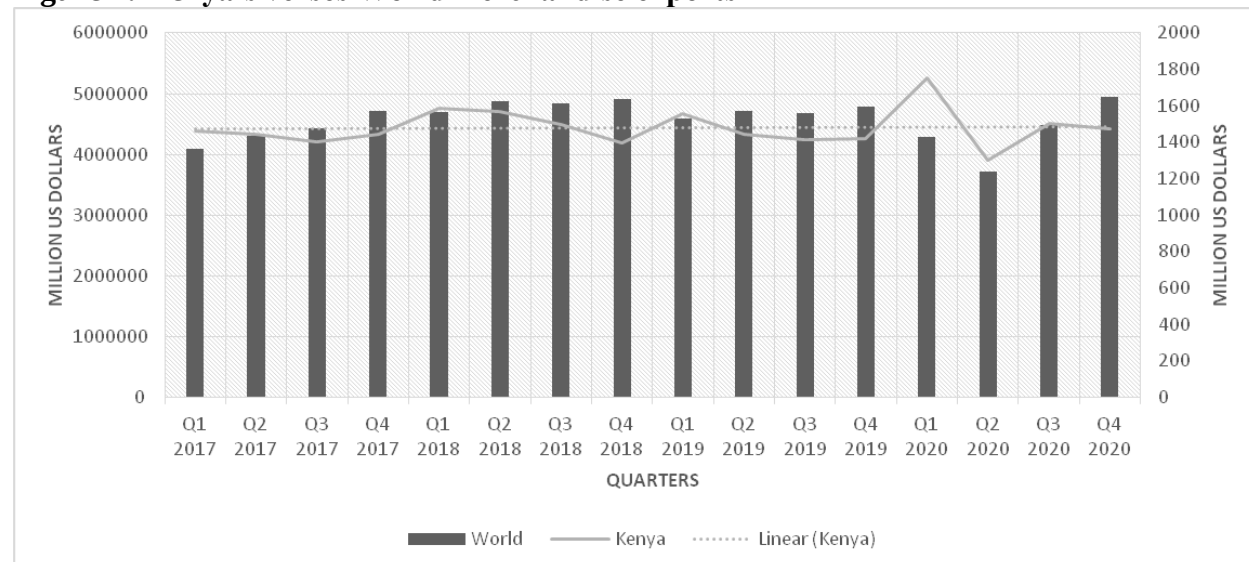
The highest slump in imports was observed in the second quarter of 2020. During this period, Kenya had imposed strict measures to curb the spread of the virus. Among the measures were the close of borders and restriction of movements of people within and outside the country. During the same period, most economies in the world had also taken up similar precautionary measures. These measures are observed to have sharply affected the volume of imports in most economies of the World. The trend however began to change towards the third and fourth quarters of 2020. This shows that the shock of COVID-19 on imports was mainly felt in the first wave of attack, however with time economies began to adjust allowing imports to return to their initial levels.

Yearly data shown on appendix 1 indicates that in 2019 the decline of imports of most products was averagely below 10%, however in 2020 the declines were very high. For example among the top imports; ores,slag and ash declined by 2% in 2019 and by 34.4% in 2020, articles of base metal declined by 1.5% in 2019 but by 12.7% in 2020, machinery increased by 5.1% in 2019 but decreased by 5.4% in 2020 and railway products decreased by 1.9% in 2019 and by 7.4% in 2020.

On exports, though the world saw a decline in exports between the fourth quarter of 2019 and first quarter of 2020, Kenya's exports recorded the highest increase as seen on figure 2. However, this was short lived as the country recorded a sharp and largest decline in the second quarter of 2020. This sharp decline was mainly attributed to the closing of Kenyan borders. The trend

changed in third and fourth quarter of 2020, where volumes of exports began to record an increase, both worldwide and in Kenya.

Figure 2: Kenya's verses World merchandise exports



Source: WTO Data Portal (www.data.wto.org/)

Yearly statistics shown on appendix 2 indicate that most of the exports did not decline during the period of COVID-19. Agricultural products recorded an increase in volumes between 2019 and 2020. For example, coffee and tea declined by 17% in 2019 but increased by 10% in 2020, edible vegetables declined by 10% in 2019 but increased by 31% in 2020 and edible fruits declined by 12% in 2019 but increased by 6% in 2020.

5.4 Geography of Kenya's Merchandise Trade

This section of the study reviews the sources of Kenya's merchandise imports and destination of Kenya's merchandise exports. The purpose is to understand whether there were changes in patterns of merchandise trade associated with COVID-19. Table 3 shows the major sources of Kenya's merchandise imports:

Table 3: Source of Kenya's Imports

Country	2018 (Million \$)	% change (2017-18)	2019 (Million \$)	% change (2018-19)	2020 (Million \$)	% change (2019-20)
China (Mainland)	3660.882	-3%	3590.359	-2%	3394.227	-5%
India	1827.858	10%	1706.123	-7%	1771.363	4%
UAE	1457.439	8%	1632.734	12%	866.7901	-47%
Japan	987.4881	20%	947.0436	-4%	822.7512	-13%
Saudi Arabia	1704.865	35%	1246.931	-27%	648.1223	-48%
Indonesia	454.9512	-21%	482.5836	6%	588.8569	22%
United States	527.5601	-6%	591.2528	12%	531.2036	-10%
South Africa	639.8418	6%	688.0832	8%	429.9924	-38%
Malaysia	212.0593	18%	250.0463	18%	427.9643	71%
Egypt	358.6191	5%	416.7485	16%	421.2973	1%
Netherlands	190.6435	1%	309.1224	62%	393.2764	27%
Germany	460.8351	10%	435.3637	-6%	377.6271	-13%
Russian	304.1252	-15%	313.3488	3%	356.8902	14%
United Kingdom	311.1885	7%	317.4101	2%	273.116	-14%

Tanzania	245.3173	32%	269.7796	10%	258.1866	-4%
Uganda	487.8228	17%	336.1362	-31%	225.1421	-33%
Italy	253.9271	15%	199.4741	-21%	221.5464	11%
France	236.7206	-10%	233.3354	-1%	218.951	-6%
Pakistan	211.5568	-17%	243.3644	15%	201.4689	-17%
Korea	187.7034	9%	140.8948	-25%	191.9541	36%

Source: WTO Data Portal (www.data.wto.org/)

The main source of Kenya's imports as at 2020 was China mainland. Although leading in terms of volume, imports from China have been showing a decline over the years. The sharp decline of 5% between 2020 and 2019 is likely attributable to surge of COVID-19 cases between the Partner States. The two periods are also the ones which the two states adopted stringent measures to contain the spread of the virus. Large declines of imports from other sources are observed to sharply decline for the periods 2019-2020, for example imports from UAE, Saudi Arabia, South Africa and Uganda declined by more than 30%. However, within the same period imports from other countries like, Indonesia, Malaysia, Russia and Korea observed a significant increase compared to the periods 2018-2019 and 2017-2018. The large declines and increments of imports between Kenya and its major partners for the last three years reflect significant impact of COVID-19 on the pattern of trade. The changes in pattern of imports between Kenya and the Partner States also indicate that there was significant change in the products being traded between Partner States.

On exports, as seen on Table 4, sharp declines and increments are not observed between Kenyan its Partner States. As at 2020, the top three destinations of Kenya's exports; Uganda, Pakistan and United Kingdom had recorded an increment of exports compared to the periods 2018-2019 and 2017-2018.

Table 4: Destination of Kenya's exports

Country	2018 (Million \$)	% change (2017- 18)	2019 (Million \$)	% change (2018- 19)	2020 (Million \$)	% change (2019- 20)
Uganda	610.67	2	624.15	2	673.66	8
Pakistan	585.86	-5	443.47	-24	513.57	16
United Kingdom	396.73	6	391.77	-1	469.07	20
United States	467.76	2	508.55	9	463.97	-9
Netherlands	457.73	8	470.15	3	457.95	-3
UAE	345.66	36	379.29	10	323.56	-15
Tanzania	293.61	6	329.56	12	294.94	-11
Rwanda	176.12	6	227.27	29	236.89	4
South Sudan	127.91	-21	122.93	-4	216.52	76
Egypt	198.63	8	185.61	-7	178.37	-4
China, P.R.: Mainland	109.88	14	148.56	35	139.01	-6
Germany	110.24	-3	110.82	1	136.56	23
Congo	149.94	-18	132.05	-12	134.35	2
Somalia	148.84	-22	116.03	-22	106.92	-8
France	80.322	3	78.731	-2	87.007	11
Saudi Arabia	98.936	30	87.272	-12	76.58	-12
Russian	84.62	9	62.224	-26	75.25	21
Ethiopia	62.634	-7	63.808	2	74.006	16
India	89.824	55	52.993	-41	72.222	36
Belgium	62.479	7	72.096	15	64.419	-11

For the subsequent major Kenyan destination markets; United States, Netherlands, UAE, Tanzania and Rwanda, large declines of export volumes are observed between 2019 and 2020, compared to 2018-2019 and 2017-2018. Most of these countries had imposed measures to close

down their borders during the period 2019-2020. This is observed to have affected Kenya's exports. A comparison of imports and exports by Partner States shows that imports seem to have been more affected by COVID-19 compared to exports. The above analyses are however mainly descriptive statistics. To completely make inference about the impact of COVID-19 on Kenya's merchandise imports and exports a comprehensive statistical analysis is warranted. Before the analysis, a brief theoretical and empirical literature review on impact of COVID-19 is highlighted in the subsequent section.

5.5 LITERATURE REVIEW

5.5.1 Theoretical Review

A review of literature shows that the impact COVID-19 on merchandise trade manifests itself in three channels. The first is the substitution and contagion effect, second is the demand effect and third is the production effect.

Substitution and contagion effect

On substitution effect; trade in one country A might be affected by the burden of COVID-19 on its neighboring country B. The effect may be positive or negative. On the positive; a decline of exports from B due to the pandemic may create an opportunity for A to export to other "New" Partner States who may stop importing from B. The decrease in imports from country B may lower international prices due to the decreased demand levels (Hayakawa & Mukunoki, 2020). The low prices could in turn increase imports in other countries. On the negative side, the reduction of production in country B as a result of COVID-19 could reduce production of country A through supply chain linkages. This negative effect is called the Contagion effect (Hayakawa & Mukunoki, 2020).

Demand effect

The demand effect of COVID-19 is observed on the import sector. Particularly, COVID-19 may cause a decrease or an increase in aggregate demand of imports. The decrease arises from two parts; first is the reduction of income and earnings and second is the fear of contracting the disease. Measures taken by governments in response to COVID-19 like curfews, lockdowns, cease of movements and emphasis of working from homes may reduce earnings of businesses and cause some workers to be retained. The aggregate effect would be a reduction in earnings which in turn leads to decrease in aggregate demand. Although, the government can provide sufficient benefits to cover the losses of earnings, the short terms effects would be high levels of decrease in demand for imports. For the second channel, people might fear contracting the disease through their visits to shops to purchase items, or to eateries and social places. In such places, people might fear getting in contact with people who are infected. The aggregate effect would be a decline in demand for commodities.

While aggregate demand for many commodities might decrease, for some products an increase in demand is observed. The increase arises due to two reasons, first is the uncertainty effect and second is the creation of "new" goods. Uncertainty arises due to un-predictability of the effect of the virus on the economy and the un-predictability of possible government measures. Uncertainty results to 'panic-purchases' especially for non-durable goods (Hayakawa & Mukunoki, 2020). For durable goods, the behavior might not be observed since consumers view these goods as postpone-able (Baldwin & Tomiura 2020). Creation of "new" goods is from the perspective of consumers. Before COVID-19, a large number of consumers did not perceive

facemasks or hand sanitizers to be products that can be purchased/essential. However since the invasion of COVID-19, these products are forming part of the consumer baskets of many consumers in the world. This results to increased aggregate demand for countries which are incapable of producing these commodities.

Production effect

Production effects of COVID-19 mainly affect the export sector. The burden of the disease reduces the scale of production hence reducing the export supply. Broadly the virus led to lockdown measures and cessation of movements of people. This results to closure of many industries and thus reduction of scale of production. Death of a number of workforce or restricting some workers from coming to work, for example older people who are more vulnerable to infection and death, may result to reduction of production for some sectors. Although cessation of movements, lockdowns and deaths may affect production, the effect may not be very large for sectors or some countries which decide to shift their work or operations to remote platforms. However, this can only be observed for sectors or countries in which a shift to remote is feasible. For countries or sectors which are labor-intensive, the effect may not be very significant (Hayakawa & Mukunoki, 2020).

A reduction in production of exportable commodities causes a decrease in export supply. However, this only takes place when domestic demand for exportable products remains unchanged or increases. In such a case, shortages are created in domestic markets. Nonetheless, if domestic demand for the exportable commodity decreases, sufficiently more than production levels, then the surplus realized will see an increase in levels of exports. Thus, the impact of COVID-19 on imports and exports can depend on various factors amongst them; the demand function of an importing country, government response to the pandemic and production capacities of sectors and countries. Empirical review in the subsequent section reveals the various case scenarios of the impact of COVID-19 on trade.

5.5.2 Empirical Literature Review

Ever since the onset of COVID-19 a number of empirical studies have been conducted to either predict the impact of the virus or to measure the actualized impact. For predictive studies, most were of the view that COVID-19 would have very serious consequences on merchandise trade of countries. However, those which measure the actualized impact, observe a mixed picture on the impact of the virus. A brief discussion of both approaches is highlighted in the following sections.

In response to the virus, various countries imposed restrictions on the movement of people and goods. The restrictions significantly slowed down regional trade. As of May 2020, close to all African countries had imposed serious measures to control the disease. Some of the measures like closing of borders, imposition of national curfews and restrictions of movement of people both within the country and outside were predicted to have serious consequences on trade, businesses, labor and transport systems. Since most of the intraregional trade in Africa is dominated by manufacturing exports, lockdown measures were predicted to significantly affect manufacturing sector of African economies (Wanjala 2020).

Cao, Li, Wang, & Zhu, (2020) showed that China's agricultural exports would experience a significant negative impact in the short-run mostly due to the disruption of the supply chain. In the long run, the disruption of the world trade was expected to be the greatest adverse factor to China's agricultural exports. Projections from the simulated data indicate that against a base

scenario, a 0.5%-3 %age decrease in world's economic growth would result to a 0.38%-4.52 %age decrease in China's agricultural exports. On agricultural imports, the analysis indicated that there is a relative possibility of an increase. This was mainly due the availability in the world food market.

A study by Hayakawa (2020) for both exporting and importing countries showed that COVID-19 had a significant effect on trade for exporters but not importers. Further, the negative effects was more pronounced in exports from developing countries and but not from developed countries. On products, importers' COVID-19 burden has positive effects on trade in the agricultural industry and negative effects in the paper and machinery industries. On the other hand, exporters' COVID-19 burden has negative effects, particularly in the textile, footwear, and plastic industries. In Nigeria, night curfews and inter-state travel restrictions were introduced. This brought about loss of jobs and hence a decrease in incomes resulting to a decrease in demand for goods and services. Among the most hit sectors were the manufacturing and the service sector such as the education and distribution sector (Farayibi & Asongu, 2020).

Mold & Mveyange (2020) found that, landlocked EAC countries are more vulnerable to the overall trade impact. Figures for re-exports and intra-regional export indicate worrying disruption to intra-regional commerce. However, the shock from the pandemic is less alarming when seasonality is taken into account. According to Lin & Zhang (2020), smaller firms were more vulnerable to the effects of the pandemic as compared to larger firms. Although averagely, agricultural businesses experienced a decline in their agricultural exports, other agricultural exports increased like grains and oil implying the essential demand for staple food. Lashtew & Socrates (2020) observed that the introduction of lockdown policies by Kenya's trading partners led to an increase in export trade by an average rate of 12% and a subsequent decrease of imports by an average rate of 28%. The decrease in imports was mainly because of the disruption of the imports by sea from the countries that introduced lockdown policies. In addition, the study reveals that import and export of food commodities increased in response to the lockdown measures at an average of 18% and 25% respectively. Finally, the study reveals that the lockdown measures did not affect the exports from the Organisation for Economic Co-operation and Development (OECD) countries but led to an increase in imports from them

5.6 Methodology

An empirical quasi-experiment is used to check the impact of COVID-19 on merchandise trade in Kenya. A Difference in Difference (DID) technique is adopted. The approach followed is to assess the levels of trade before and during COVID-19 period. The following equation is estimated:

$$\ln Z_{it} = \beta_0 + \beta_1 t + \beta_2 Covid + \beta_3 (DID) + \sum_{k=1}^n \beta_k (X_{it}) + \varepsilon_{it} \quad (1)$$

Where Z_{it} is a set of trade parameters; $Covid$ is a dummy with 1 for periods during COVID-19 and 0 otherwise. The variable DID measures the impact of COVID-19 on the trade parameters, it is computed as:

$$DID = Covid * Time \quad (2)$$

Time is all the months included in the analysis. Particularly time before and during invasion of COVID-19. The coefficient β_3 is interpreted as the impact of COVID-19 on the trade parameters. The term X_{it} is the set of the other control variables that would affect the trade parameters. To increase the levels of attrition, COVID-19 is analyzed in two forms: the first is a

measure of the *spread* and the second is a measure of government response to curb the spread of the disease. In terms of measure, a dummy of the following form is specified:

$$s_Covid - 19 = \begin{cases} 1 & \text{outbreak} \\ 0 & \text{otherwise} \end{cases}$$

(3)

The indicator 1 is the period since World Health Organization (WHO) declared an outbreak of COVID-19 on January 2020 in China. Since this period, economies in the world began to adjust to this disease. Cases of the spread of the disease began to be announced in various parts of the World. Thus, this dummy captures the impact of the response of world economies to the disease and how this affected Kenya's exports and imports. The second measure is specified as follows:

$$g_Covid - 19 = \begin{cases} 1 & \text{response} \\ 0 & \text{otherwise} \end{cases} \quad (4)$$

In this specification, the indicator 1 is the period since Kenyan government began to adopt measures to curb the spread of COVID-19. The government began imposing strict measures at the end of March 2020. Thus, 1 captures this period up to December 2020. The aim of this dummy is to capture the effect of exports and imports towards the restrictive measures imposed by the government. In conducting the analysis, data from the Kenya National Bureau of Statistics (KNBS) and Central Bank of Kenya (CBK) were used.

5.7 Findings

As seen in table 5, the spread of COVID-19 reduced export and import volumes in Kenya. During the period of COVID-19 exports have decreased by around 0.47% while import reduced by 0.29%. The effect is observed when the model control for exchange rates. The coefficient of the interaction term for exports is positive and statistically significant. This coefficient can be viewed as the exporters' response to the spread of COVID-19 over time. Specifically, exporters are observed to adjust their reactions over time and thus exerting an upward pressure on exports.

Table 5: Impact of spread of COVID-19 on Trade in Kenya

	Exports	Exports	Imports	Imports
Time	0.002 (0.006)	0.011* (0.006)	0.009 (0.007)	0.012 (0.007)
s_COVID-19	-0.183 (0.120)	-0.470*** (0.127)	-0.180 (0.129)	-0.294* (0.162)
s_COVID-19*time	0.010 (0.008)	0.025*** (0.008)	0.002 (0.008)	0.007 (0.010)
Exchange rate		-4.392*** (1.194)		-1.734 (1.528)
Constant	10.788*** (0.055)	31.030*** (5.503)	11.823*** (0.059)	19.817*** (7.043)
Observations	32	32	32	32
R-squared	0.363	0.576	0.182	0.219
Standard errors in parentheses: *** p<0.01, ** p<0.05, * p<0.1				

The coefficient for exchange rate on the model for exports is negative and statistically significant. The implication for this result is that during COVID-19 period, exchange rates experienced great volatility which in turn had a negative impact on exports. Specially, the volatility led to a decrease of around 4%. A disaggregate analysis of the impact of COVID-19 on

merchandise exports shows that the greatest negative impact was observed on consumer goods, followed by industrial supplies and finally food and beverages. Table 6 shows that exports of consumer goods declined by 29%, followed by industrial supplies at 25% and finally food and beverages at 14%. According to KNBS (2021), the three product categories form the largest share of merchandise exports from Kenya. Specifically, food and beverages (42%), followed by consumer goods (28%), then industrial supplies (24%).

Table 6: Impact of spread of COVID-19 on Merchandise exports

	Food & beverages	Industrial supplies	Fuel & Lubricants	Machinery & Capital	Transport equipment	Consumer goods
Time	-0.003 (0.005)	0.006 (0.009)	0.026 (0.039)	0.058*** (0.019)	0.025 (0.022)	0.010 (0.008)
s_COVID-19	-14.612** (5.301)	-25.164** (9.622)	69.026 (42.760)	-0.698 (20.966)	-10.575 (24.397)	-28.525*** (8.345)
s_COVID-19*time	0.001** (0.000)	0.001** (0.000)	-0.003 (0.002)	0.000 (0.001)	0.000 (0.001)	0.001*** (0.000)
Exchange rate	-1.155 (1.129)	-3.889* (2.049)	10.579 (9.105)	-7.730* (4.464)	-6.572 (5.195)	-4.575** (1.777)
Constant	15.233*** (5.201)	27.191*** (9.440)	-43.227 (41.949)	41.832* (20.569)	36.338 (23.935)	30.437*** (8.187)
Observations	31	31	31	31	31	31
R-squared	0.534	0.297	0.120	0.289	0.105	0.457

Standard errors in parentheses: *** p<0.01, ** p<0.05, * p<0.1

In each of the product categories where the impact of COVID-19 was statistically significant, the interaction term is positive and statistically significant. This shows that, though exports were negatively affected by COVID-19, exporters began to adjust their reactions over time, which led to an upward pressure on exports. The coefficients of fuel and lubricants, together with machinery, capital and transport equipment were not statistically significant. All these products contribute less than 10% of merchandise exports in Kenya.

In terms of imports, table 7, shows that there were significant variations of the impact of COVID-19 on groups of products.

Table 7: Impact of spread of COVID-19 on Merchandise imports

	Food & beverages	Industrial supplies	Fuel & Lubricants	Machinery & Capital	Transport equipment	Consumer goods
Time	0.001** (0.000)	0.000 (0.000)	0.001 (0.001)	0.000 (0.000)	0.000 (0.000)	-0.000 (0.000)
s_COVID-19	4.818 (10.921)	-14.510** (6.768)	-37.312* (20.829)	16.053 (14.436)	17.439 (13.726)	22.970*** (8.055)
s_COVID-19*time	-0.000 (0.000)	0.001** (0.000)	0.002* (0.001)	-0.001 (0.001)	-0.001 (0.001)	-0.001*** (0.000)
Exchange rate	-2.093 (2.324)	-1.044 (1.440)	-13.633*** (4.432)	1.384 (3.072)	3.714 (2.921)	6.453*** (1.714)
Constant	4.372 (9.867)	11.185* (6.114)	56.501*** (18.818)	-0.176 (13.043)	-12.796 (12.401)	-15.544** (7.277)
Observations	31	31	31	31	31	31
R-squared	0.149	0.463	0.444	0.066	0.131	0.381

Standard errors in parentheses: *** p<0.01, ** p<0.05, * p<0.1

The largest negative impact of the spread of COVID-19 was observed on imports of fuel and lubricants as imports in this category dropped by 37%. According to KNBS (2021), products in this category form 16% of the share of merchandise imports. The largest share of imports is industrial supplies (41%) whose imports reduced by close to 15%. Consumer goods form the least of import shares at 9%. It is important to note that imports of consumer products increased by close to 23% during the period of the COVID-19 pandemic. Imports of food and beverages, machinery, capital and transport equipment were not significantly affected by the spread of COVID-19. Government response to COVID-19 is observed to have had a large negative impact on imports compared to exports. Table 8 shows that imports reduced by close to 0.9% while exports reduced by around 0.6%.

Table 8: Government response to COVID-19 and impact on Trade in Kenya

	Exports	Exports	Imports	Imports
Time	0.008** (0.003)	0.010*** (0.003)	0.004 (0.003)	0.002 (0.003)
g_COVID-19	-0.589*** (0.166)	-0.642*** (0.161)	-0.887*** (0.143)	-0.848*** (0.141)
g_COVID-19*time	0.021*** (0.007)	0.028*** (0.008)	0.031*** (0.006)	0.025*** (0.007)
Exchange rate		-2.885* (1.481)		2.136 (1.298)
Constant	10.748*** (0.040)	24.070*** (6.840)	11.856*** (0.034)	1.993 (5.992)
Observations	32	32	32	32
R-squared	0.542	0.598	0.618	0.653
Standard errors in parentheses: *** p<0.01, ** p<0.05, * p<0.1				

In each of the models, the interaction terms are positive and statistically significant, an implication that over time, both exporters and importers adjusted their reactions towards government restrictions. These adjustments are seen to trigger a rise in exports and imports over time. Exchange rates in Kenya are observed to mainly affect exporters. The coefficient for imports is not statistically significant.

On specific products, the largest negative impact of government measures to COVID-19 on imports, as seen on table 9, is observed on fuel & lubricants whose imports reduced by around 80% while import of industrial supplies, which form the largest share of imports, reduced by close to 23%. Consumer goods that form the least in import shares, recorded an increase of 18%. Notably, the interaction term for consumer goods is negative and statistically significant. This shows that, even though imports of these products increased, over time, importers adjusted their reactions towards government measures. The adjustments shows, that the large increments of imports of consumer goods that were observed, declined over time. Exchange rate coefficient for consumer goods is positive and statistically significant. Imports of food and beverages, machinery, capital and transport equipment did not show statistical significant response to government measures on COVID-19. Their coefficients were negative but not statistically significant. These groups of products contribute the least shares of merchandise imports.

Table 9: Government response to COVID-19 and impact on merchandise imports

	Food & beverages	Industrial supplies	Fuel & Lubricants	Machinery & Capital	Transport equipment	Consumer goods
Time	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)
g_COVID-19	-7.191 (12.356)	-23.434*** (7.375)	-79.718*** (19.567)	-6.939 (14.703)	-8.289 (13.657)	17.538* (9.851)
g_COVID-19*time	0.000 (0.001)	0.001*** (0.000)	0.004*** (0.001)	0.000 (0.001)	0.000 (0.001)	-0.001* (0.000)
Exchange rate	1.275 (2.720)	0.373 (1.624)	-6.618 (4.307)	5.139 (3.236)	8.200** (3.006)	7.439*** (2.168)
Constant	-2.981 (11.859)	7.764 (7.079)	39.738** (18.781)	-15.245 (14.112)	-26.368* (13.108)	-22.271** (9.455)
Observations	31	31	31	31	31	31
R-squared	0.219	0.543	0.648	0.305	0.383	0.336

Standard errors in parentheses: *** p<0.01, ** p<0.05, * p<0.1

For merchandise exports, table 10 shows that, government measures to combat the spread of COVID-19 had a negative impact on industrial supplies, transport equipment and consumer goods. Specifically, the measures led to a decline in exports of transport equipment by 50%, followed by consumer goods at 45% and finally industrial supplies by 35%.

Table 10: Government response to COVID-19 and impact on merchandise exports

	Food & beverages	Industrial supplies	Fuel & Lubricants	Machinery & Capital	Transport equipment	Consumer goods
Time	0.004 (0.003)	0.004 (0.005)	0.014 (0.023)	0.025* (0.013)	0.011 (0.010)	0.004 (0.004)
g_COVID-19	-9.754 (6.378)	-35.364*** (10.462)	68.532 (49.487)	-15.137 (26.871)	-49.847** (21.552)	-44.939*** (7.837)
g_COVID-19*time	0.000 (0.000)	0.002*** (0.000)	-0.003 (0.002)	0.001 (0.001)	0.002** (0.001)	0.002*** (0.000)
Exchange rate	-2.986** (1.404)	-1.770 (2.304)	19.125* (10.896)	-3.469 (5.917)	3.359 (4.746)	-2.376 (1.726)
Constant	23.647*** (6.481)	17.410 (10.631)	-82.631 (50.288)	22.359 (27.306)	-9.442 (21.902)	20.315** (7.964)
Observations	31	31	31	31	31	31
R-squared	0.516	0.404	0.155	0.163	0.499	0.657

Standard errors in parentheses: *** p<0.01, ** p<0.05, * p<0.1

Government measures are not observed to cause significant effects on exports of food and beverages, fuel and lubricants, machinery and capital equipment. The interaction terms for industrial supplies, transport equipment and consumer goods are all positive and statistically significant. The implication is that, though government measures led to a decline of these exports, over time, exporters began to adjust their reactions. These adjustments are seen to cause an upward pressure on the levels of these exports.

Generally, on the positive phase, Covid-19 led to significant increase in government spending on the health sector. From the Kenya National Budget 2021/2022, the government allocated Ksh.121 billion to the health sector, of which Ksh. 3.9 billion was the procurement of Covid vaccines and Ksh 9.5 billion was for the engagement of Covid-19 specialist and supplying of hospitals with equipment. Finally, the finance bill proposed VAT exemptions for various medical inputs like ventilators, physiotherapy accessories, treadmills for cardiology therapy, diagnostic or

laboratory reagents, electro-diagnostic apparatus, instruments, and appliances used in dental sciences, categories of medical instruments and appliances including breathing appliances. All these exemptions are expected to result in increased affordability of medical services in Kenya. Further, the measures are expected to increase investments on the health sector of the country.

5.8 Conclusion and Policy Recommendations

Several findings are found from this study on the impact of COVID-19 on merchandise trade in Kenya. First, In terms of magnitudes of the impact, large impact is observed on government response to COVID-19 in relation to the general spread of the disease. The strict measures placed by the government, like closing of its borders are observed to affect both volumes of imports and exports in the country. The negative impact was large on imports compared to exports. However, the interaction terms shows that, over time, both exporters and importers began to adjust their importing and exporting reactions. These adjustments are seen to exert a positive and upward pressure on both imports and exports in the country.

Second, the largest negative impact of COVID-19 is observed on imports and exports of industrial supplies. Imports reduced by 0.29% to 0.9% while exports reduced by 0.47% to 0.6%. This shows that manufacturing sectors that are dependent on these industrial supplies were the most affected by COVID-19. Specifically, the results reflect a situation where COVID-19 led to a shutdown of some manufacturing industries. This led to a decline in the demand and supply of industrial supplies in the country. Third, imports of consumer goods recorded an increase of between 17 and 23%. This finding conform with the argument of Hayakawa and Mukunoki (2020), where COVID-19 led to an increase in the purchase of ‘new consumer goods’ like face masks. The increase could as well be attributed to ‘panic-purchases’ due to the uncertainty caused by the virus. Finally, volatility of exchange rates is observed to cause a negative impact on merchandise exports in the country. From these findings, a number of policy recommendations are proposed.

First, on industrial supplies, the government might consider providing alternative incentives to promote imports and exports of these products. A continuous deep of these products could adversely affect the economy in the long run. Some industries that depend on supply of these products would end up shutting down and causing massive unemployment in the country. One of the practical incentives to promote imports would be a reduction of import tariffs of these products. Since some of them could already be attracting zero tariffs, reduction of alternative taxes like excise duties may be considered by the government.

Second, the current government measures to combat the spread of Covi9-19 needs to be reviewed to try to create a balance between promotions of trade and combating the spread of the virus. Rather than shutting borders and preventing movement of goods, the government may consider emphasizing on proper packaging and handling of exports and imports. By, ensuring that imports and exports are well packaged and safe for consumption, the government would create consumer confidence. This would in turn lead to an increase in demand for commodities. Third, the surge in imports due to COVID-19 shows that there is a risk of an economy being over dependent on imports. There is thus a need for the government to create a conducive environment that promotes domestic production of commodities. Finally, there is need to control the volatility of exchange rates in the country. The results have shown that exchange rate volatility in the country negatively affects the levels of exports.

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APPENDIX 1: KENYAN IMPORTS BY 2020 RANKING

HS code	Product label	Value in 2017	% change	Value in 2018	% change	Value in 2019	% change	Value in 2020	% change
'26	Ores, slag and ash	2741353	29.8	3390680	23.7	3323546	-2.0	2180570	-34.4
'83	Miscellaneous articles of base metal	1827966	15.2	1665389	-8.9	1641144	-1.5	1433106	-12.7
'84	Machinery, mechanical appliances, nuclear reactors, boilers	1121414	-21.7	1205747	7.5	1267776	5.1	1198722	-5.4

'86	Railway or tramway locomotives	1114067	-2.2	1232271	10.6	1209441	-1.9	1119908	-7.4
'71	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals	734482	21.5	860321	17.1	916691	6.6	931636	1.6
'14	Vegetable plaiting materials	656914	26.2	567596	-13.6	561223	-1.1	864367	54.0
'09	Coffee, tea, mate and spices	1111324	124.7	843038	-24.1	857990	1.8	796848	-7.1
'38	Miscellaneous chemical products	673901	1.7	769302	14.2	734449	-4.5	726644	-1.1
'29	Organic chemicals	518383	-9.8	558493	7.7	557246	-0.2	690138	23.8
'37	Photographic or cinematographic goods	317204	9.5	353269	11.4	285740	-19.1	382569	33.9
'47	Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap)	328210	7.4	424656	29.4	388836	-8.4	321507	-17.3
'72	Iron and steel	317954	-31.6	398667	25.4	308700	-22.6	295166	-4.4
'30	Pharmaceutical products	283433	24.2	233063	-17.8	258172	10.8	259167	0.4
'16	Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates	594827	175.3	221304	-62.8	325070	46.9	252057	-22.5
'89	Ships, boats and floating structures	261999	4.9	291452	11.2	219213	-24.8	216812	-1.1
'39	Plastics and articles thereof	186680	-4.3	216081	15.7	222082	2.8	200555	-9.7
'62	Articles of apparel and clothing accessories, not knitted or crocheted	215540	14.6	234927	9.0	235837	0.4	196726	-16.6
'93	Arms and ammunition; parts and accessories thereof	183877	5.5	205257	11.6	177431	-13.6	174623	-1.6
'54	Man-made filaments; strip and the like of man-made textile materials	123703	-6.1	156817	26.8	157647	0.5	170267	8.0
'28	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, ...	153945	9.1	203127	31.9	154812	-23.8	168535	8.9
'85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television ...	500520	256.1	258227	-48.4	111158	-57.0	149728	34.7
'43	Fur skins and artificial fur; manufactures thereof	52758	-4.6	86337	63.6	113028	30.9	139728	23.6
'32	Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and other	139679	10.9	158076	13.2	145472	-8.0	129236	-11.2
'24	Tobacco and manufactured tobacco substitutes	81556	-21.8	118468	45.3	102878	-13.2	120008	16.7
'20	Preparations of vegetables, fruit, nuts or other parts of plants	57226	-21.6	70761	23.7	76865	8.6	118954	54.8
'75	Nickel and articles thereof	137723	-12.8	150964	9.6	125970	-16.6	110439	-12.3
'31	Fertilizers	97182	5.7	112296	15.6	105391	-6.1	106141	0.7
'95	Toys, games and sports requisites; parts and accessories thereof	90954	-2.3	92551	1.8	100196	8.3	102615	2.4
'61	Articles of apparel and clothing accessories, knitted or crocheted	82931	137.6	94083	13.4	92748	-1.4	100740	8.6
'27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral	90852	4.0	105208	15.8	106931	1.6	98864	-7.5
'21	Miscellaneous edible preparations	84603	21.1	97368	15.1	106595	9.5	98690	-7.4
'87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	109422	43.2	161503	47.6	216938	34.3	87658	-59.6
'03	Fish and crustaceans, molluscs and other aquatic invertebrates	108188	270.6	108842	0.6	144897	33.1	84484	-41.7

'68	Articles of stone, plaster, cement, asbestos, mica or similar materials	82298	-13.0	85857	4.3	87948	2.4	82713	-6.0
'59	Impregnated, coated, covered or laminated textile fabrics; textile articles of a kind suitable ...	78458	17.7	85347	8.8	101881	19.4	79809	-21.7
'53	Other vegetable textile fibers; paper yarn and woven fabrics of paper yarn	48093	10.3	79552	65.4	90589	13.9	77061	-14.9
'33	Essential oils and; perfumery, cosmetic or toilet preparations	78324	10.9	73680	-5.9	71835	-2.5	74326	3.5
'69	Ceramic products	67842	-4.6	71033	4.7	77762	9.5	67130	-13.7
'51	Wool, fine or coarse animal hair; horsehair yarn and woven fabric	61124	-8.2	80934	32.4	88164	8.9	63743	-27.7
'22	Beverages, spirits and vinegar	120296	197.9	102479	-14.8	85856	-16.2	62763	-26.9
'18	Cocoa and cocoa preparations	117331	62.9	83577	-28.8	81602	-2.4	61023	-25.2
'73	Articles of iron or steel	39729	-4.7	46292	16.5	47717	3.1	54202	13.6
'11	Products of the milling industry; malt; starches; inulin; wheat gluten	31147	31.4	30656	-1.6	39230	28.0	53727	37.0
'82	Tools, implements, cutlery, spoons and forks, of base metal; parts thereof of base metal	53451	24.1	60478	13.1	50934	-15.8	49188	-3.4
'06	Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	120711	115.9	115773	-4.1	48926	-57.7	48140	-1.6
'63	Other made-up textile articles; sets; worn clothing and worn textile articles; rags	43675	-9.5	51506	17.9	60585	17.6	45064	-25.6
'81	Other base metals; cermet; articles thereof	31115	-6.0	34369	10.5	36426	6.0	37195	2.1
'48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	77161	62.4	64838	-16.0	63780	-1.6	36912	-42.1
'07	Edible vegetables and certain roots and tubers	29383	23.6	32884	11.9	28563	-13.1	32044	12.2
'67	Prepared feathers and down and articles made of feathers or of down; artificial flowers; articles	30788	7.0	31085	1.0	30421	-2.1	31872	4.8
'78	Lead and articles thereof	39655	60.0	46675	17.7	24115	-48.3	31248	29.6
'60	Knitted or crocheted fabrics	28933	35.4	47878	65.5	39907	-16.6	31069	-22.1
'19	Preparations of cereals, flour, starch or milk; pastry cooks' products	19708	33.9	25238	28.1	26786	6.1	29829	11.4
'08	Edible fruit and nuts; peel of citrus fruit or melons	21317	20.8	28052	31.6	19802	-29.4	28663	44.7
'92	Musical instruments; parts and accessories of such articles	58829	196.2	97463	65.7	71509	-26.6	22992	-67.8
'94	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; ...	12838	-13.9	16767	30.6	21558	28.6	20485	-5.0
'34	Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial	18334	0.6	21448	17.0	20572	-4.1	20406	-0.8
'02	Meat and edible meat offal	23958	15.0	28660	19.6	26014	-9.2	19820	-23.8
'41	Raw hides and skins (other than fur skins) and leather	19683	7.4	25745	30.8	26828	4.2	17348	-35.3
'23	Residues and waste from the food industries; prepared animal fodder	38212	-28.4	51996	36.1	49468	-4.9	16598	-66.4
'88	Aircraft, spacecraft, and parts thereof	41659	148.6	19489	-53.2	246426	1164.4	16408	-93.3
'55	Man-made staple fibers	14881	26.3	18607	25.0	16324	-12.3	16110	-1.3
'17	Sugars and sugar confectionery	15627	4.4	20477	31.0	22585	10.3	15965	-29.3

'10	Cereals	18025	-7.0	22217	23.3	15133	-31.9	14772	-2.4
'57	Carpets and other textile floor coverings	10585	20.6	11866	12.1	13345	12.5	12615	-5.5
'58	Special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery	9470	-9.7	12557	32.6	13299	5.9	11267	-15.3
'56	Wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles thereof	7872	15.7	9989	26.9	9950	-0.4	10188	2.4
'46	Manufactures of straw, of esparto or of other plaiting materials; basket ware and wickerwork	863	-24.0	2036	135.9	7796	282.9	10018	28.5
'64	Footwear, gaiters and the like; parts of such articles	10103	111.4	7941	-21.4	10127	27.5	7128	-29.6
'01	Live animals	3143	-2.0	5265	67.5	3954	-24.9	7014	77.4
'35	Albuminoidal substances; modified starches; glues; enzymes	8871	-27.3	17806	100.7	7202	-59.6	6787	-5.8
'05	Products of animal origin, not elsewhere specified or included	6153	0.7	6198	0.7	4339	-30.0	6159	41.9
'36	Explosives; pyrotechnic products; matches; pyrophoric alloys; certain combustible preparations	5923	-22.2	7153	20.8	7018	-1.9	5596	-20.3
'25	Salt; Sulphur; earths and stone; plastering materials, lime and cement	11851	-15.5	12245	3.3	16450	34.3	4898	-70.2
'66	Umbrellas, sun umbrellas, walking sticks, seat-sticks, whips, riding-crops and parts thereof	1911	139.5	6454	237.7	5921	-8.3	4707	-20.5
'12	Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal ...	3432	9.1	3204	-6.6	3686	15.0	2710	-26.5
'65	Headgear and parts thereof	2238	-19.9	3317	48.2	3015	-9.1	2421	-19.7
'40	Rubber and articles thereof	5772	-5.5	4813	-16.6	2511	-47.8	2290	-8.8
'76	Aluminum and articles thereof	1554	8.0	1206	-22.4	795	-34.1	2040	156.6
'15	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal ...	2084	97.2	1801	-13.6	2065	14.7	2032	-1.6
'90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical ...	2203	-22.9	2947	33.8	2988	1.4	1707	-42.9
'91	Clocks and watches and parts thereof	1134	-16.6	2220	95.8	3068	38.2	1682	-45.2
'04	Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere ...	1101	-22.7	1404	27.5	1037	-26.1	1304	25.7
'13	Lac; gums, resins and other vegetable saps and extracts	1108	27.9	1772	59.9	1157	-34.7	1135	-1.9
'45	Cork and articles of cork	151	10.2	561	271.5	668	19.1	1103	65.1
'70	Glass and glassware	2879	122.3	2762	-4.1	11709	323.9	1097	-90.6
'96	Miscellaneous manufactured articles	412	-35.6	562	36.4	491	-12.6	590	20.2
'79	Zinc and articles thereof	473	8.2	528	11.6	488	-7.6	584	19.7
'52	Cotton	634	-50.1	835	31.7	1041	24.7	559	-46.3
'74	Copper and articles thereof	212	-12.4	253	19.3	223	-11.9	346	55.2
'80	Tin and articles thereof	202	-22.0	295	46.0	256	-13.2	117	-54.3
'50	Silk	128	23.1	187	46.1	132	-29.4	90	-31.8

'44	Wood and articles of wood; wood charcoal	12	-81.8	33	175.0	39	18.2	28	-28.2
'49	Printed books, newspapers, pictures and other products of the printing industry; manuscripts, ...	43	-53.3	98	127.9	89	-9.2	28	-68.5

APPENDIX 2: KENYAN EXPORTS BY 2020 RANKING

Hs code	Product label	Value in 2017	Value in 2018	% change	Value in 2019	% change	Value in 2020	% change
'09	Coffee, tea, mate and spices	1667485	1617230	-3	1338500	-17	1469454	10
'06	Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	595590	625711	5	643973	3	635239	-1
'27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral	353681	386699	9	451733	17	406491	-10
'07	Edible vegetables and certain roots and tubers	209156	250085	20	224647	-10	295384	31
'08	Edible fruit and nuts; peel of citrus fruit or melons	180779	232517	29	204428	-12	216294	6
'26	Ores, slag and ash	177288	212526	20	195292	-8	206407	6
'62	Articles of apparel and clothing accessories, not knitted or crocheted	190319	218262	15	231122	6	198602	-14
'15	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal ...	95767	115424	21	137840	19	189005	37
'24	Tobacco and manufactured tobacco substitutes	134202	139658	4	129343	-7	154688	20
'20	Preparations of vegetables, fruit, nuts or other parts of plants	110405	108094	-2	121424	12	137631	13
'30	Pharmaceutical products	124186	130143	5	116528	-10	128519	10
'72	Iron and steel	107114	112736	5	134919	20	126343	-6
'39	Plastics and articles thereof	129534	117668	-9	110308	-6	117965	7
'21	Miscellaneous edible preparations	70316	92688	32	95344	3	114933	21
'34	Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial ...	82671	96690	17	103228	7	114499	11
'61	Articles of apparel and clothing accessories, knitted or crocheted	123271	120903	-2	109673	-9	108436	-1
'25	Salt; Sulphur; earths and stone; plastering materials, lime and cement	89088	75602	-15	62237	-18	84371	36
'84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	68116	98896	45	131959	33	81742	-38
'28	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, ...	90351	87862	-3	81685	-7	72529	-11
'02	Meat and edible meat offal	49767	54189	9	68799	27	65402	-5
'48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	56127	66437	18	69086	4	60846	-12
'85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television ...	59112	56762	-4	69925	23	59667	-15
'17	Sugars and sugar confectionery	52284	52918	1	49394	-7	55350	12
'38	Miscellaneous chemical products	33659	42871	27	41983	-2	51543	23
'19	Preparations of cereals, flour, starch or milk; pastrycooks' products	53027	29860	-44	19671	-34	50159	155
'49	Printed books, newspapers, pictures and other products of the printing industry; manuscripts, ...	50793	63595	25	25769	-59	45213	75
'73	Articles of iron or steel	44524	45446	2	46427	2	44082	-5
'87	Vehicles other than railway or tramway	54541	83992	54	84494	1	43688	-48

	rolling stock, and parts and accessories thereof							
'53	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn	37845	40299	6	38203	-5	42960	12
'10	Cereals	34132	33259	-3	30407	-9	42627	40
'64	Footwear, gaiters and the like; parts of such articles	31783	34569	9	38154	10	39823	4
'33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations	22464	29324	31	37161	27	38620	4
'22	Beverages, spirits and vinegar	52023	51444	-1	42428	-18	34410	-19
'74	Copper and articles thereof	34017	41210	21	35011	-15	31760	-9
'63	Other made-up textile articles; sets; worn clothing and worn textile articles; rags	26852	27969	4	28752	3	31322	9
'12	Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal ...	13455	19160	42	21076	10	26221	24
'31	Fertilisers	23123	35252	52	27881	-21	26081	-6
'32	Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and other colouring ...	25895	32007	24	28318	-12	25877	-9
'03	Fish and crustaceans, molluscs and other aquatic invertebrates	20596	29376	43	33147	13	25562	-23
'94	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; ...	27743	26072	-6	32848	26	22866	-30
'23	Residues and waste from the food industries; prepared animal fodder	11784	21485	82	23436	9	22023	-6
'96	Miscellaneous manufactured articles	20929	14639	-30	22141	51	21228	-4
'76	Aluminium and articles thereof	27809	17870	-36	19480	9	21097	8
'41	Raw hides and skins (other than furskins) and leather	49711	44287	-11	30399	-31	20165	-34
'95	Toys, games and sports requisites; parts and accessories thereof	11149	12496	12	11746	-6	18900	61
'90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical ...	12458	20889	68	18027	-14	18422	2
'83	Miscellaneous articles of base metal	20983	20652	-2	21721	5	15442	-29
'71	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad ...	18823	17980	-4	25010	39	15084	-40
'70	Glass and glassware	11996	12221	2	14126	16	13558	-4
'55	Man-made staple fibres	9039	10349	14	10277	-1	11497	12
'67	Prepared feathers and down and articles made of feathers or of down; artificial flowers; articles ...	8931	7176	-20	11737	64	11356	-3
'69	Ceramic products	5950	7362	24	10967	49	10252	-7
'13	Lac; gums, resins and other vegetable saps and extracts	4065	4489	10	10273	129	9467	-8
'01	Live animals	6418	6585	3	10293	56	8932	-13
'29	Organic chemicals	7635	6790	-11	6207	-9	8615	39
'56	Wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles thereof	2097	2292	9	4667	104	8366	79
'36	Explosives; pyrotechnic products; matches; pyrophoric alloys; certain combustible preparations	1332	3511	164	5753	64	7485	30
'35	Albuminoidal substances; modified starches; glues; enzymes	6808	6837	0	7239	6	6859	-5
'89	Ships, boats and floating structures	3949	1695	-57	11453	576	5026	-56
'44	Wood and articles of wood; wood charcoal	4079	4692	15	5064	8	5007	-1

'40	Rubber and articles thereof	7201	5965	-17	5464	-8	4581	-16
'16	Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates	3083	3557	15	3459	-3	3973	15
'11	Products of the milling industry; malt; starches; inulin; wheat gluten	2921	2463	-16	2951	20	2945	0
'68	Articles of stone, plaster, cement, asbestos, mica or similar materials	2505	8475	238	5864	-31	2469	-58
'88	Aircraft, spacecraft, and parts thereof	1061	1527	44	2948	93	2183	-26
'79	Zinc and articles thereof	1980	2445	23	1843	-25	2159	17
'46	Manufactures of straw, of esparto or of other plaiting materials; basketware and wickerwork	1113	1363	22	1339	-2	2154	61
'05	Products of animal origin, not elsewhere specified or included	3859	2549	-34	3196	25	2119	-34
'86	Railway or tramway locomotives, rolling stock and parts thereof; railway or tramway track fixtures ...	415	3258	685	1338	-59	1997	49
'82	Tools, implements, cutlery, spoons and forks, of base metal; parts thereof of base metal	3293	3574	9	2913	-18	1973	-32
'04	Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere ...	2995	2109	-30	2227	6	1853	-17
'52	Cotton	2003	1356	-32	1810	33	1688	-7
'18	Cocoa and cocoa preparations	2853	2492	-13	2630	6	1612	-39
'42	Articles of leather; saddlery and harness; travel goods, handbags and similar containers; articles ...	1906	1874	-2	2208	18	1491	-32
'51	Wool, fine or coarse animal hair; horsehair yarn and woven fabric	3905	4440	14	2753	-38	1443	-48
'14	Vegetable plaiting materials; vegetable products not elsewhere specified or included	48317	15546	-68	13064	-16	1300	-90
'78	Lead and articles thereof	6	0	-100	1696	#DIV/0!	1277	-25
'97	Works of art, collectors' pieces and antiques	1126	1797	60	800	-55	628	-22
'60	Knitted or crocheted fabrics	502	440	-12	430	-2	583	36
'54	Man-made filaments; strip and the like of man-made textile materials	328	601	83	337	-44	468	39
'93	Arms and ammunition; parts and accessories thereof	198	13	-93	26	100	420	1515
'65	Headgear and parts thereof	363	267	-26	311	16	387	24
'80	Tin and articles thereof	255	385	51	415	8	385	-7
'47	Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper or ...	1355	1050	-23	562	-46	374	-33
'91	Clocks and watches and parts thereof	392	427	9	674	58	290	-57
'58	Special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery	304	326	7	365	12	280	-23
'37	Photographic or cinematographic goods	245	176	-28	149	-15	278	87
'59	Impregnated, coated, covered or laminated textile fabrics; textile articles of a kind suitable ...	357	365	2	452	24	277	-39
'57	Carpets and other textile floor coverings	1836	214	-88	266	24	211	-21
'66	Umbrellas, sun umbrellas, walking sticks, seat-sticks, whips, riding-crops and parts thereof	750	226	-70	135	-40	162	20
'81	Other base metals; cermets; articles thereof	50	73	46	148	103	49	-67
'92	Musical instruments; parts and accessories of such articles	81	76	-6	90	18	42	-53

APPENDIX 3: KENYAN TOP 50 EXPORTERS AS AT 2020

Position	Source	Value 2018	% change	Value 2019	% change	Value 2020	% change
1	China, P.R.: Mainland	3660.882	-3	3590.359	-2	3394.227	-5
2	India	1827.858	10	1706.123	-7	1771.363	4
3	United Arab Emirates	1457.439	8	1632.734	12	866.7901	-47
4	Japan	987.4881	20	947.0436	-4	822.7512	-13
5	Saudi Arabia	1704.865	35	1246.931	-27	648.1223	-48
6	Indonesia	454.9512	-21	482.5836	6	588.8569	22
7	United States	527.5601	-6	591.2528	12	531.2036	-10
8	South Africa	639.8418	6	688.0832	8	429.9924	-38
9	Malaysia	212.0593	18	250.0463	18	427.9643	71
10	Egypt	358.6191	5	416.7485	16	421.2973	1
11	Netherlands	190.6435	1	309.1224	62	393.2764	27
12	Germany	460.8351	10	435.3637	-6	377.6271	-13
13	Russian Federation	304.1252	-15	313.3488	3	356.8902	14
14	United Kingdom	311.1885	7	317.4101	2	273.116	-14
15	Tanzania	245.3173	32	269.7796	10	258.1866	-4
16	Uganda	487.8228	17	336.1362	-31	225.1421	-33
17	Italy	253.9271	15	199.4741	-21	221.5464	11
18	France	236.7206	-10	233.3354	-1	218.951	-6
19	Pakistan	211.5568	-17	243.3644	15	201.4689	-17
20	Korea	187.7034	9	140.8948	-25	191.9541	36
21	Turkey	191.2575	19	189.8559	-1	188.2025	-1
22	Belgium	160.2636	7	139.6254	-13	174.5196	25
23	Argentina	106.6094	13	147.0554	38	154.3374	5
24	Thailand	197.4078	-3	187.6129	-5	144.3675	-23
26	Taiwan Province of China	99.68464	-15	138.5738	39	121.1545	-13
27	Canada	78.2971	-22	134.504	72	98.02497	-27
28	Spain	104.5497	1	110.6299	6	94.67329	-14
29	Oman	66.21199	25	91.13502	38	94.19504	3
30	Singapore	30.7743	-83	66.80203	117	83.44485	25
31	Eswatini	85.08056	-28	99.91941	17	81.35817	-19
32	Ukraine	70.58274	-30	68.15735	-3	70.19587	3
33	Switzerland	85.61411	-13	77.39414	-10	67.72971	-12
34	Australia	62.38358	24	52.3247	-16	65.91975	26
35	China, P.R.: Hong Kong	54.91922	-22	51.65045	-6	61.5037	19
36	Qatar	47.18283	30	34.6023	-27	60.58536	75
37	Vietnam	44.87047	13	38.85766	-13	60.07752	55
38	Sweden	72.27347	16	57.26119	-21	59.04257	3
39	Brazil	91.87127	-193	50.57783	-45	54.93415	9
40	Zimbabwe	17.41469	-64	42.28018	143	53.20195	26
41	Poland, Rep. of	45.56061	-35	51.72955	14	50.92707	-2
42	Finland	29.26518	30	36.39607	24	49.16713	35
43	Mexico	18.62662	-997	19.15179	3	47.33114	147
44	Iran, Islamic Rep. of	102.9675	-24	59.69614	-42	45.52864	-24
45	Mauritius	60.14654	-18	76.86349	28	44.5966	-42

46	Israel	62.1486	2	48.16497	-23	41.82739	-13
47	Bahrain, Kingdom of	52.98836	-62	10.54473	-80	39.42603	274
48	Kuwait	2.021745	31	2.357439	17	38.85201	1548
49	Ireland	65.85575	52	97.61638	48	37.99239	-61
50	Denmark	42.51975	14	38.12263	-10	37.16936	-3

APPENDIX 4: KENYA'S TOP 50 IMPORTERS AS OF 2020

Position	Destination	Value 2018	% change	Value 2019	% change	Value 2020	% change
1	Uganda	610.67	2	624.15	2	673.66	8
2	Pakistan	585.86	-5	443.47	-24	513.57	16
3	United Kingdom	396.73	6	391.77	-1	469.07	20
4	United States	467.76	2	508.55	9	463.97	-9
5	Netherlands, The	457.73	8	470.15	3	457.95	-3
6	United Arab Emirates	345.66	36	379.29	10	323.56	-15
7	Tanzania, United Rep. of	293.61	6	329.56	12	294.94	-11
8	Rwanda	176.12	6	227.27	29	236.89	4
9	South Sudan, Rep. of	127.91	-21	122.93	-4	216.52	76
10	Egypt, Arab Rep. of	198.63	8	185.61	-7	178.37	-4
11	China, P.R.: Mainland	109.88	14	148.56	35	139.01	-6
12	Germany	110.24	-3	110.82	1	136.56	23
13	Congo, Dem. Rep. of the	149.94	-18	132.05	-12	134.35	2
14	Somalia	148.84	-22	116.03	-22	106.92	-8
15	France	80.322	3	78.731	-2	87.007	11
16	Saudi Arabia	98.936	30	87.272	-12	76.58	-12
17	Russian Federation	84.62	9	62.224	-26	75.25	21
18	Ethiopia	62.634	-7	63.808	2	74.006	16
19	India	89.824	55	52.993	-41	72.222	36
20	Belgium	62.479	7	72.096	15	64.419	-11
21	Burundi	65.156	-9	65.959	1	55.239	-16
22	Spain	43.937	53	43.442	-1	50.482	16
23	Japan	50.076	15	53.58	7	45.006	-16
24	Yemen, Rep. of	48.298	-22	48.813	1	44.083	-10
25	Zambia	52.223	40	42.613	-18	41.724	-2

26	Malawi	31.86	11	35.559	12	38.668	9
27	Nigeria	22.035	-14	27.518	25	37.79	37
28	Norway	30.693	2	32.017	4	35.938	12
29	Kazakhstan, Rep. of	29.094	-12	31.646	9	35.548	12
30	Italy	39.178	19	34.089	-13	33.727	-1
31	Countries & Areas not specified	27.532	15	36.536	33	33.109	-9
32	South Africa	43.395	63	32.445	-25	32.707	1
33	Qatar	57.914	62	60.843	5	32.28	-47
34	Jordan	14.288	-7	13.127	-8	25.388	93
35	Switzerland	34.775	11	23.392	-33	25.299	8
36	Turkey	24.555	3	13.095	-47	25.172	92
37	Poland, Rep. of	21.914	2	26	19	22.318	-14
38	Korea, Rep. of	27.949	23	23.046	-18	22.17	-4
39	Australia	28.433	29	23.627	-17	22.095	-6
40	Afghanistan	37.291	23	35.395	-5	21.625	-39
41	Sweden	27.923	1	19.362	-31	21.166	9
42	Thailand	71.679	48	27.132	-62	19.569	-28
43	Malaysia	10.511	15	11.116	6	18.48	66
44	Ireland	15.014	15	16.83	12	15.593	-7
45	Iran	21.445	46	20.824	-3	15.281	-27
46	Oman	19.738	37	20.932	6	14.455	-31
47	Canada	30.99	-12	28.683	-7	11.693	-59
48	Vietnam	20.069	39	15.316	-24	11.691	-24
49	Denmark	8.7428	22	10.54	21	11.003	4
50	Mauritius	11.953	11	12.416	4	10.805	-13

6.0 IMPACT OF COVID-19 ON SERVICES SECTOR AND DIRECT FOREIGN INVESTMENTS IN KENYA

By

Daniel Abala Okado

6.1 REVIEW OF COVID PANDEMIC ON THE SERVICES SECTOR IN KENYA

A World Bank Kenya Economic Update (KEU) indicates that the services sector was one of the most affected sectors by the advent of the pandemic. Kenya's economy had been changing even before the pandemic. The services sector has been becoming more central to the economy, though there is still considerable scope to accelerate the transformation. The services sector contributed over half of the value added in 2019 making it the largest contributor and its growth. The service sector in Kenya has a crucial key role both directly and indirectly through job creation and revenue generation and indirectly through fostering forward and backward linkages to other sectors in the economy thereby contributing both to job creation and to the GDP. The service sector is the main source new employment in Kenya as shown in Table 1.

Table 11: Employment creation as a % total employment

Sector	%
Agriculture	57.03
Services	35.30
Industry and manufacturing	7.67
Total	100

Source: KNBS 2019

The agricultural sector is still the largest employer followed by the service sector, with manufacturing sector creating only a few jobs at 7.67%.

The private sector provided more jobs in its service sector and the number of employees in the service industry has been progressively increasing across both the public and private sectors from 1990 to the present. The private sector created more job opportunities than their public counterpart over the period (KNBS 2016). The wholesale, retail trade and education are largest employers for the private sector while education and public administration employ the largest number in the public sector.

The service sector is a major driver of Kenya's economy. The sector's contribution has been increasing from the 1980's when it accounted for 47% and by 1990 it was responsible for about 51% which increased to 62.5% by 2016. The sector has continued to play a crucial role in the economy with a number of its knowledge-based subsectors such as telecommunications, finance, insurance and Tourism showing continued prosperity over recent decades. In the period 2006 to 2013, 73% of the increase in Kenya's GDP was derived from the sector (World Bank, 2015).

The Kenyan service sector has grown fairly quickly over the last decade. Tourism and transport have been the two largest contributors. Services exports have also grown faster than goods exports in the last five years being responsible for about half of the increase in overall exports (World Bank, 2015).

The World Bank and KNBS data show that the service sector has outperformed industry, manufacturing and the agricultural sectors.

The graph below shows that the service sector is the largest contributor to GDP compared to the agricultural, manufacturing and industrial sectors. However, it is also true that this share has not reached its maximum potential. It is still possible for the service industry to hit 70% contribution

to Kenyan GDP (World Bank CEM report of 2016). This according to the report could be achieved through the value addition to the service industry.

The service sector composition shows Real Estate as the largest single contributor to GDP at some 8.9% and is followed closely by the wholesale and retail subsectors at 8.8% while ICT and the health subsectors contribute about 1.6% and 1.8% to the GDP.

Figure 5: Service Sector, Agriculture, Industry and Manufacturing % of GDP



Source: (World Bank, 2015., KNBS, 2007-2010., KNBS, 2017)

Table 12: The Service Sub-Sector Contribution % of GDP

Sub-sector	% contribution to GDP
Real estate	8.9
Wholesale and retail	8.8
Travel and tourism	8.2
Finance	7.4
Education	6.1
Public administration	5.4
Liberal professions	2.5
Health	1.8
Information and Communication Technology	1.6
Total percentage	50.7

Source: (KNBS, 2017)

6.3 EFFECT OF COVID PANDEMIC ON SERVICES SECTOR IN KENYA

The effect of effect of the pandemic on sector has been severe thereby threatening businesses and their employees especially with respect to their livelihoods. The nature of the service sector is that most activities are interactive. When responding to the pandemic the transmission mechanism is varied. Public health measures limit operations of the service firms. The demand from their customers becomes lower and the supply chains get disrupted. This is then followed by difficulties in accessing finance as firms are faced with prolonged uncertainty.

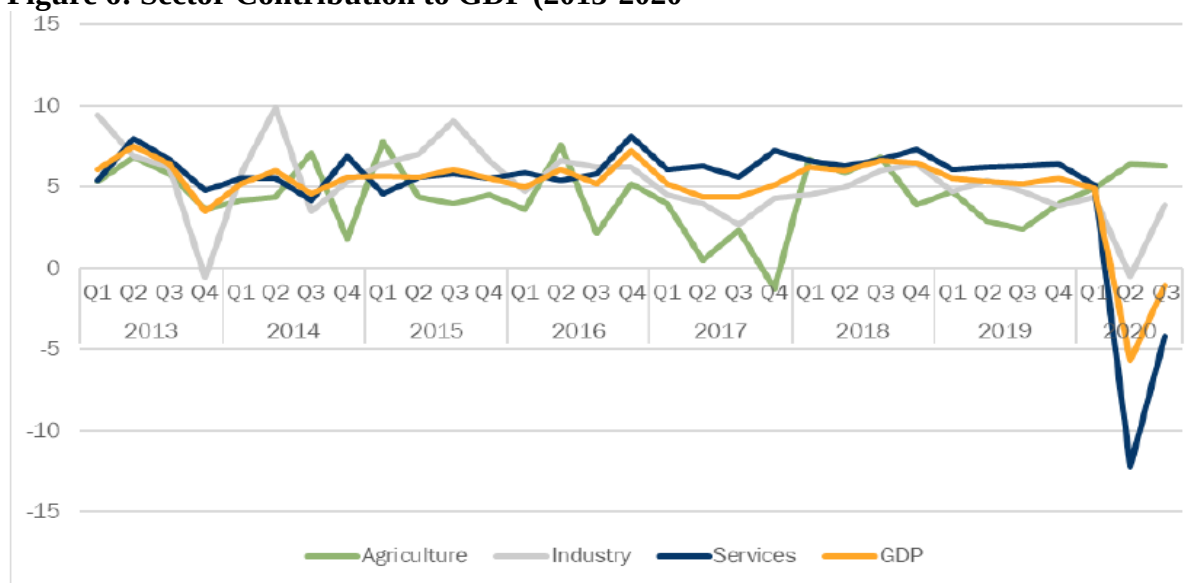
The World Banks Kenya economic update for November 2020 argues that the pandemic affected some sectors of the economy more than others. The services sector has been one of the most severely affected. The services sector firms have large differences in their operating status of firms. In case of the education sector when schools closed most enterprises in education shut down. The firms in accommodation and food services sector were severely impacted and they often closed. The KEU November 2020 reports that transportation and storage as well as accommodation and food services have a relatively large share of firms closed. This was because of curfews and lock-down restrictions primarily affecting firms in these sectors.

Most of the service sector firms experienced decline in their sales and underwent labor adjustments both extensive (layoffs) and intensive (reduced wages and hours) as a result of the pandemic. This however, has been relatively modest given the large decreases in revenue occasioned by the government measures in response to the pandemic. (KEU, November, 2020).

Most businesses that closed permanently were in wholesale and retail sub-sectors (38%), education (36%) and other services (15%). The majority of the closures were caused by government containment measures.

The latest World Bank's Kenya Economic Update of June 2021 indicates that the GDP contracted by some 0.4% year-on-year in the first 9 months of 2020, mainly due to the pandemics serious effects on the sector. The report further details that the sectors output contributed about 2.5 percentage points to the year-on-year GDP between January and march 2020, but reduced 5.5 percentage points from overall growth between April and June when the impact of COVID-19 came to the fore. Further, the July-September period saw output rise from the previous levels but still remained lower than the same period in the previous year and this reduced the year-on-year growth of GDP by about 2.7 percentage points. It is reported that the main culprit in the services sector growth was the education subsector due to the closure of most learning institutions as a containment measure by the government which has resulted in significant loses. The figure below shows the sharp drop-in services after the first quarter of 2020 when the pandemic hit the economy.

Figure 6: Sector Contribution to GDP (2013-2020)



Source: KNBS 2021, Quarterly Gross Domestic Report

Activity in the accommodation sector and the restaurant subsector was severely impacted by the pandemic as international travel was suspended for much of 2020. Hotels closed or significantly scaled down their operations since movement restrictions were imposed in most countries.

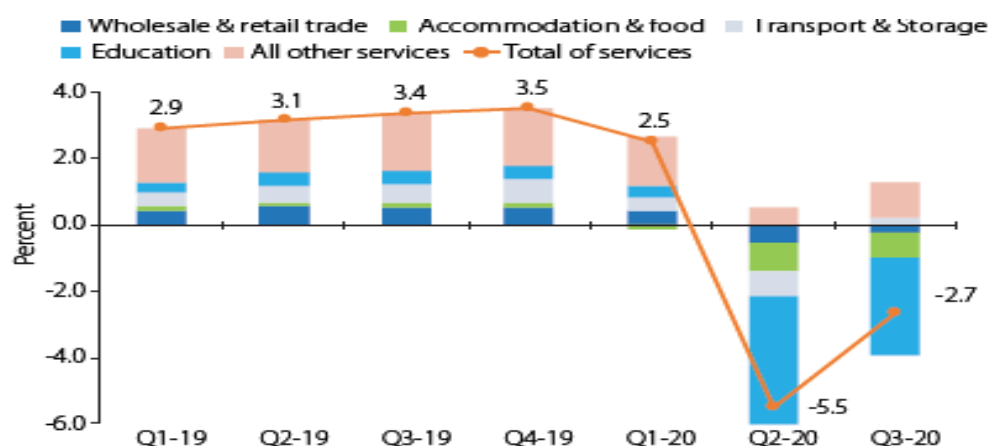
The Economic update for June 2021 shows that receipts from services exports fell sharply reflecting the collapse of international travel and transport. There was a reduction in the subsector of about 57.9 percentage points year-on-year between July and September which lessened the overall GDP by some 0.8 percentage points.

A Central Bank of Kenya (CBK) analysis of the hotel industry in mid-March of 2021 indicated a sluggish and uneven recovery from the serious disruption of mid-2020. The analysis noted that most of the hotels are presently open. However, the average rate of occupancy has improved only modestly to 27% by March of 2021.

The Kenyan economy staged a recovery in Q₃ of 2020 and the services sector increased by 2.9% year-on-year contributing some 0.2 percentage points to GDP. The other service subsectors like Finance, communications and information including insurance as well as Real Estate ticked in the later part of 2020. There was a strengthening of growth in business services, Real Estate renting ICT, insurance and Finance ranging between 5.3% to 7.3% year-on-year in the July-September period of 2020. It is noted that continued credit growth following government policy actions did support the financial sector performance. The government measures with regard to facilitation of digital money transactions benefited the ICT sector and promoted e-commerce.

Figure 3 below shows the impact of the pandemic on the services sector from Q₁ 2019 to Q₃ 2020. It shows how serious the impact was on the subsectors and the severe impact overall from end of Q₁ 2020 to the start of the recovery in the middle of Q₂ in 2020.

Figure 7: Service sector contracted by COVID- 19 effects



Source: KNBS and World Bank staff calculations

Table 13: Contribution by Broad sub-sectors (percentage points)

Table B4: Contribution by Broad sub-sectors (percentage points)

Year	Quarterly	Agriculture contribution to GDP	Industry by sub sector contribution				Industries	Service by sub sector contribution						Services
			Mining and quarrying	Manufacturing	Electricity and water supply	Construction		Accommodation and restaurant	Transport and storage	Real estate	Information and communication	Financial and insurance	Other	
2015	Q1	2.0	0.1	0.3	0.2	0.6	1.2	-0.1	0.5	0.5	0.3	0.6	0.6	2.3
	Q2	1.1	0.1	0.3	0.3	0.6	1.3	0.0	0.6	0.5	0.2	0.5	1.0	2.9
	Q3	0.8	0.2	0.5	0.2	0.8	1.7	0.0	0.7	0.6	0.2	0.7	1.1	3.4
	Q4	0.8	0.1	0.4	0.1	0.7	1.3	0.1	0.4	0.7	0.3	0.4	0.8	2.7
2016	Q1	1.0	0.1	0.2	0.2	0.4	0.9	0.1	0.5	0.7	0.4	0.5	0.8	3.0
	Q2	1.8	0.1	0.5	0.3	0.4	1.3	0.1	0.4	0.7	0.2	0.4	1.0	2.9
	Q3	0.4	0.1	0.4	0.2	0.5	1.2	0.1	0.3	0.7	0.3	0.4	1.3	3.1
	Q4	1.0	0.2	0.2	0.1	0.7	1.2	0.2	0.6	0.7	0.5	0.4	1.4	3.8
2017	Q1	1.1	0.1	0.2	0.2	0.4	0.8	0.3	0.5	0.5	0.5	0.2	0.9	2.9
	Q2	0.1	0.0	0.0	0.2	0.5	0.8	0.1	0.5	0.5	0.3	0.2	1.2	2.9
	Q3	0.4	0.0	0.0	0.2	0.3	0.5	0.1	0.4	0.5	0.4	0.1	1.3	2.9
	Q4	-0.2	0.0	0.0	0.1	0.7	0.8	0.1	0.7	0.5	0.5	0.1	1.8	3.6
2018	Q1	1.8	0.0	0.4	0.3	0.2	0.9	0.2	0.4	0.4	0.5	0.2	1.2	3.0
	Q2	1.4	0.0	0.5	0.3	0.2	1.0	0.1	0.4	0.4	0.4	0.2	1.4	3.0
	Q3	1.2	0.0	0.5	0.4	0.2	1.2	0.2	0.6	0.3	0.4	0.3	1.6	3.4
	Q4	0.6	0.0	0.4	0.5	0.2	1.1	0.3	0.9	0.3	0.6	0.5	1.5	4.1
2019	Q2	0.5	0.0	0.4	0.2	0.4	1.0	0.1	0.5	0.5	0.3	0.3	1.5	3.1
	Q3	0.9	0.0	0.4	0.2	0.4	1.0	0.1	0.6	0.5	0.3	0.5	1.4	3.4
	Q4	0.6	0.0	0.2	0.2	0.4	0.8	0.2	0.8	0.4	0.5	0.4	1.3	3.5
2020	Q1	1.5	0.1	0.3	0.2	0.3	0.8	-0.1	0.4	0.4	0.4	0.4	1.1	2.5
	Q2	1.7	0.1	-0.4	0.0	0.2	-0.1	-0.9	-0.8	0.2	0.2	0.2	-4.4	-5.5
	Q3	1.1	0.2	-0.3	0.1	0.9	0.9	-0.8	0.2	0.5	0.3	0.3	-3.2	-2.7

Source: World Bank, based on data from Kenya National Bureau of Statistics

Note: Other = Wholesale and retail trade + Public administration + Professional, administration and support services + Education + Health + Other services + FISIM

Note that from Q₂ in 2020, services sector was severely impacted by the pandemic and had a negative effect on contribution to GDP.

The World Bank Kenya update reiterates that services will recover gradually albeit with large differences across the sub-sectors. They further submit that the sub-sectors that were resilient at the most intensive time for the pandemic are likely to keep up the momentum. The sub-sectors include health, public administration, financial services and ICT. Moderate recovery is envisaged for some of the sub-sectors which contracted due to the containment measures in 2020 which include retail trade, transportation and storage.

A more gradual recovery is projected for the hotel and restaurants sub-sectors where future outlook could depend on the progress of the vaccination rollout and containment of the infections both domestically and globally. The availability of international transport and cost improvement will also matter.

In the final analysis services sector would recover only at a slow pace in the medium term. This informs the reports GDP growth rate projection for the country which they put at 5% through 2023 and is lower than the pre-COVID rate. The future is uncertain leading to an elevated risk and dependence on the evolution of the pandemic both locally and internationally.

The future economic outlook remains unpredictable and highly correlated to the evolution of the pandemic both locally and internationally. However, despite this, the African continent in general is experiencing major and worsening economic hardships; the major drawback being lack of the essential structural and institutional capabilities as well as policies to deal with possible fallout.

The continent still has to grapple with major uncertainty on both financial and logistical problems that come with massive vaccination campaigns (Arzeki, Djankovic and Panizza, 2021). The Kenyan economy is evolving and services sector is becoming more significant. Some leeway and opportunity exist to grow the sector. The economy is increasingly reliant on the services sector which is the largest GDP contributor and likely to relegate agriculture and industry to less significant contributors of GDP. However, even though the services sector did contribute considerably in 2019, agriculture's share of the value-added still remains the highest among both regional and Sub-Saharan Africa (SSA) as well as the Low- and middle-income country peers and is still more than twice the average SSA and LMIC countries.

6.4 COVID-19 IMPACT ON KENYAN TOURISM SECTOR

Tourism and travel are a major component of the services sector especially in some developing countries where they contribute a big proportion to foreign exchange earnings as well as being a major contributor to employment creation. This sub-sector is also a major contributor to these countries' GDP.

Globally there has been an extra-ordinary rise in the twin sectors of tourism and travel in the last six decades. The industry has grown in leaps and bounds as a result of multiple factors such as increasing incomes in the west as well as technological developments in both communications and transportation.

According to UNWTO (2020a), and WTTC (2020a) international tourist travel have grown impressively from 25million in 1950, 278 million in 1980, 528 million in 1995, 952 million in 2010, 997 million in 2011 to 1,044 million in 2012 and to 1.5 billion in 2019. The statistics show that between 2009 and 2019 tourism and travel industry had grown for 10 years without break at an average of 3.9% even though lower in comparison to the very high rates recorded in 2017 and 2018.

In terms of Africa the WTTC reports that tourism is one of the major driving industries in the continent and added 8.5% of Africa's GDP IN 2018. The African Travel and Tourism Association (ATTA) 2019 credits the sector with contributing 24.3 million jobs equivalent to 6.7% of total employment.

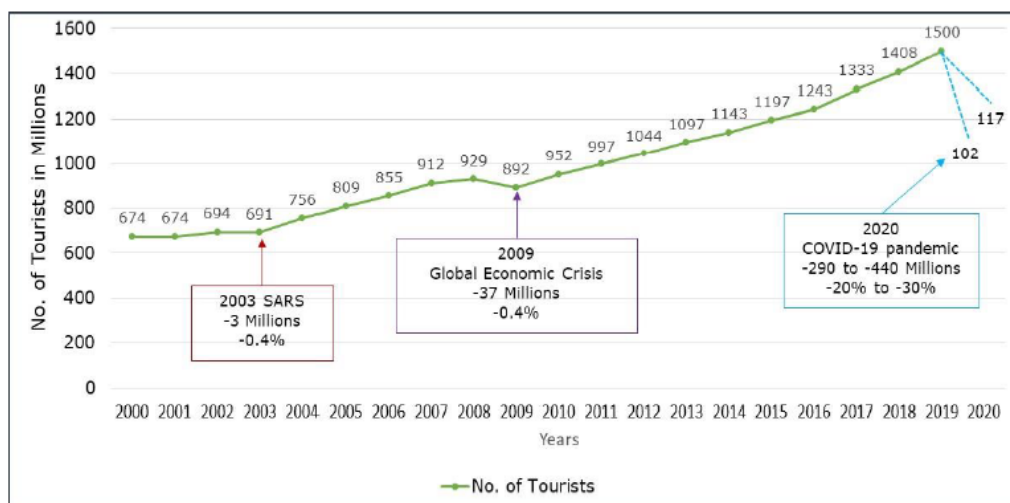
In Kenya, tourism has had an impressive performance since 2015 growing at 3.9% in terms of arrivals from 2.02m in 2018 to 2.05 in 2019. This was a 37.33% from 1.47m visitors recorded in 2017. The Kenyan ministry of tourism notes that domestic tourism has also been growing and accounted for more than 50% before the pandemic.

Tourism was the worst hit sector in the overall economy by COVID-19. The sector is a significant contributor to the country's GDP. Kenya's statistical agency has estimated the sector to contribute upwards of 15% of the nation's export value translating to about 9% of wage employment through its many value chain activities. The KNBS estimates that about 3.5% of the country's total employment is attributable to tourism and related activities.

The advent of the pandemic resulted in a deep fall in travel and tourism activities in Kenya. The externalities reverberated across the related sub-sectors such as transport, real estate and agro-processing.

The situation worsened by the attendant recession that affected the source country economies leading to loss of disposable income.

Figure 8: Effect of COVID pandemic on world Tourist Numbers



Tourists Numbers in the World

Source: UNWTO (2020a)

Tourism is very sensitive to any form of upheaval. The 2015 terror attacks in Kenya and the resultant travel advisories negatively impacted international tourist arrivals. The industry eventually recovered thereafter but the emergence of COVID-19 pandemic seems to have halted the process. It is among the most volatile and vulnerable and is very susceptible to exogenous shocks such as the 2007/2008 post-election violence and the 2008/2009 financial crisis both of which led to fall in tourist numbers as Figure 5 below shows.

Figure 9: Tourist sensitivity to violence

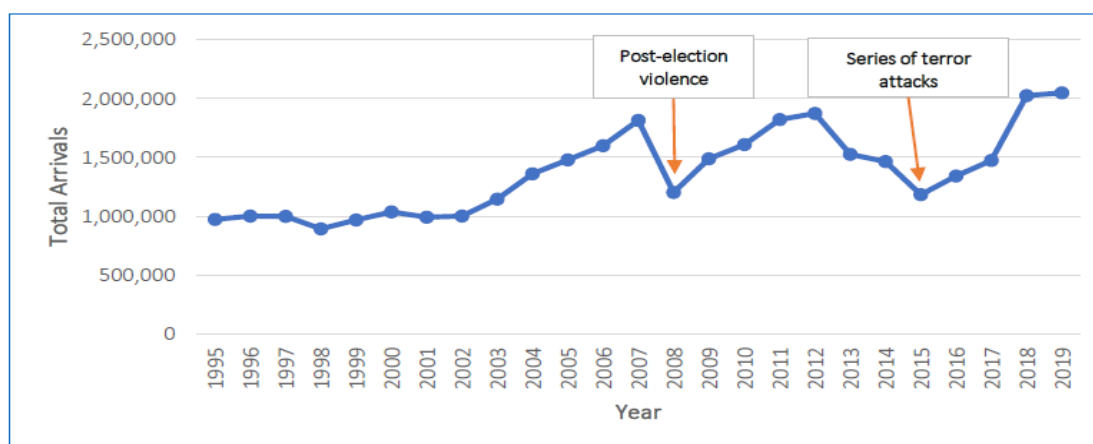


Figure 1.4: International Tourist Arrivals in Kenya from 1995 to 2019

Source: Adapted from KNBS (2011) and GoK (2018)

A KIPPRA study in July 2021 indicates that total shutdowns on international flights in most western European countries which are key source countries of tourists to Kenya denied the country tourists leading to a dramatic collapse of the industry in the second quarter of 2020. Flights to and from Kenya were grounded besides there being a travel aversion at that stage of the pandemic.

6.5 TOURISM EMPLOYMENT AND THE EFFECT OF COVID-19 PANDEMIC

In terms of employment, the tourism sector value chain does generate direct employment in services. These include accommodation, transportation, food and beverages services as well as travel (tour services). The sector also generates indirect employment through forward and backward linkages in other sectors, the most prominent of these being conferences, events, management, construction, (MICE). Also included in the linkages of tourism sector are communications, agriculture and utilities.

When the pandemic emerged in 2020 and the resultant drop in travel, the KIPPRA study estimates that employment in the sectors value chain activities fell by a sizable 72%. The most notable declines were recorded in accommodation (70%), while food and beverages dropped by a staggering 70%. Entertainment dropped by a massive 90%. Railway and air transport were temporarily wiped out at 100% while tour and travel services plunged by 70%. It is observed that following the governments easing of the COVID-19 restrictions in august 2020 the sector experienced a boost. The MICE subsector in particular rebounded strongly and presently seems set for a full recovery.

A study by KIPPRA based on two rounds of surveys in May and June 2020 in which tourism was proxied by accommodation including food and beverages services conclude that the sector was the worst affected of all averaging a loss of 30hrs per week per worker. The encouraging side of it was that the sector is more likely to have a quick rebound going by the transitory nature of the pandemics impact on employment in general. The reason behind this optimism is attributed to the pent-up demand from domestic tourism. It is however, clear that the COVID- 19 pandemic continues to unfold and its evolution and duration is still uncertain.

Tourism is a major part of the services sector in Kenya which as stated above declined sharply in the face of the COVID-19 outbreak. The employment value chain activities have been estimated to decline by upwards of 72% in 2020.

Though tourism has had an impressive performance in the past few years, it is considered to be one of the most vulnerable industries which is easily impacted by external shocks such as the current COVID-19 pandemic.

In a new study by KIPPRA in July of 2021 the authors recommended a number of policies to help the sector recover. The policies included enhancing innovation and focusing on the emphasis on serious promotion campaign targeted at domestic tourism which they argued has proven to be resilient in the face of several shocks including the current pandemic. Along with these the study recommends the incentivization of local tourism firms to design products and adjust their pricing strategies with a view to catering for domestic tourists.

The study also emphasized the need for social protection programs to cushion sector employees from shocks brought about by pandemics and other exogenous factors. The adoption and enforcement of COVID-19 containment protocols was strongly recommended. Finally, there was emphasis on the need to prioritize policies intended to achieve critical levels of immunizations against COVID-19 with a view to boost Kenya as an attractive and safe tourist destination.

Table 14: Impact of COVID-19 Pandemic on Employment in Tourism Sub-sectors

Key value-chain activities	No. of establishments	Estimated number employed before the COVID-19 pandemic			No. employed during COVID - 19
		Formal	Informal	Total	
Accommodation (hotels, resorts, guesthouses, lodges, etc.)	2,336	21,614	281,841	303,455	91,037 (30%)
Food and beverage	811	7,508	97,902	105,710	31,713 (30%)
Entertainment (souvenir shops, craftsmen, festivals, theme parks)	2,250	2,500	23,000	25,500	2,550 (10%)
Transportation					
Railway	1	252	1072	1324	0 (0%)
Road	551	21,101	275,150	296,251	148,126 (50%)
Water	22	845	11,021	11,866	5,933 (50%)
Air	443	16,942	220,919	237,861	0 (0%)
Guides, tour operators, and travel agencies	112	1368	1368	2736	821 (30%)
TOTAL		72,130	912573	98,4703	280,180 (28%)

Sources: World tourism organization and Kenya TSA

In Kenya, tourism is among the strongest economic pillars with the country, ranking third largest tourism destination in SSA following South Africa and Nigeria (GoK, 2019). It is imperative that good and effective tourism policies are needed to strengthen the sector. The sector is now the second largest contributor of foreign exchange earnings of over US \$ 1.57 billion. The massive number of people involved and the associated spending on goods and services has to have a major impact on local, national and even regional economies of the country and the world.

The spending by tourists on facilities and activities as well as on shopping, accommodation, restaurants and conferences does provide a major boost to local economies and employment (Deegan, 2020).

The industry has in the past shown great staying power over the years, but COVID-19 has emerged as the most complex challenges facing the tourism world today. The pandemic has

presented the sector with a significant challenge. This has caused a global panic whose duration and extent are still unpredictable.

Tourism at present ranks one of the most affected sectors worldwide, and the spread of COVID-19 has focused the attention on the globalized nature of international tourism and how the sector has been affected by its spread (Deegan, 2020). The WTTC estimates that COVID-19 pandemic could cut up a large number of jobs and it could take a long time to recover (WTTC, 2020b). It is important to note that the evolution and trajectory of the disease is still unpredictable.

At the present time Africa is still the least affected continent (in terms of documented infections) by COVID-19, most governments have been taking unprecedented steps in slowing the spread by stopping international travel. This can be seen in the cancellation of major international conferences in the early 2020 which dealt a major blow to the sector. There has been a similarly serious adverse effect on the aviation sub-sector when for example Kenya banned all international air travel in march of 2020.

In Africa, airlines had incurred a combined loss of US \$ 4.4 billion by March 2020. The passenger volumes reduced by a massive 622,000 with the associated revenue losses of US \$ 125 million in the East African region alone. This development put some 36,800 jobs at risk. The escalation of the crisis could push passenger volumes to fall by an estimated 1.6 million with an attendant loss of US \$ 320 million in revenue. If the crisis persists, a world recession cannot be ruled out as well.

6.6 COVID- 19 AND THE HOTEL SUB- SECTOR IN KENYA

In this section we look specifically at the hotel sub- sector which is very much dependent on tourism.

The pandemic initially affected the tourist destinations of the north coast comprising Malindi and Watamu areas in Kilifi County. This led to cancellation of a number of flights. Despite the fact that the pandemic arrived during the slump season in Kenya, the sector experienced a sudden massive fall in demand leading to some of them being closed. This was intensified by government containment measures such as borders closures in an attempt lockout the virus spread and slow the virus transmission. The implication was that a sizable number of hotel staff were sent on unpaid leave or laid off permanently.

The MICE subsector had been on the rise in the pre-COVID period. MICE had made a significant contribution to the sub- sector. The MICE was pivotal in the growth by 3.9% of the tourism sector as a whole and earned Ksh.163.56 billion.

In the situation, non-essential travel was restricted in March 2020 especially to countries considered to be high risk that is with high incidences of COVID-19 infections. Tourism is a particularly interactive economic activity based on people and the United Nations agency responsible for it has outlined some guidelines to help the sector survive this pandemic, cooperating closely with the WHO ensure implementation of health measures and stands ready to support eventual recovery.

In Kenya the government did respond fairly quickly to try and contain the spread by sensitization of public, suspension of international travel, engaging with UNWTO and WHO and other allied tourism organization to try and mitigate the impact of COVID- 19 on tourism. The government also has continuous monitoring and response through integrated approach. There is need for innovation and supply of updated information to customers while sharing lessons learnt and set aside funds for post corona recovery initiatives.

The pandemic has had severe impact on tourism employment. The pandemic has brought most of the world to a screeching halt with its impact on international arrivals, domestic tourism, tourism sector business in general and employment in the tourism sector. There have been significant reductions in employment in tourism organizations.

In Kenya the pandemic has led to the decline of park visitation from March 2020 by a massive 87% in the first quarter of 2020 and given that visitation to KWS national parks and reserves is a good indicator of the performance of the tourism sector where wildlife tourism is a key component of the tourism industry.

6.7 COVID-19 PANDEMIC IMPACT ON KENYA'S EDUCATION SECTOR

The advent of COVID-19 in Kenya impacted the education sector severely leading to an abrupt closure of all learning institutions. The closures affected learners, instructors and households. There were significant social and economic consequences associated with the closures. The government applied three-pronged approach to try and aid continuation of learning during the pandemic while adhering to the necessary protocols of social distancing, quarantine and self-isolation. The education ministry had earlier developed some content that some though not all school going children could access through various channels to continue learning but this was fraught with numerous challenges most of which were technical like lack of electricity, and internet access thereby raising issues of equity. There have been long term ramifications with regard to education and COVID-19 especially for marginalized and most vulnerable children with heightened risk of being excluded from education for a variety of reasons. These were mainly learners from urban slums, those with disabilities, those from remote locations refugees as well as those whose families' lost livelihoods as a result of job cuts and business closures associated with COVID-19 pandemic.

One of the major impacts of COVID-19 especially during the school closures on the learners' side was the absence of physical contact with their teachers for content delivery due to social distancing and other spread mitigation protocols. The substitute for this was to be digital learning but it was also riddled with issues of inaccessibility of technology and lack of dependable internet access especially in rural areas and to those from underprivileged families. The major problem that emerged was the so-called digital gap that is the unequal access to digital educational resources and learning material.

The private school subsector did suffer greatly due to the emergence of COVID-19 and the subsequent closure of schools. This was mainly due to their dependence on school fees and other charges as the main source of their revenues to run their institutions. In some cases, their teachers lost their jobs and some of the institutions lost on enrollment of learners and could not resume even when the schools were eventually re-opened. There was a policy suggestion that the government could offer them some financial assistance but we have not seen any evidence to indicate that this was done. The private schools are essentially private businesses providing a social service at a fee.

Along with the direct impact on the learners and their teachers these institutions also have significant economic activities associated with their operations and these were seriously affected during the prolonged learning institutions closure following the advent of COVID-19. The support employees in these institutions were also severely impacted and did lose their livelihoods in some cases.

6.8 COVID-19 AND IT'S IMPACT ON THE HEALTH SECTOR IN KENYA

COVID-19 pandemic and the containment measures instituted by the government to combat the spread of the virus did impact people's health seeking behavior. The measures in the form of lockdowns, curfews and the fear of infections did prevent people from accessing health facilities a phenomenon observed across the globe. The so called non-essential medical procedures were abandoned especially in the period in which the virus was raging in certain parts of the republic. Kiriti (2021) found that 39.3% of the respondents changed their health seeking behavior due to the COVID-19 impacting access to a variety of medical interventions. The pandemic found the country woefully unprepared in terms of funding, physical facilities including ICUs, isolation rooms and PPEs and was well below the WHO standards (Kiriti-Nganga, 2021).

The pandemic also negatively impacted the health worker population in the country with deaths in this sector relatively elevated.

The pandemic laid bare the utter unpreparedness of the health sector to deal with a pandemic or any other major health emergency. It was reported that the entire country had only some 200 equipped ICU beds and dangerously few ventilators for severe cases of COVID-19 infections.

The advent of COVID-19 has made it clear to the policy makers as well as the decision makers at the unit levels that the entire healthcare system needs a major overhaul with a view to making the system responsive to the needs of the citizens. It is also crystal clear that major resource investments will have to be put in the sector if there is to be a change in service delivery levels in the health sector.

The pandemic also brought to the fore the immediate need for some form of universal healthcare insurance coverage to bring about some semblance of a medical cover for the majority of the residents. The imbalance between the rural and urban areas has also been shown to need some attention.

However, we must also make it clear that Kenya is not alone among its African peers in having this poorly managed health system. The World Health Organization (2013) reported that most health systems in Africa are generally underfunded and understaffed while access to specialized care is highly unequal. In the era of COVID-19 the WHO Africa office (2020) gave a score of 66% in terms of national preparedness for the whole continent but indicated that there are serious variations from country to country. Kiriti-Nganga (2021) study also reports on the bad state of insurance coverage in Africa where few countries have national medical insurance schemes and even then, the existing ones only cover a miniscule proportion of the population. The study further cites a study by Tafirenyika (2016) showing that in Ghana for example only a third of the population receives medical insurance under the country's National insurance scheme, while Nigeria was even worse at less than 3% of the population covered. In Kenya and Africa in general, there is a lot of work to be done in this important sector if major improvements are to be realized.

The following section looks at how the COVID- 19 pandemic has impacted the FDI flows into Africa and to Kenya in particular.

6.9 COVID-19 PANDEMIC AND FOREIGN DIRECT INVESTMENTS

The COVID-19 pandemic caused a dramatic fall in global foreign investments (FDI) in 2020, and has brought FDI flows to a level last seen in 2005. It has been an immense negative impact especially on the most productive of investments, the Greenfield investment in industrial and infrastructure projects. According to UNCTAD (2021) report the implication of this is that

international production, the engine of global economic growth and development has been seriously affected (UNCTAD, 2021).

The UNCTAD's World investment report of 2020 shows that FDI fell by one third to US \$ 1 trillion which is well below the low point reached after the global financial crisis of 2008-2009. The report further points out that the Greenfield investments in industry and new infrastructure investments projects in developing countries were especially hard hit.

FDI inflows to developing economies was not as hard hit as the ones to developed countries. It was 8% fall versus 58% for developed countries. The UNCTAD report 2021 indicates that the modest decrease to developing countries was mostly helped by Asia where flows indeed increased by some 4%. Patrick Tryba commenting on the UNTAD 2021 investment report argues that while Asia has been able to apply FDI in its advancement Africa has not been so lucky. The observation here is that between 2000 and 2018 Africa's share of world FDI inflows increased from 1% to 3% but its share of global value chain participation remained a modest 2%. In the same period the Asia- Pacific region realized global inflows rising from 10% to 31%.

The COVID-19 pandemic reduced Africa's FDI inflows due in part to her severe dependence on commodity trade. Africa's Greenfield projects also saw sizable declines. The concept of FDI paradox was also in play where investments in theory should flow to where returns are highest but though Africa had the highest returns on FDI between 2006 to 2011 the inflows did not follow as expected. The reasons for this included less developed Infrastructure, insufficient human capital, lack of judicial protection for foreign investments, weak property rights laws and disjointed investment policies.

FDIs are a major channel through which the continent receives external finance. The advent of COVID-19 meant a considerable fall in Africa's FDI inflows. This was accentuated by lockdowns which considerably and negatively impacted both the existing and prospective new investments. This brought to the fore the possibility of a major recession making investors unwilling to venture into new investments, especially the green field type. It is argued that due to the heterogeneity existing among both African countries and their economic sectors, the pandemic's unexpected advantage could well be to direct policy initiatives towards unlocking the potential of regional value chains (RVC) that promote growth.

The pandemic caused a serious drop of FDI to Kenya as it muzzled trade arrangements across the world. The UNCTAD (2021) investment report on FDI shows that Kenya attracted US \$ 717 million worth of FDI investments in 2020 compared to US \$ 1.3 billion in 2019. This was the second straight drop considering that US \$ 1.6 billion was attracted in 2018. Kenya, considered to be East Africa regions powerhouse lagged its neighbors Uganda at US \$ 823 million and Tanzania at US \$ 1.013 billion. The world investment report projects a better performance on the eased COVID- 19 restrictions.

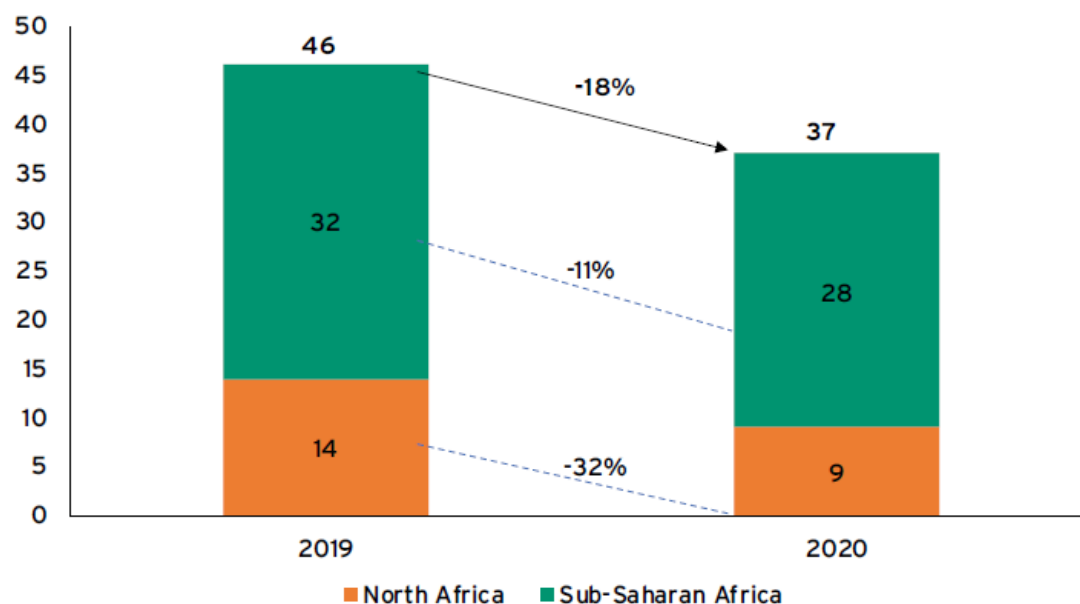
It is noted that as part from the COVID related restrictions, the country introduced local participation requirements in various industries which included insurance, telecommunications and ICT services which may disadvantage her in competing to attract FDI.

The drop in FDI was not unique to Kenya as FDI inflows to the whole SSA decreased by 12% to 30 billion US \$ with investment growing only in a few countries. In Nigeria for example inflows increased slightly from US \$ 2.3 in 2019 to 2.4 billion. Globally, FDI fell by a third to US \$ 1 trillion in 2020 compared to US \$ 1.5 trillion in 2019.

It is projected that FDI will recover this year (2021), after an almost 35% drop in 2020 due to COVID-19 crisis. According to the UNCTAD 2021 report the global FDI is projected to increase by between 10 and 15% in 2021 and will still be below the pre-pandemic levels. The lockdowns

witnessed worldwide led investors to pause investment projects and made MNEs to shy away from new projects. Investments flows to Africa are unlikely to fully recover in the near term.

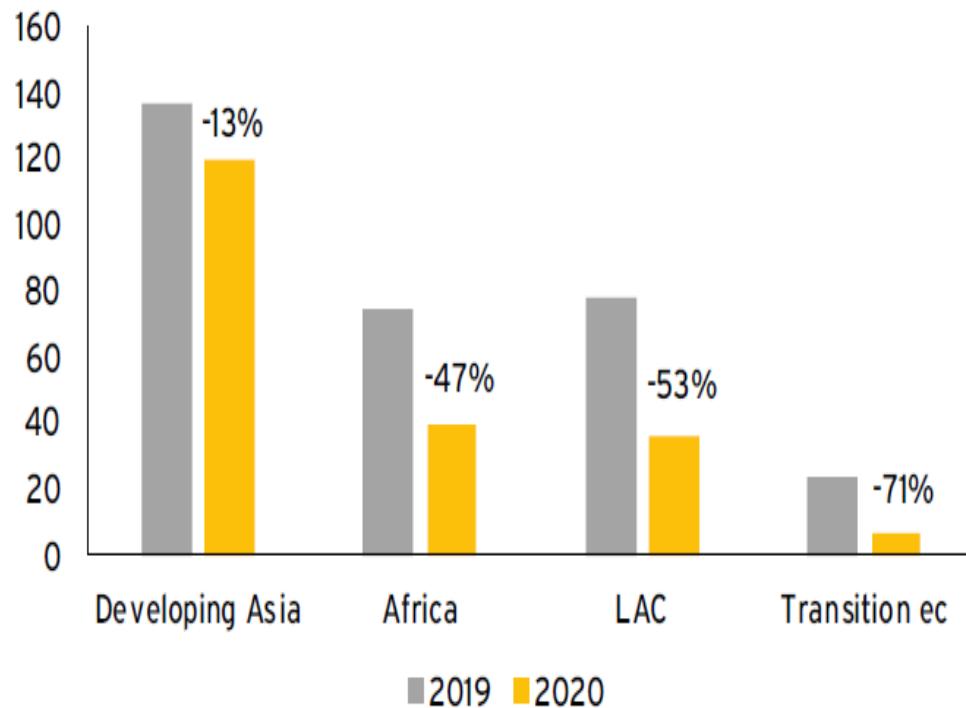
Figure 10: Impact of COVID- 19 on FDI in African Regions: UNCTAD 2021



Note: 2020 trends based on preliminary data. Expected to change when full data is available which will be published in the World Investment Report 2021.

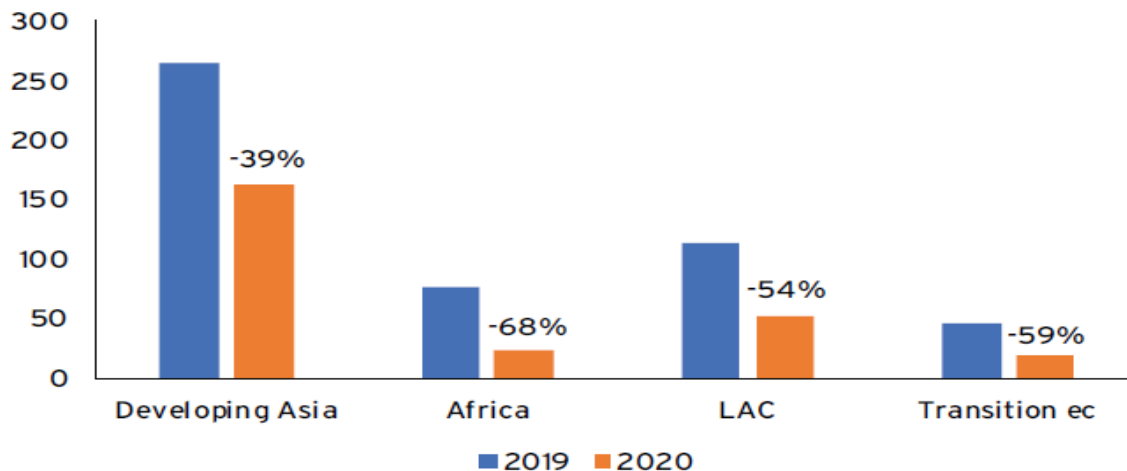
Figure 6 shows the negative impact on FDI on the African continent. The figures for 2020 confirmed the instantaneousness of the COVID- 19 effect with a drop in FDI flows into the continent, exceeding the average for developing countries. Also working against the African continent has been the age- long issue of the structure and nature of African exports characterized by primary products and commodities which command low prices in the international market place and whose demands tend to trend downwards. This further negatively impacted Africa's natural resource seeking FDIs a major component of the inflows to the continent (Chaudhary, Santos-Salinas and Trentini, 2021).

Figure 11: Inward Greenfield Investment in Developing Regions pre- and post-COVID-19



Note: For 2020, the figure shows annualised data based on nine months data.

Figure 12: Inward project Finance Investments across Developing Regions pre- and post-COVID-19



The pandemic severely affected both sources of FDI into Africa with greenfield almost halved while project finance is down 68%. These are significant effects.

Chaudhary *et. al* argue convincingly that Coronavirus stuck at a time when a myriad of other problems emanating from the so called new industrial revolution and countries tending to look inward especially in the west (Economic nationalism) created a worsening scenario for global

FDI, international production and global value chain landscape. The changing world economic structures are bound to profoundly affect developing economies who are looking to export driven development strategies as a cure to their underdevelopment. This may hinder their desire to attain transformational movement up the value addition ladder.

For the African continent this does not augur well given the continents export structure with primary commodities and little value addition comprising the bulk of their exports and their reliance on export-led industrialization strategy being key to their economic policy. The changes in the global posture towards inward looking western countries and African countries export-driven industrialization strategies could imply that the ramifications of the structure of African exports of predominantly primary commodities and no value added natural resource exports could be a more severe handicap.

Figure 13: The negative effects of COVID- 19 on global FDI Deals

Value of deals in USD billions on a quarterly basis

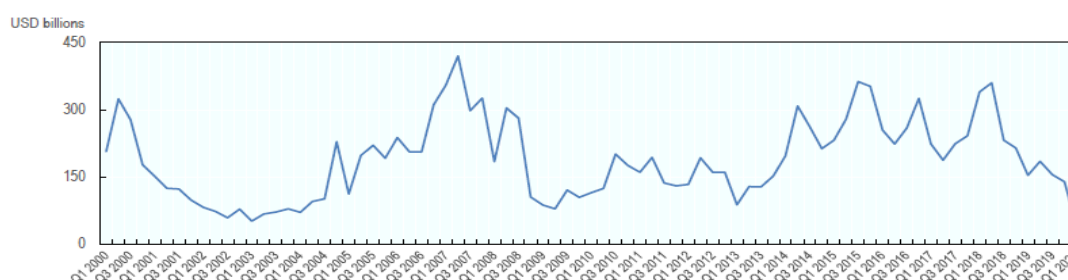


Figure 9 shows the immediate negative impact of COVID- 19 in the first quarter of 2020 where there is a precipitous drop.

6.10 RECENT DEVELOPMENTS ON FDI SITUATION IN KENYA

Foreign Direct Investments (FDI) in Kenya generally remain relatively weak considering the size of its level of development. Despite this it is still one of the largest recipients of FDI in Africa with FDI inflows significantly increasing since 2010. According to figures from UNCTAD'S 2020 World Development Report FDI flows decreased by 18% to US \$ 1.3 billion in 2019 (compared to 1.6 billion in 2018). Despite several new projects in information technology and health care the total stock of FDI stood at US \$ 15.7 in 2019.

In recent years, the ICT sector has attracted most FDI especially after the arrival of fiber optics in 2009-2010. The other sectors targeted by FDI have been banking, tourism, infrastructure and extractive industries.

In 2020, due to COVID- 19 pandemic, FDI flows to Kenya fell significantly was interfered with by budget cuts and a morose business climate. According to UNCTAD'S global investments trends monitor, FDI flows to Sub- Saharan Africa (SSA) overall decreased by an estimated 11% to about US \$ 28 billion.

Table 15: FDI inflows to Kenya in recent years

Date	Value	Change %
2019	1,332,436,904	-18.05
2018	1,625,921,131	28.42
2017	1,266,137,283	86.52
2016	678,803,417	9.53

Table 5: shows a steady rise in FDI inflows up to 2018. The drop was recorded in 2019 before the intervention of COVID- 19 in the 2020.

It is noted that the Kenya government has been actively taking measures and implementing reforms to attract FDI to the country. Consequently, the country made progress in the Doing Business Ranking published by the World Bank. The country was ranked 56th worldwide for the ease of doing business in the 2020 report of the World Bank an improvement from 2019 when it was ranked 61st.

Table 16: FDI inflows, stocks Greenfield investments and their investment values

Foreign Direct Investment	2017	2018	2019
FDI Inward Flow (million USD)	1,266	1,626	1,332
FDI Stock (million USD)	12,784	14,410	15,742
Number of Greenfield Investments*	52	65	95
Value of Greenfield Investments (million USD)	2,714	1,775	3,861

Source: UNCTAD - Latest available data.

Note: * Greenfield Investments are a form of Foreign Direct Investment where a parent company starts a new venture in a foreign country by constructing new operational facilities from the ground up.

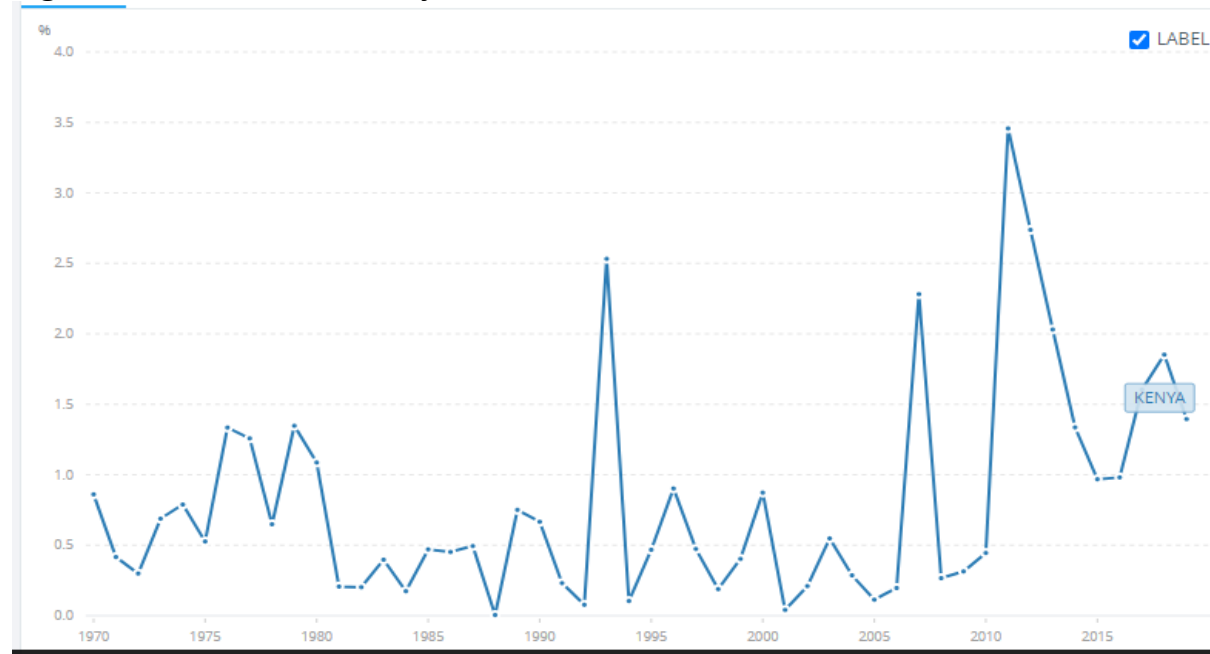
Table 6 shows the FDI situation before the disruption caused by COVID- 19 in the first quarter of 2020.

There have been notable changes in registering property, getting credit, protecting minority investors, tax payments and resolving insolvency. Important improvements have occurred in all these areas which had been a major concern to the investors both domestic and foreign.

The development of public- private partnership as part of ‘‘ vision 2030’’ should also have a positive influence on FDI inflows.

Kenya plays a pivotal role in the East African Community (EAC) acting essentially as a hub. It benefits from a strategic geographic location with sea access, a growing entrepreneurial middle class, a diversified agriculture and an expanding services sector, and recently discovered carbon resources. Nevertheless, numerous obstacles to investments persist in the economy notably the country’s poor-quality infrastructure, skills shortages, instability related to terrorist risk and political, social, and ethnic divisions, ineffective rule of law and corruption.

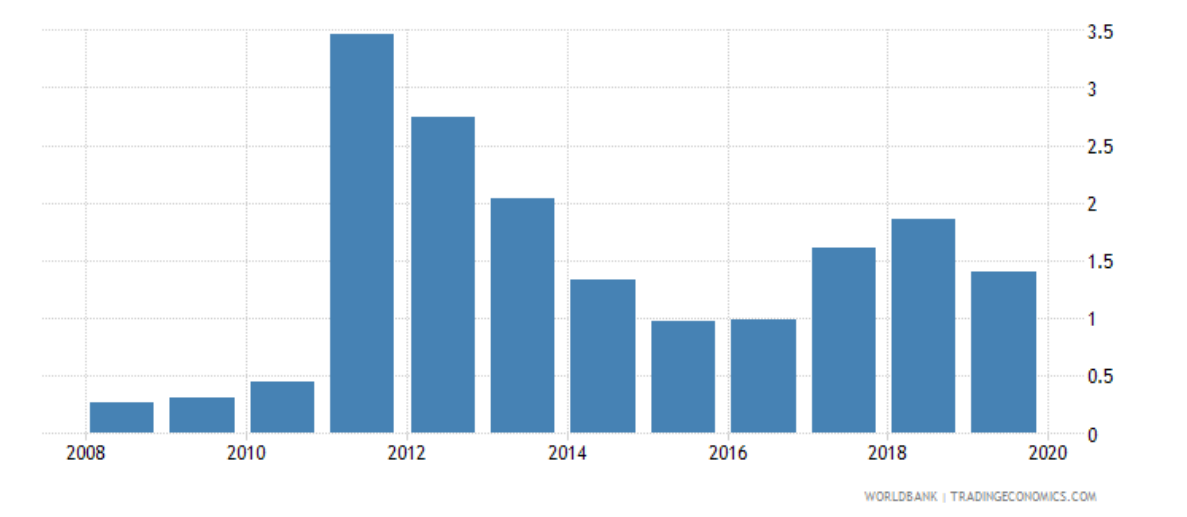
Figure 14: FDI inflows to Kenya 1970 to 2019



Source: World Bank (2020)

Figure 11 shows FDI trends 2008 to 2020: The COVID-19 drop is observable.

Figure 15: FDI trends 2008 to 2020



Source: World Bank (2020)

The pandemic brought drastic deterioration in FDI flows into the continent in the year 2020 reflecting world trends. The effect of the pandemic on FDI in the continent was worsened by low world demand for commodities and the fact that natural resources commanded comparatively low prices vis-à-vis manufactured goods. It is estimated that FDI inflows to Africa went down by some 20% in 2021 compared to the previous year and is projected to remain low in 2021(UNCTAD, 2021). The pandemic shock has impacted supply, demand, as well as policies with regard to FDIs. The shocks to demand came from falling overall demand, lower spending by consumers and delays in investments by businesses (See Baldwin and De Mauro, 2020). The

situation was also impacted by the new containment measures responding to the health crisis. These measures came along with restrictions which negatively impacted cross-border investments including FDI inflows to the continent.

Djankov and Panizza, (2020) submit that world FDI flows will eventually come back to the pre-COVID levels and this will entail global value chain restructuring for purposes of resilience learning from the COVID experience. There will also be an almost mandatory capital stock replenishment as the world economy re-establishes itself. However, the developing nations may still face some difficulties especially with respect to uncertainty of the path to recovery.

The challenge for the African continent is that a health crisis added to a prolonged fall in FDI inflows to the continent would impact the pace of development and growth with the situation making it more difficult to pursue the export-driven path to economic growth and transformation.

It is imperative to note that the situation produced by the COVID-crisis will also accentuate the existing problems with diversifying the economy away from dependence on primary products and natural resources. This will eventually bring about shortages of external financial resources thereby negatively impacting an already fragile balance of payments position of most of the African economies.

In the opinion of the authors, after the health crisis, a persistent downturn in FDI flows to Africa can affect development prospects for the continent. The scenario would complicate pursuing an export-driven strategy for structural transformation.

The situation also compounds existing obstacles to economic diversification in particular away from natural resources and finally it leads to dwindling of external financial flows and can affect the already precarious balance-of-payments situation for a number of economies.

Freund *et al* indicates that despite all these issues numerous opportunities for investment exist in Africa and to promote structural change in the continent. The crisis may have a silver lining since it may stimulate opportunities in the networks of international production especially for the economies receptive to FDIs who are likely more disposed to gain (Freund *et al*, 2020). It is further suggested that due to the new restructuring in the GVC system will likely lead to new opportunities for the economies of Africa. There is leeway to bring in light manufacturing that give way to enhanced addition of value to both Africa's natural resources and their primary commodities.

The author further suggests that the ongoing reconfiguration in the geography of GVCs can open new opportunities for countries in the continent. There is scope to attract light manufacturing that enhance value addition of natural resources and commodities.

The soaring significance of Regional Value Chains (RVCs) can go forward alongside the African Continental Free Trade Area (AfCFTA) to attract FDI inflows aimed towards regional manufacturing and market seeking opportunities. The African Development Bank proposes that this state of affairs does give chances for local private firms in Africa can make bigger strides in the regions development by mobilizing local resources, embracing new technologies and strengthening RVCs (AfDB, 2020).

6.11 CONCLUSIONS AND POST-RECOVERY STRATEGIES

The review of the service sector, especially tourism and its employment effects on the economy lead us to the conclusion that while the Kenyan economy is changing, services are becoming a major economic driver in the country. The pandemic may have a long-lasting impact on the economic fortunes of Kenyans.

The arguments of a number of authors are that there are wide ranging opportunities to enhance the restructuring of the economy anchored on the services sector. (See Arzeki *et al*,2021)

We have observed that COVID-19 pandemic affected peoples' health (life) and their livelihoods (jobs and other sources of income). The effects have been more severe in sectors that rely on face-to-face interactions like hotel accommodation, wholesale retail trade and education. It is noted that informal sector firms tended to be more affected negatively than the formal ones. This is especially with regard to obtaining financing. This is due to the fact that informal tended to face bigger sales drop and were under considerable uncertainty. They also tended to have cash flow problems and eventually also trouble repaying their debts.

Firms in the hospitality sector requiring face- to-face interactions as a necessity have been most affected. This also happened in the informal public transport sector.

Foreign Direct Investments (FDI) flows have fallen by an appreciable proportion during the early part of the pandemic as MNCs were reluctant to expand their activities and even put new investments on hold due to uncertainty which comes with such major disruptions as a global pandemic. The FDI flows of the developing countries dropped even more since the severely impacted sectors like primary and manufacturing sectors accounts for a larger share of their FDI inflows than in the advanced countries.

The expectation is that the FDI flows could remain below the pre-crisis levels through the whole of 2021 unless the public health measures and economic support policies pursued by the government are effective.

The COVID-19 pandemic has profoundly impacted the country. The beginning of the pandemic in March 2020 triggered stringent measures to slow the spread of the virus which was essential to minimize the loss of life but also resulted in widespread economic disruption and losses in jobs and livelihoods. It abruptly weakened growth and increased poverty, leading to the worst economic growth performance in Kenya since 1992.

Some of the suggested strategies for dealing with the COVID-19 fallout has been to develop the use of digital platforms to enable firms and other sectors cope with uncertainty brought about by the pandemic since precautions requiring non-face-to-face interactions were introduced.

The use of digital platforms could allow a fair amount of business to go on. The schools and universities where possible also employed on-line learning with varying levels of success. More widespread use of these relatively new platforms is better tailored to the sectors amenable to home- based work. The use of digital platforms has also been somewhat limiting to the informal sector enterprises due to the nature of their activities yet the informal sector enterprises are a significant employer of Kenya's relatively youthful labor force.

Another strategy will be to leverage access to public support in response to COVID shocks on firm sales, jobs, and finances. This public support is equally likely to be more prevalent among larger firms as informal ones stand on their own.

Various strategies are likely to be applied by MNCs and governments to get the benefits from FDI. Countries will try to intensify their participation in the Global or Regional Value Chains. In response to the COVID-19 crisis, integrating into RVCs should be a major plank in the arsenal of policy tools for virtually all countries in the continent. There is need for the formulation of clear- and far-sighted investment and business facilitation policies and protocols in response to this and future crises.

The other more common strategy will include diversification and should result in a wider distribution of economic activities. This will mainly affect services and the GVC- intensive manufacturing industries. Diversifying value chains can lead to new opportunities.

Regionalization could also lead to a transition towards RVCs that have shorter turn around in production length but not also less fragmented in terms of quantity of cooperation agreements. Supply chain resilience is to be prioritized. Regionalization would help create new opportunities for developing economies like Kenya to be competitive in attracting FDI and participating in value-added activities.

In Kenya like most of SSA the post-pandemic recovery will to a great extent depend on policy maker's policy environment favoring gradual adjustment of international production networks. Policy makers should aim at focusing more investments in critical infrastructure, health and access to COVID-19 vaccines for all members of society.

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7.0 EFFECTS OF COVID-19 ON INFORMAL CROSS-BORDER TRADE IN KENYA

By
Gastone Otieno

7.1 Introduction

Establishment of the African Continental Free Trade Area (AfCFTA) appears to re-structure trade in Africa. It continues the campaigns on formalization of trade within the continent. However, a special kind of trade is still mushrooming within the borders as men and women are seen crossing with goods loaded on their heads, backs and even hands. Some have even resorted to the use of bicycles, hand carts and even automobiles to transport their merchandise across the border. This special kind of trade provides essential income to many for livelihood. Majority of the participant in this trade are women making up to 70% due to its nature (Manjokoto and Ranga, 2017; UN Women, 2010).

The composition of goods traded include majorly agricultural produce and industrial commodities ranging from animals and animal products, cereals, horticulture, electronics, vehicle parts and other consumer goods. This parallel trade is what is known as the Informal Cross-Border Trade (ICBT). It accounts to almost 99% of agricultural trade across the borders (Boute et al., 2020). Majority of the traders in this sector operates fully outside the formal economy thereby escaping trade related regulations like duty payments to the respective government revenue agencies.

ICBT has been in existence for quite long and forms the main opportunity for livelihood and security to small scale traders and border communities, in a continent characterized by rising unemployment. ICBT is considered to create more employment opportunity and generate income to the informal traders thereby alleviating poverty (Ityavyar, 2013). On average, ICBT contributes approximately 43% of the total trade within the continent yet it is largely ignored by many policy makers in Africa. Despite its prominence and importance to trade, poverty alleviation, economic development and regional integration, ICBT significantly remains unacknowledged and under-researched area in international trade.

Figure 1 highlights the shares of ICBT in GDP and in employment creation. It indicates that ICBT is one of the main sources of livelihood to many small scale traders. It creates employment opportunity to the youths and women and also generates a sizable share of GDP.

Figure 1: Informal Trade as a % of Employment and GDP in Africa



Source: ILO & WTO, 2009 using data from Schneider and Enste (2000). Countries included: Botswana, Cameroon, Egypt, Ethiopia, Ghana, Kenya, Malawi, South Africa, Tanzania, Zambia, Zimbabwe.

ICBT is mainly dominated by women although majority of the enterprises are started by the men. These groups of women traders are faced with a number of challenges ranging from financial constraints to border harassments, and now the COVID-19 restrictions. For example, in the South African region women ICBT approximate to about 70% while in the Western and Central Africa nearly 60% of informal traders are mainly women (UN Women, 2010; Afrika and Ajumbo, 2012).

Many policy makers rely on formal trade to understand the impact of COVID-19 at the border points. But the data from this kind of trade only paints a limited picture of the disruptive nature of the virus on trade. It only gives a glimpse of how formal trade is important to the consumers and producers but paints very little importance to the livelihood of the small cross-border community. Therefore, to better understand the impact of COVID-19 on trade at the Kenyan borders, the study tries to examine its effects on the informal-cross-border-trade.

7.2 Theoretical construct and evidence on ICBT and COVID-19

Theories on Informal Cross Border Trade form part of the basic conventional trade theories: that is for trade to occur goods and services must move from one point to another. Specifically, trade only occurs between two countries if and only if products are traded crosses the border. The concept follows the Vinnerian theory of trade creation and trade diversion (Bhagwati and Hansen, 1973; and Azam, 2007). Based on this, ICBT can lead to trade creation by increasing trade flows or divert legal trade through unlawful border transactions (Koroma et al., 2017). However, as indicated in the customs union analysis, the net welfare effects may seem ambiguous.

In connection to this, some empirical evidence has been used to show the fluctuating trend of ICBT and women participation on informal cross border trade. However, due to the short term period of COVID-19 effects worldwide, there is limited data to help quantify its effects on ICBT. Studies have mainly relied on primary data sources to show the negative impact COVID-19 has had on the respective economies, especially on cross border trade. For instance, The United Nations Conference on Trade and Development (UNCTAD) reports that trade on goods fell globally by 5% in the first quarter of 2020 and projects a 27% drop for the second quarter due to COVID-19. They also predict a 20% annual decline for 2020 (UNCTAD, 2020). This demonstrates that the impact on Africa's exports and imports worsened as both the severity and spread of COVID-19 increased across the continent, and as the decline in commodity prices worsened.

UBOS and BOU (2011) did an informative study in Uganda's ICBT to estimate its magnitude and nature. They put ICBT figures for Uganda in 2009 at about USD 800 (51%) of the formal export trade. However, this has hysterically declined to about USD 528 (33%) in the subsequent years.

The issue of data inadequacy has largely affected research on ICBT. Most existing studies on informal cross-border trade in Africa are therefore qualitative and based on field research, or case studies relying on indirect inference and accounting. Literature has focused more on smuggling in transit and re-exports, which to some contexts has reached impressive volumes of trade for example, the case at the border between Senegal and the Gambia (Golub and Mbaye, 2009). Golub (2012) focuses on this informality trade in Benin, Togo and Nigeria which is very large in volume but not recorded and has thus attracted much attention of the respective governments.

Ackello-Ogututu and Echessah (1997) uses data collected through direct border monitoring, between Kenya and Uganda. Their findings showed that informal cross border trade at this border comprise some re-exports as well as large volumes of domestic trade in agricultural and manufactures products especially from Kenya.

7.3 Methodological Approach

7.3.1 Introduction

Currently, Africa continent has no systematic way of monitoring and quantifying the impact of ICBT. However, governments and other agencies or institutions have employed short term initiatives to estimate the extent of ICBT in some regions. To some extent, the approaches have helped identify most commonly traded products informally as well as those that heavily depend on ICBT.

The study therefore triangulates the use of various initiatives to understand and estimate the impact of COVID-19 on small scale border traders.

7.3.2 Descriptive statistics

Much of the analysis relies on descriptive estimates, but excerpts from literature and other studies are used to enrich understanding of the impact of the virus on cross-border trade.

7.3.3 Data Sources

In the analysis, we ride on secondary data from three initiatives. That is; the Family Farming, Regional Markets and Cross Border Trade Corridors (FARMTRAC) project, the Comité permanent Inter-État de Lutte contre la Sécheresse au Sahel (CILSS), and the Food Security and Nutrition Working Group (FSNWG), and national bureau of statistics.

7.4 Evidence of COVID-19 effects on Small Scale Border Traders

7.4.1 COVID-19 and Border Management

The first wave of corona virus pandemic brought in confusion to many African countries. This placed cross border trade on hold as border activities were suspended (IOM, 2020). The process led to the introduction of border restrictions and regulations to help manage cross-border transmission of the virus. It implied countries suspended their international flights and introduced mandatory quarantine period for those entering the country. For instance, Kenya introduced a 14-day quarantine period on external flight passengers.

Table 1 shows the measures that were taken by various African countries to control their borders. They either closed their land and maritime borders or/and suspended their international flights.

Table 1: COVID-19 and Border Management

Country	COVID-19 Closed borders/Suspended flights		
	Land borders	Maritime borders	Flights suspended
Burundi	Yes	Yes	No
DRC	Yes	Yes	Yes
Kenya	Yes	No	No
Rwanda	Yes	Yes	No
South Sudan	No	Yes	No
Uganda	Yes	Yes	No
Tanzania	Yes	No	No

Source: ECA calculations are based on the World Food Programme COVID-19 World Travel Restrictions database (as at 7 June 2020).

Table 1 demonstrates the tension brought by the pandemic within the region. Only South Sudan did not restrict land border crossing points while the rest of the EAC member states did so. Five countries also closed their maritime border entry points while only DRC restricted flights during the first wave of the pandemic. The regulators allowed only essential service providers and emergency services to move around to aid transfer of cargo across the borders while limiting movement of cross border traders. However, the regulations required mandatory testing and proper sanitization of the providers while limiting the number of passengers and crew members on board.

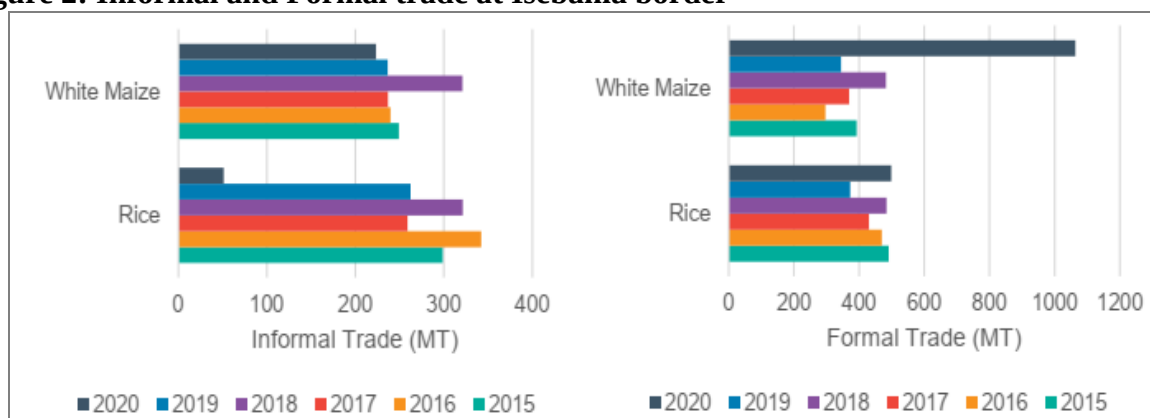
The regulations helped contain the rising viral infection and minimized death cases worldwide. For instance, the confirmed infections and death cases by WHO as at July 2020 stood at 493,708 and 11,668 respectively. However, such regulations impacted negatively on the cross border traders and significantly hindered economic activities. The confusion was so enormous that the regulations caused some disputes at certain border points.

7.4.2 COVID-19 Disruption to Livelihood and Food Supply in Kenya

Significant cross border trade activities in Kenya take place mainly with the Ugandan and Tanzanian counterparts. For instance, the benefits from trade balance for Kenya is mainly on industrial manufactured goods while Uganda and Tanzania trade balance is mainly from exports of agricultural produce especially food trade.

The countries are among the EAC members that have suffered a great deal on the effects of COVID-19. The impact is gravely felt on the informal cross border traders than formal trade sector. Figure 2 indicates the weekly average shifts of informal and formal trade volumes for rice and maize at Isebania border between Kenya and Tanzania.

Figure 2: Informal and Formal trade at Isebania border



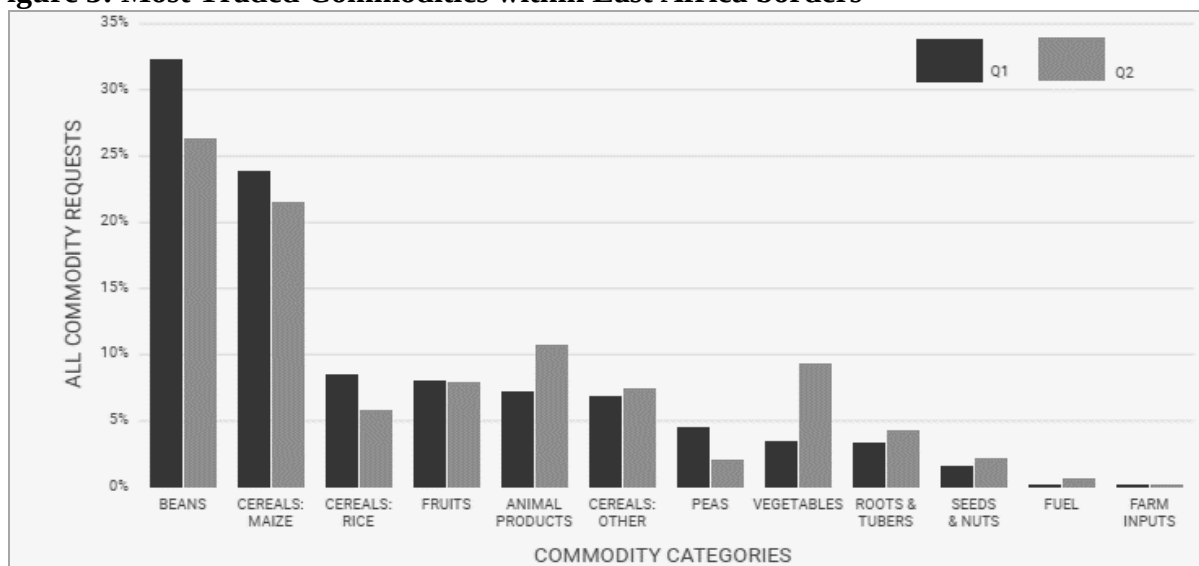
Source: FSNWG, 2020

Figure 2 clearly shows that the pandemic caused certain trade adjustments to take place. Significant volume of trade on maize and rice was shifted from informal to formal trade channels in 2020 due to the new COVID-19 regulations that vastly affected informal cross border traders. Apart from cereals and grains, perishable goods also constitute the largest share of ICBT amongst the many agriculture and food commodities traded in Africa. Kenya for instance is a net importer of most perishable commodities from Uganda and Tanzania. These include mainly fresh fruits and vegetables products direct form the farms. These products don't require costly

border procedures which make formal trade impractical. In East Africa, there were disruptions on the shipment of fresh food under COVID-19 restrictions. This created food shortage at the point of demand and wastage at the point of production due to surpluses.

Figure 3 represents most commonly traded commodities by cross border traders within East Africa member countries for Quarter one and two of 2020.

Figure 3: Most Traded Commodities within East Africa borders

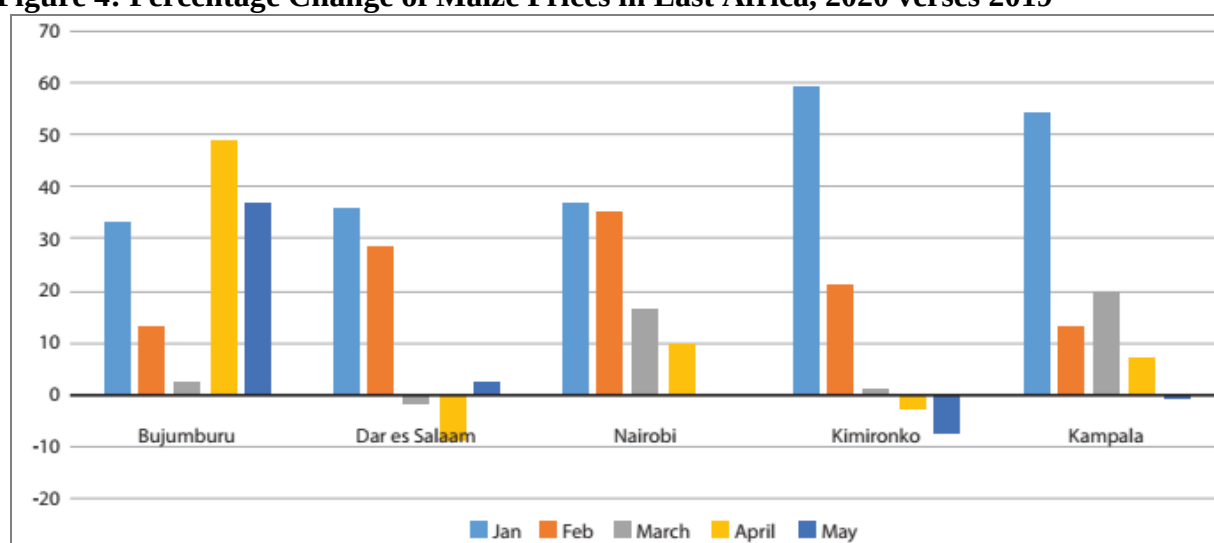


Source: Sauti Trade Insight, 2020

From Figure 3 the most commonly traded commodities by women cross border traders are beans and maize. It is also indicative that due to COVID-19 pandemic, the second quarter of 2020 experience a sudden drop on trade in most traded commodities. However, vegetables and animal products showed a significant improvement in trade.

Due to their perishable nature, these goods are mostly transshipped at night when the temperatures are cool to minimize losses. However, curfew restrictions only allowed truck drivers to move during the day increasing the risk of damage and losses. Transit time was also lengthened as the drivers were forced to pack and wait overnight for the curfew time to lapse. The increased transit time further leads to escalating commodity prices at the border and as well as in the hinter land as shown in Figure 4.

Figure 4: Percentage Change of Maize Prices in East Africa, 2020 versus 2019



Source: ECA estimates are based on data shared by the Eastern Africa Grain Council for 2019 and 2020.

Figure 4 indicates high elasticity in maize prices comparatively and yet the commodity is considered staple to many families in Kenya and to the greater region.

Much of trade in livestock and food products also takes place in Kenya especially with the northern neighboring countries like Ethiopia, Somalia and South Sudan. This kind of trade requires strict sanitary and phytosanitary measures for its formality. However most of the traders in this case are small scale and therefore these measures are an impediment to their existence. The strict measures therefore give cross border traders incentives to circumvent official controls. COVID-19 pandemic made governments to enhance sanitary and phytosanitary measures at border points and this greatly hampered ICBT activities.

Enhanced COVID-19 restrictions have also intensified bribes and illicit fines and created more checkpoints along the corridor nodes. Both formal and informal cross border traders are adversely affected. These numerous checkpoints cause a significant time delays leading to bribes. By April 2020, the illicit collections and bribes had increased by almost 50%.

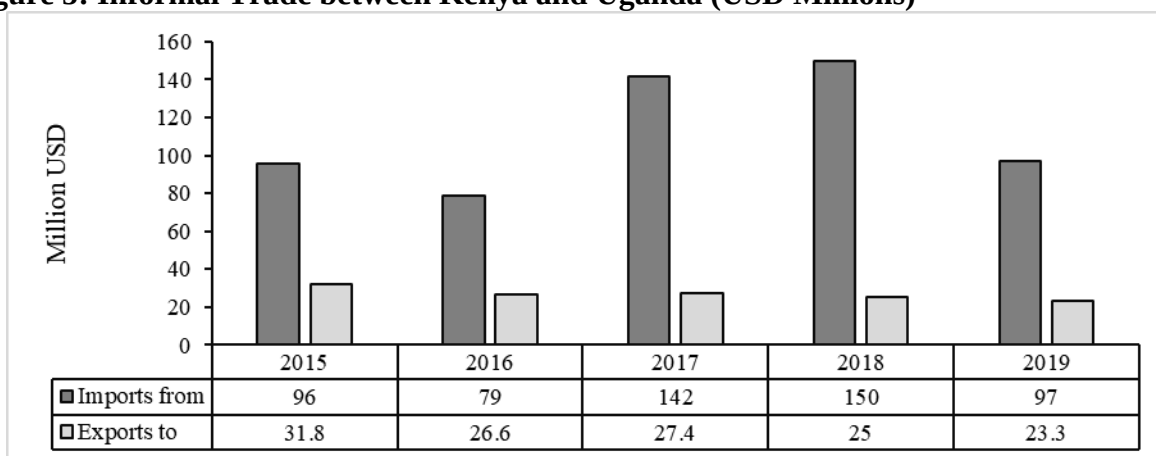
7.4.3 Kenya COVID-19 Restrictions and Survival of the ICBTs

Kenya closed most part of its borders following the wake of COVID-19 regulations. However, this was not the case on some parts of the partner's borders. Some countries took long to limit movement making it easier for cross-border traders to shift and settle on the other side of the border. This allowed some limited opportunities for informal cross-border trade irrespective of the COVID-19 regulations. Many traders who shifted however found it difficult to cross back due to the closer of border points and were forced to live in precarious conditions.

Limited movements also complicated transshipment of goods and services by traders on either side of the border. Some would therefore resort to paying truck drivers to buy and transport goods on their behalf. This involved certain risks. The arrangement implied compromise on quality and quantity of consignments and some would end up being duped by truck drivers entrusted by the consignees. For example, truck driver at Busia border would buy low cost maize from Ugandan side thereby compromising on the informal cross border trader's maize quality.

Figure 5 below gives an indicative trend of the informal trade between Kenya and Uganda for the past five years. The analysis has used mirror data from Ugandan Bureau of Statistics (UBOS, 2020b)

Figure 5: Informal Trade between Kenya and Uganda (USD Millions)



Source: UBOS 2020b

The results show that Kenya is a net importer of Ugandan products especially agricultural output. This confirms literature that Kenya is a net importer of both formal and informal goods from Uganda. The figure also indicates that 2019 trade figures might have gone down due to the first wave of COVID-19 impact. We can infer from the result that cross-border trade is an important source of livelihood for the border communities, and vulnerable groups, including women and smallholder farmers.

Table 2 provides a glimpse of the nature of informal cross-border trade transaction at the respective Kenya-Uganda borders using mirror data.

Table 2: Informal Trade between Kenya and Uganda by Border

Year	Imports (USD 000)				Exports (USD 000)		
Border	Busia	Malaba	Suam	Lwakhakha	Busia	Malaba	Suam
2015	69,942	9,583	15,487	1,423	18,704	8,429	3,447
2016	66,060	9,308	2,492	1,266	18,479	5,593	1,135
2017	117,406	15,774	3,327	5,156	17,647	7,292	574
2018	133,130	11,157	3,722	1,943	15,697	5,831	1,749
2019	84,113	10,163	2,122	1,081	15,760	4,699	1,359

Source: Compiled from UBOS 2020b

From Table 2 we can conclude that much of the ICBT transactions take place mainly at Busia border followed by Malaba border. The nature of traded commodities indicates that these border communities are subsistence farmers and small scale traders and therefore require regular border crosses in order to essentially survive. Majority of the commodities are perishable agricultural products such as tomatoes, peppers, cassava, fish and eggs.

Therefore, the COVID-19 short notices to traders to prepare for border closures negatively impact on their livelihood. The result sometimes leads to spoiled stock and hefty losses for the traders. For instance, in Kenya, the cessation of movements in and out of cities was abruptly announced as farmers were en route to markets with truckloads of produce. These farmers were not allowed to pass police barriers and were forced to abandon their harvest of a full season and return home (Luke et al., 2020).

For instance, from Figure 6, announcement of COVID-19 restriction brought into a halt the Malaba border operations subjecting truck drivers into long waiting time. Some suspended the journey while others abandoned the cargo due to their perishable nature and made a return journey to the hinter land.

Figure 6: COVID-19 Regulation causes Traffic snarl-up at Malaba border



Source: The photographs are published courtesy of the Eastern Africa Grain Council, and were taken from its weekly updates on the COVID-19 pandemic (Eastern Africa Grain Council, 2020a)

The loss of stock and sales due to cross-border trade COVID-19 disruptions also impact negatively on revenue and ability to pay back loan premiums. The financial stress is so grievous in informal cross-border traders who rely mainly on expensive lending schemes that are not banked. For example, many women cross border traders participate in table banking that offers short period loans to acquire merchandise to trade and pay back in the evening. Defaults due to unsold stock as a result of COVID-19 restrictions led to escalated interest rates and spiraling of the debt (Luke et al., 2020).

7.5 Policy Response and Recommendations

The Kenyan Government, through the relevant ministries has adopted several mechanisms to help cushion the small and micro enterprises and the economy against COVID-19 damaging effects. Some of the key policies undertaken include the following:

- i. A reduction of the Central Bank Rate by 1% by the Monetary Policy Committee.
- ii. The MPC also reduced the Cash Reserve Ratio by 1% thereby enhancing the available liquidity to the commercial banks to aid borrowings.
- iii. The CBK extended the maximum tenor of repurchase agreements (REPOs) from 28 to 91 days to allow flexibility on liquidity management.
- iv. The CBK further announced a set of emergency measures to facilitate increased use of mobile money transactions, to curb the spread of the virus through cash handling, by waiving charges for mobile transactions up to Ksh. 1,000 and increasing transaction and daily limits for mobile transactions.
- v. The government also reduced the turnover tax rate from the current 3% to 1% for all Micro, Small and Medium Enterprises (MSMEs).
- vi. There was also the reduction of the VAT from 16% to 14%.

The Kenya government also being a member of the EAC participated in the publication of COVID-19 border guidelines. But, to enhance perception of COVID-19 border regulations and

how to safely trade, government authorities should develop a simplified step-by-step guides for small cross-border traders and truck drivers. Their aim should focus on easing the implementation challenges at borders.

They should make efforts to widen the scope of guidelines to facilitate movement of merchandise across the border. This will create more business opportunities and further help kick-start economic recoveries towards the “new normal”. Priority should be given towards speedy movement and clearance of essential goods and services.

Any new updates or advancements on border regulations should be made public and announced in advance to allow stakeholders to adapt to avoid conflicts at border posts. This should include sharing of updates on test certificates for drivers and other essential service providers at designated testing points and border points.

Kenya and the greater African continent through African Union should develop a common COVID-19 protocol for the region as the region is characterized by membership overlaps. This will help harmonize and coordinate the implementation of trade and transport related regulations. Mobile banking and cashless payment systems should be encouraged to control the spread through cross border trade. Mobile lending platforms should also be encouraged to facilitate credit transfers to cross-border traders. Similar guidelines should be encouraged and be issued in other countries and regions as well.

There is need for the government to design a system that can be used to capture informal cross-border trade data and integrate it into the national database. However, caution must be taken to ensure that the data is not being used against the informal traders. They should develop a strong policy for formalization of the informal cross-border trade activities.

More appropriate information and customs regulations should be provided to protect small-scale and female traders especially during the pandemic.

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8.0 KENYA'S TRADE FACILITATION MEASURES DURING COVID -19

**By
Dr. Kennedy Osoro**

8.1 Introduction

Since the outbreak of COVID -19, Kenyan businesses were affected by stringent measures the government put in place to control the virus. The mitigating measures of course minimized the spike of the virus but proved a delicate balance for the government between saving live and livelihood and economy. The measures affected the border and behind the border processes.

Processes at the border affected the efficiency of trade flows and at end led to rise in transactions cost. The main issues at the borders and behind the border ranged from clearance procedures, customs procedures and documentations, movement of goods on transit, clearance formalities at the border points, which was complicated by social distance and testing certificate norms, Kenya closed land border and increased road blocks, restrictions on modes of transport and people among others.

As a result, the Government of Kenya together with the trading partners tried addressing some of the challenges while balancing between saving lives and the livelihood of scared people from the pandemic. All agencies of government were mobilized to sort out especially the transport logistics, by implementing measures like the cargo tracking system (RECTS), as a matter of agency in order to facilitate cargo and essential goods needed during the pandemic.

All this time, Kenya so far managed to coordinate, prevent, control and put in place treatment measures of COVID -19 pandemic using an efficient, centralized command system -the National Emergency Response Committee (NERC). Day after day the COVID-19 revolved to become a humanitarian emergency not known how long it will take and how long the measures would be in place, for the virus keep manifesting in different variants and waves. The local resurgences across the world despite the mass vaccination being impressed in many countries may lead to more losses of lives and prolong the economic recoveries of most developing and least developed economies.

WTO and other multilateral agencies started to advocate for reopening of the borders to allow trade flowing such that supply of essential products can reach all parts of world. Similarly, the outbreak of COVID -19 put to test the WTO's Trade Facilitation and other trade facilitating agencies their efficacies. The TFA came into force in 2017, and which contains provisions to accelerating movement, release and clearance of goods including goods in transit.

8.2. Government of Kenya's trade facilitation response, measures and preparedness to COVID-19

The government of Kenya and people struggled to slow down the spread of the virus using all means, knowledge and experiences shared by other countries especially China. Kenyan government took swift actions to protect businesses, companies, workers who were laid off and casual workers who stayed home because of lockdowns from the temporary disruption of their incomes caused by COVID-19. The measures stretched from providing Economic Stimulus Plan to flexibility of the private sectors like banks in regard to loan adjustments and repayments, to companies like Safaricom implementing a fee-waiver on M-PESA among many other measures implemented.

The first COVID -19 case was reported on 13th march 2020 and government swiftly reacted by creating a National Emergency Response Committee (NERC) to coordinate the preparedness, and response to the outbreak, closed schools on 15 march 2020, partially implemented lockdowns

on 6th April 2020 when the COVID cases were 158, and 6 deaths, international flights were suspended, mandatory quarantines were enforced for international arrivals, bars were closed, opening and closing hours of hotels and restaurants were restricted, and the ban of huge gathering were imposed on 25th March 2020 and, shortly the enactment of nationwide curfew from 7.00 PM-5.00 PM started whose time kept changing and by September 2021 it had been extended from 10.00 pm to 4.00 am. Finally, after one year and seven months the nightly curfew was lifted in October 20th 2021.

8.3. Government Measures

The Kenyan government responded to the devastating effects of the pandemic through an economic stimulus plan that were implemented via a Tax Amendment Act 2020 and became effective on 1st April 2020 to allow:

The allocation of Ksh.44.8B for health care, contact tracing, monitoring expenses, food reliefs, social protection and cash transfers, the government reduced VAT from 16-14 %, reduced personal income tax rate from 30-25 %, corporate tax was reduced from 30-25 % and increased from 10-15 % for nonresidents, while the tax turnover was reduced from 3-1 % and turn over thresholds increased from Ksh.1-500 million for MSMSEs. On the same breath low income earners of Ksh.2400/ and below were exempted from tax.

Similarly, to save the MSMEs from further damage, the government temporarily suspended the listing of any person, corporate entity to Credit Reference Bureau for any loan overdue or in arrears. Government also promised to pay Ksh.13B of the pending bills, verified VAT refund claims amounting to Ksh.10B and encouraged the private sector to follow suit in clearing outstanding bill among them while Ksh.1B was to be appropriated from the Universal health care coverage vote to recruit more health workers.

On the other hand, the executive announced through the president to take a voluntary pay cut, whereby the presidency reduced their salaries by 80 %, the Ministers, Speakers of Parliament and Chief Administrative Secretaries reduced by 30 % and Principal Secretaries by 20 %.

The government also insisted on Cashless payment to reduce the spread of the virus from one person to the other, allocated Ksh.3B as seed capital for MSMEs credit guarantee scheme (to provide affordable credit), another Ksh.3B for the supply of farm inputs to about 200,000 small scale farmers implemented through e-vouchers, and Ksh.1.5B for flower and horticultural producers to access international markets.

Not to be left out is the worst hit sector of the season-the tourism and hospitality sector, where hotels closed because of lockdowns around the world and within. The government allocated Ksh.2B to cushion the sector from collapse. The money would be taken as a soft loan to support renovations and restructuring the business model. The government also gave Ksh.100 million for Artists, Actors and Musicians through the 'work for pay' initiative, while Ksh.1B was given to support around 160 community conservancies.

Subsequently, the Central bank of Kenya on 23th March 2020, reduced the lending rate to 7 % and continues through September 2021, reduced the cash reserve ratio also to 4.25 %, increased the maximum tenor of purchase to 91 days from 28 days, and waived charges on mobile money transactions.

To compound the monetary measures of central bank, IMF approved Ksh.79B Emergency disbursement, World Bank activated a facility of Ksh.5B and an additional Ksh.1B to support 2020/2021 budget and in May 2021 IMF provided US\$739M interest free loan to help weather the initial COVID -19 shock.

On the other hand, the government embarked on a project to supply adequate water to informal settlements, schools, market places and public places in order to encourage hygiene, especially, washing of hands to prevent the spread of the virus. In major towns and especially Nairobi city the government constructed more new hospitals and refurbished others in the effort to fight the pandemic.

8.3.1 Other measures

The government also supported and promoted the businesses by procuring and buying goods and services from them, investing directly in the economy, channeled money locally through small businesses and ensured that technology and knowhow is made available to MSMEs and companies.

Conversely, to keep the learners home and maintain learning and continuity of education the government, facilitated learning through TV, Radio and provided internet in remote areas through Google balloon and adjusting school calendar and modality of exams. It was a short term, remedial program to help learners from idling, though nearly 400 private schools with a population of about 56,000 learners nearly closed and others closed permanently. However, the Kenyan government pledged Ksh.7B as a concessional loan to private schools to help them with resumption. The loan would be availed at an interest rate of between 2.5 and 3.5 % and will be dependent on the absorption rate of an institution.

On Mobilizing local agents to safeguard livelihoods, the labour services and physical capital was redeployed like textiles which started making PPEs and to restore the livelihoods of employees affected by the pandemic, the government responded through national cash-for-work programmes (*kazi mtaani*), while the small-scale traders were advised to consolidate their consignments such that it can easily be moved across the border now that the movement of the people was restricted. This was done because the borders were closed and the ministry issued guidelines to facilitate small scale traders to continue with their businesses. They would not be allowed to ferry their cargo on bicycles, motorcycles and handcarts but present their consignment in a truck for clearance under the East African Community Simplified Trade Regime and the cargo proceeds to the hinterland and not at the border towns to prevent overcrowding.

On the other hand, the private sector companies like Safaricom waived charges on MPESA, Standard bank gave a payment holiday of 90 days to small business owner, while companies like General Motors in partnership with Ventec ventured into making ventilators.

Similarly, some Businesses adapted and invented new business model for survival. They started home delivery of food, medicine, consumer goods etc.

8.3.2 Measures on international trade

The government to avoid contamination and spread of the virus, banned importation of second hand clothes till measures were put in place on how to disinfect them and transport them. The ban was later lifted. The cargo crew transiting through the country were isolated, quarantined, drivers screened before allowed to proceed with their journey. This caused long queues along the border points and the cargo on transit delayed to reach in good time as drivers waited for COVID- 19 results and certificate.

The government also through Customs implemented the Single Window System, an ICT system which integrates all trade facilitating agencies and the business community with KRA. Additionally, KRA familiarized the integrated Customs Management System (iCMS) which was more efficient than the Simba system, that enabled KRA to receive the declaration of goods

before the ship docks at the port. This significantly reduced time taken to clear the goods as the goods would be verified before the ship docks.

Similarly, KRA made sure that clearing agents, transporters and importers are issued with Authorized Economic Operators certificate as part of the iCMS, which ensures that 70 % of the cargo is cleared at the port. In addition, KRA mounted the operations of the Regional Electronic Cargo Tracking System (RECTS) to track the cargo from the port to the destination or from manufacturer to the final terminus.

Subsequently, KRA introduced online Alternative Dispute Resolution (ADR) sessions, while Kenya plant health inspectorate service (KEPHIS) waived charges on Phytosanitary certificate for exporters of coffee, tea, herbs and spices.

All these measures put and enforced by government to a great extent reduced the spike of the virus, saved lives and ensured that the economy and economic activities continued uninterrupted.

8.4 Guidelines for Business Operations during COVID- 19

In the face of high uncertainty during the outbreak, to minimize the loss of lives and livelihoods due to the virus, and keep trade flowing and keep the economy from plummeting into deeper recession the government through, the Ministry of Industrialization, Trade and Enterprise Development (MoITED) issued guidelines to facilitate the flow of trade while reducing the spread of the virus.

8.5 Guidelines on the Cargo Clearance Process

The State Department for Trade and Enterprise Development (MoITED) issued elaborate instructions on the cargo clearance process during the pandemic. The Cargo destined to the Single Customs Territory (SCT) will be processed in the respective Partner State System, including the cargo release process and the processing of Road Manifest (C2) will be done in the Kenya Revenue Authority (KRA) System.

On the Transit Cargo, the declaration will be submitted and processed in the KRA Cargo Clearance System. This will include issuance of the Road Manifest (T812) but for identification and railage of containers, the Manifest should be submitted by shipping line to KRA for approval at least 48 hours before vessel arrival. Then the KPA generates a list for all SCT and Transit cargo and sends to the respective Revenue Authority (RA) for railage approval. When the railage list is approved, KPA moves the identified containers directly from vessel to Port Reitz for railage by KR to Internal Container Depot (ICD) Naivasha.

All identified cargo will be tagged using the Joint Monitoring Centre (JMC), which is a system used for providing real time cargo visibility for rail cargo and KPA need to provide adequate tracers for all cargo movement by rail. Then KR shall prepare a train manifest in the Cargo Tracking System (CTS) which is integrated with the customs system. The Train manifest details include the train number, date of departure, estimated time of arrival, Bill of Lading and corresponding container numbers

Once the train arrived at ICD Naivasha, the KRA/ KPA/ KR shall physically tally of the actual cargo against the train manifest. These data shall be updated in CTS, shall be automatically sent to RECTS as stock in, and the Port Health will clear the driver for onward movement through the Port Heath Module that is used by Ministries of Health across the Region. A digital certificate will be generated and shared to the next country of entry.

As the Truck enter into ICD Naivasha to pick the cargo, the cargo owner shall have processed KPA pick-up order to facilitate payment of port charges as well as activate the truck booking process. The truck booking system will validate that:

- i. The cargo has been cleared by customs
- ii. Pick up order is fully processed by KPA
- iii. The driver has been cleared by Port Health for onward movement

Thereafter the KPA will load cargo onto the truck as per the truck booking details, KRA shall tag and arm the containers with RECTS and the cargo is evacuated through the Smart Gates, where there is no human intervention. This is recorded as a gate out process. Then the cargo is tagged with RECTS seal and monitored to destination as per declaration and the driver data is shared with the respective health stop facilities and borders for Port Health processes.

When the cargo reaches at the border and at times the borders were closed for people, the cargo clearance process will be paperless. The enforcement staff will validate the road manifest online and update the customs system with the prescribed details, as well the driver clearance process which was paperless and the health certificate is digitized. The customs also distributed the list of essential goods as given by WCO for quick clearance.

8.6 Other Trade Facilitation Measures Taken and Agencies Involved

One of the most challenging experiences for businesses during COVID-19 involved cross border trade along Kenya's border points in the clearance of imports and exports. Some of the key agencies implemented measures which show a faster flow of cargo a cross which included the reduction of custom clearance documents from 10 to 4 on imports while for exports the documents reduced from 9 to 5, brand new motor vehicle spare parts for new cars were exempted from certificate of conformity requirements, introduction of Smart gates at ICD Nairobi and Naivasha, reduced customs clearance time and costs in cargo clearance, there was a real time tracking of containers, KEPHIS, AFA and Port health were roomed into the single window and the declaration of agro-exports was removed.

The National Committee On Trade Facilitation (NCTF) was accordingly activated to expedite both domestic and international trade. This Committee was established in 2016 (legal notice No. 110 of 16th September, 2016 published in the Kenya Gazette (Vol. CXVIII) with the aim of promoting trade facilitation in the country, in particular, by ensuring expedited the movement, release and clearance of goods and transit goods.

The UNCTAD also in corporation with EAC secretariat as financed by TMEA trained online 130 NTFC persons from Kenya, Rwanda, Burundi, Tanzania and Uganda and equipped them with tools and shared experience on trade logistics and how to handle the trade during the pandemic. The training was meant to strengthen their roles and more on simplification, transparency and streamlining of trade procedures and maintaining trade flows during the COVID-19 pandemic.

8.6.1 Kenya Trade Network Agency (KenTrade)- Single Window System (SWS)

The Kenya Trade Network Agency (KenTrade) announced on 31 May 2021, that all licensed shipping lines and agents must use the new system (SWS) from 2 June 2021. SWS is national electronic single window system that serves as a single window entry point for parties involved in international trade and transport logistics to lodge documents electronically, process, approve and make payments electronically.

This system enables one-off submission of pre-arrival and pre-departure declarations to the agencies at the port like KRA, KPA, KMA (Kenya Maritime Authority), State Department of

Immigration, National Environment Management Authority, Port Health, Kenya Coast Guard Service and Kenya Plant Health Inspectorate Service. This system is meant to help traders substantially reduce ship turnaround time loading and unloading cargo, making savings on demurrage charges by accelerating cargo throughput, and easing the growing congestion in Mombasa port.

The documents to be uploaded into SWS include cargo declaration, general declaration, the ship's stores declaration, dangerous goods manifest, the crew's effects declaration, passenger list and crew list. Other documents for submission are last ports of call, waste and fuel declaration form, maritime declaration of health form, ship certificates, and International Ship and Port Facility Security and SOLAS form.

8.6.2. InfoTradeKenya.go.ke

Kenya launched a trade portal, the first one in EAC, fulfilling Article 1 of WTO TFA and has consolidated more than 120 documents and procedures required to import to Kenya and export from Kenya. This portal can serve up to 1.5 million users per month. It consolidates 73 documents under exports and 52 under imports and one under transit.

8.6.3 Trademark East Africa (TMEA)

As part of trade facilitation, TMEA and the Institute of Export and International Trade, signed a memorandum of understanding to implement a digital trade corridor between Kenya and UK on 26th July 2021. A Memorandum of Understanding provides a framework for collaborating to implement a digital trade corridor between the UK and Kenya. This initiative, aims to eliminate paperwork and introduce much better visibility up and down supply chains that flow between Kenya and the UK. It will cut costs for Kenyan firms producing goods like green vegetables and cut flowers for export to the UK, reducing prices for UK consumers, importers and retailers.

This trade logistic information pipeline (TLIP) will generate a transparent, efficient and cost-effective way of managing trade information to sustain and increase trade. TLIP has three Engines:

1. **A Digital Engine**, based on distributed ledger technology (DLT), which will support trade transactions, manage cross border data flows, and ensure traceability and the tracking of goods.
2. **An Information Engine** which will deliver a consolidated one-stop-shop for market and regulatory information needed by suppliers and buyers, and other intermediaries.
3. **A Policy of Governance Engine** will support the development of supplementary frameworks such as innovating trade instruments, procedures and processes as well as developing digital standards within the supply chains. (Newbusiness July 28th, 2021).

8.7 Kenya and the World Trade Organization Trade Facilitation

On the multilateral level, Kenya is implementing various trade facilitation measures ranging among them the Customs Valuation Agreement, and Agreements on Pre-Shipment Inspection, Rules of Origin, Import Licensing Procedures, Technical Barriers to Trade and Sanitary and Phytosanitary measures. As a member of WCO, Kenya is also playing a part in on the way to accession to customs agreements with international application of Harmonized System Convention that forms the basis for tariff classification of goods traded in the international market.

Further, Kenya has gone on board on a Customs Services Department Reform and Modernization Project to modernize customs administration, in accordance with internationally accepted conventional standards and best practices drawn in WTO agreements and the WCO Revised Kyoto Convention. But Kenya has not ratified the revised Kyoto convention.

Additionally, the WTO TFA represents an important landmark by creating an international framework for reducing trade costs which are arising from the movement, release and clearance of goods, including goods in transit. Consequently, there are three specific articles in the WTO text on Trade Facilitation, that deal with the simplification and harmonization of trade procedures clearly: a) article V (freedom of transit) on freedom of transit for goods, vessels and other modes of transport appropriate for international trade. b) Article VIII (fees and formalities). Fees charged must be equivalent to the cost of service .c) Article X on publication and administration of trade regulation

Further, Kenya notified category ‘A’ commitments to WTO under the TFA on 29 April 2015 and has already begun implementing the provisions it has notified as Category A provisions.

Kenya has also completed its designation of category **A, B and C** and its operation status reflects that 7.6 % of provisions have been placed under category A, which have been fulfilled. The remaining 23.9 % of provisions are placed under category B, and 68.5 % placed under category C for future implementation as reflected in Table 1.

Almost all provisions start on 23rd Feb 2023 except Article 10.9-Category B on temporary admission of goods and inward and outward processing which started on 22nd Feb 2021-30th Jun. 2024 (WTO Secretariat).

Table 1: Kenya’s notified category A, B, C commitments to WTO under the TFA.

	Current Rate	CAT A	CAT B	CAT C	Rate of Future Implementation CAT B	CATC	
Kenya	7.60%	7.60%	0.00%	0.00%	23.90%	68.50%	0.00%

Source: WTO 2021.

8.8 Evidence of Kenya’s Trade Facilitation Performance as Measured by Global Indicators

There are many global key performance indicators or benchmarks that will provide aspirational value to the government measures of facilitating trade. They include: OECD TFA Indicators, the World Bank’s Ease of Doing Business Index (EODB), the World Bank Logistics Performance Index (LPI), and the World Economic Forum’s Global Competitiveness Index among others. Some of these indicators have showed Kenya as one of best performers in trade facilitation as explained herein.

1. Kenya recorded 1.28 below the average world performance of 1.5 as explained in the OECD Trade Facilitation Indicators (TFIs) in 2019 (UNCTAD 2019). These indicators are in the current (2017) dataset which covers 163 countries.
2. The world bank ease of doing business index (EODB), comprising forty-one indicators ranked Kenya number 56 among 190 economies in the ease of doing business, in 2019, with a score of 73.2 (DBS) compared to the best country, New Zealand with a score of 86.8 in the same year and as the most improved country on the continent, third in sub-Saharan Africa. (DOING BUSINESS 2020 database).
3. Similarly, the World Bank’s Logistics Performance Index (LPI) is seen to be more closely related to issues of trade and trade facilitation, measuring rank and score for economies on six dimensions of trade- across more than 160 countries.

Kenya recorded an LPI of 42nd in 2016, to 63rd position in 2018, with a Mean LPI score of 2.93 against the best performer Germany with 4.2 and South Africa at 3.51. However, with the construction of the port of Lamu, the refurbishment of Kisumu port, the standard gauge railway, the Naivasha inland container depot, the expansion of various roads and building of bypasses, and the Nairobi expressway are among the recent interventions which may improve the country's ranking going forward. These may also make business/companies and multinationals look at Kenya as a better choice, despite the stiff competition from regional harbors such as the recent expansion of Berbera port in Somaliland and the planned revival of Bagamoyo in Tanzania, the recent decision by Uganda to start its oil imports through Dares Salaam is a should be reason enough for Kenya to up the game in terms of improving customs clearance time.

4. The World Economic Forum's Global Competitive Index (WEFGCI) which aggregates 13 individual indicators, resultant from a combination of data from international organizations, as well as from the WEF's Executive Opinion Survey places Kenya as the 95 most competitive nation in the world out of 140 countries ranked in the Global Competitiveness Report published by the World Economic Forum (World Economic Forum 2019). Kenya scored 54.14 points out of 100 and performed well in business dynamism, ranking 51st in a category led by the United States. It takes an average of 23 days to start a business in Kenya as compared to half a day in New Zealand.

8.9 Outcome of the Measures Adopted by Government to Cushion the People and the Economy from the COVID-19 Shock

The year 2020 was a difficult year for Kenya. Apart from COVID-19, the country also experienced floods which had displaced hundreds of people followed by the locust swarms then drought. The statistics in Kenya tell one story, of the impact of the lockdown on the economy and the lives of Kenyans tells another, but the main worries of the Kenyan people are the economy and their livelihood. The measures put in place to control the virus no doubt worked for Kenya and even the way they were implemented in the counties was effective.

The wide range of non-pharmaceutical interventions put in place to mitigate the spread of managed to boost the Molecular diagnostic testing capacity in Kenya which was very limited and there was no capacity for testing. Since then, the testing capacity increased and was gradually rolled out to more counties.

The immediate response and feedback of the measures deployed by government came from the fiscal and monetary measures which channeled liquidity to SMEs, households and informal workers who were touched directly and saved from stress.

The measures brought about new vocabularies in people's lives like lockdowns, quarantine and curfew. Kenya started reopening her economy by late July 2020; lifting of movement restrictions in areas considered hotspots including parts of Nairobi and coastal counties, adjusted nightly curfew time from 7 pm to 9 pm, opening of places of worship, restaurants, and other places of communal gathering. Local air travel resumed on 15th July, gatherings in places of worship was limited to 100 people for 1 hour, only for those over 13 or under 58 years of age. Schools remained closed until January 2021.

The Kenyan government managed to successfully limit the viral spread and the loss of lives despite the negative impacts the measures had on food and economic security of citizens and

mostly urban residents. Urban areas were hard hit, and within them the deprived areas were more strongly affected by the measures like lockdowns.

The COVID-19 pandemic continues to present new challenges and the Government's economic support and stimulus packages continues to evolve. The Government of Kenya which abandoned the economic stimulus in April 2020 was forced to reintroduce it to save the population from the severe aftermaths of COVID-19 and as such on 20th October 2021 the President unveiled a Ksh25 billion (\$225 million) economic stimulus package to jump-start the economy and create jobs.

The government is introducing the third phase of *Kazi Mtaani*: a package of Ksh10 billion (\$90 million) plan to offer 200,000 youths menial jobs in an economic setting where people below the age of 25, mainly secondary school and college graduates, have been the hardest hit by job cuts; Ksh8 billion (\$72 million) for the construction of schools using local contractors and labor, and Ksh1billion (\$9 million) each to support tea and coffee sub-sectors while sugarcane and livestock will receive Ksh1.5 billion (\$13 million) each.

As the government struggled to improve on the cash flows during the pick of the pandemic and procuring emergency support and help to tackle the pandemic, there was another rush by corrupt individuals to make a kill from procurement which turned out to be one of the worst scandals of the decade. Procuring medical goods on an emergency basis such as masks, gowns, drugs, respirators, hospital beds, ventilators, oxygen cylinders, among others was done in an exorbitant and corrupt way.

The measures resulted to short supply of goods and services leading to price inflation as demand across the globe and the country far exceeded the supply. According to the Kenya National Bureau of Statistics (KNBS), inflation was 6.32 percent in June 2021 compared to 4.59 in the same month in 2020 and 6.45 percentage in October 2021 compared to 4.84 percent in October 2020. The Consumer Price Index was 108.27 in 2020, which has since gone up to 115.11 in 2021. This was mainly driven by rise in prices for commodities: food and non-alcoholic beverages (8.46 percent); housing, water, electricity, gas and other fuels (4.25 percent); and transport (14.71 percent) between June 2020 and June 2021.

This is an indication that Kenyans might have been spared the whole of 2020 with low prices due to the stimulus package from the government but due to fiscal constraints, fiscal deficit, high public debt, the government is trying a very delicate balance to keep the economy afloat. Despite parliament shooting down the proposed 16 percent value-added tax (VAT) on bread in the Finance Bill, 2021, it didn't offer any relief on the high cost of living.

More taxes have been imposed on liquid petroleum gas (LPG) and airtime, among other items making it hard for Kenyans to afford basic commodities whose prices have shot up by almost 50 percent in less than a year. Cooking oil, maize and baking flour, bar soap, sugar and rice are just some of the items that are costing much more compared to 2020. Of these, cooking oil takes the lead with a price increase of 48 percent.

The adherence to health protocols to prevent COVID-19 could have helped to reduce the incidence of other infectious diseases such as influenza and some other common respiratory infections, pneumonia, and Mycobacterium tuberculosis. (Chan KS, Liang FW, Tang HJ, Toh HS, Yu WL. (2020). Indeed, there is a reduction in common flu and colds probably due to massive usage of masks and improved hygiene.

That notwithstanding, most people were separated from their families and friends or they were seeing friends and family less, while others like those having underlying diseases were living in

fear, and stressed. This may be a cause of the rising cases of mental health and suicide cases in Kenya.

Lockdown policies led to supply chain disruption by increasing trade costs and delaying or entirely prohibiting border clearance. This led to loss of income, increased house expenses, cost of food and loss of jobs.

On the other hand, many organizations were faced with a difficult predicament to navigate through and no option but to come up with new plans to resume trading through digitalization.

The COVID-19 challenges and measures by the government provided a perfect opportunity for innovation. Businesses had an opportunity to diversify, introduce new products and explore new markets, through sudden innovation. Thus People and organizations were forced to settle well into a virtual communication space, and remote working.

The new normal led many businesses savings from not having to pay daily operating costs of offices or travel expenses because of working remotely and being situated away from the traditional office.

People, because of staying and working from home, were forced to establish or enhance relationships with neighbors and others within the estates. However, on the other side of the coin there were increased cases of violence against women/men, rape and early pregnancies among school going children.

People's lifestyles changed, hygiene increased and many were cautious on what to eat (diet), as digitization made education digitized and inexpensive. Though all put together the education sector in Kenya was the worst hit by the pandemic and this may pose a threat to the whole education system. Schools, universities, and colleges and the learners are exhibiting a unique character and behavior (mental health) due to the prolonged stay they had gotten used to at home during the lockdowns.

The government was forced to strengthen health structures and make the sector more resilience than before. These measures also demonstrated that the government and the people can react positively to large scale crises by developing resilience, particularly as a community.

The report from the Population Council of Kenya (2021) indicates that nearly all (97 percent) learners reported challenges accessing learning materials during the pandemic and when schools reopened in January 2021, 16 percent of girls and 8 percent of boys did not return to school while a proportions of boys (52 percent) and girls (39 percent) experienced physical violence during the pandemic, and about 75 percent skipped meals when their families could not afford food. This translates to approximately 250,000 girls and 125,000 boys not re-enrolling in school.

Although the situation is still precarious, the government has relaxed measures. This will ease the pressure people have been under. The parents tried to combine work with schooling children at home. Many children and youth could not access education leading to the introduction of online classes. This has had challenges for both students and teachers because of the unequal access to technology and internet costs, access to the internet, a smart phone or a laptop. Some parents were not even able to pay for the internet services. Many rural areas do not even have network coverage and electricity. This led to a number of students lagging behind in the syllabus. The prolonged school closure and home confinement had negative effects on children's physical and mental health as they missed school, sports activities and playing. This maybe contributing to Kenyan schools being burnt by students every month for the last couple of months. The impact of school closures was experienced disproportionately by Kenyan families due to social inequities, and especially those with children with health conditions or special learning needs. To

some extent greater effects were felt by single parent families, families in poverty, working mothers, and those with unstable employment and housing.

On the socio-economic front, the government provided massive fiscal support to protect firms, households and vulnerable populations by reallocating public funding to crisis priorities, like supporting health care, SMEs, and counties particularly hit by the crisis.

The economic sectors were affected by the disrupted global supply chains, weaker demand for imported goods and services, a drop in international tourism, a decline in business travel. Similarly, Unemployment levels and the number of dependants have increased, sometimes dramatically. It also increased uncertainty and led the government face a difficult tradeoff between managing the economic recovery and mitigating the impact of different waves of the virus.

Schools and work places activities were modified to keep community members safe while still meeting essential educational and economic needs. Precautions which were implemented, included mask use, increased ventilation, physical distancing, and moving activities to outdoor settings when possible.

Slowly as days became months, people/public started losing trust and cooperation with the administration of the measures. The loss of trust was due to fatigue and the military like enforcement of the measures. There evolved a belief that neither the administration nor law enforcement had genuine interests or intentions to control the COVID-19 epidemic and protect the public. Corruption by the law enforcers was at the highest and enforcement was very brutal. Ironically, the decision-makers who enforced draconian restrictions had all supplies for themselves and money and so did not feel the commoner who depended on daily wages/manual worker who suffered the most.

Moreover, the measures significantly increased poverty and malnutrition, worsened existing medical disorders, the disease burden, suicides and excess premature deaths, and increased healthcare costs. Nevertheless, the world is moving from lockdowns to new measures such as controlling the movement of people around the world ;that is, the suspension of the entry of unvaccinated noncitizen non-immigrants, or COVID passport/certificate requirement that are deemed appropriate, in ensuring that the virus is not imported from one country to the other.

In the nutshell, Kenya had moderate transmissibility. The interventions implemented in the country were highly effective. The rapid response of the government and the Ministry of Health, managed to slowing or even controlling the outbreak. But every time the measures were taken away or suspended, the faster the epidemic spread and therefore, Kenya is still in a stage in which the pandemic is not fully controlled. Therefore, relevant institutions should continue to strengthen prevention and control measures, and the specific measures for outbreak prevention and control in places that are considered as the epicenters of the pandemic in the country.

8.10 Effectiveness of the measures taken by Government

There is no doubt that the measures put in place by government managed to control the spike of the virus but the robustness in which they were enforced by the police also had another dark story to tell in the form of harassment, injuries, deaths and corruption of a higher magnitude.

Consequently, infections began to slow, dropping from a high of 18 per cent positivity rate early November 2020 to around 10 per cent at the beginning of December 2020 and dropped further to 6-8 per cent through December, before stabilizing at below 5 per cent in January 2021 when the government re-opened schools, and by February 2021 the positivity rate mostly stabilized at below three per cent. Despite the mass vaccination, the positivity rate in Kenya has increased to

high levels due to relaxation of the government measures to COVID-19, especially the one of allowing public transport vehicles to carry to capacity and accelerated by fatigue. The month of August 2021 the positivity rate rose at some point to 17.8 percent. But with the massive vaccination going on in the country and the confidence and understanding/education people have acquired about the virus spread and cause, the positivity rate in Kenya is below 5 percentages at the month of November 2021.

Nonetheless the prolonged periods of lockdown had a number of adverse effects. People got fatigued, some sectors like tourism and hospitality nearly collapsed, bars were closed, many people lost jobs and others reduced their incomes, learning was disrupted, the closure of schools and people working from home, led to increase in abuses and violence against women and earlier pregnancies for school going learners, rape and deterioration of nutrition due to lockdowns and curfew. Some women and girls also engaged in transactional sex to make little money for upkeep.

The Government of Kenya also swiftly removed the fiscal stimulus package put in place hastily to avoid an economic collapse because the package was proving unsustainable, as budget deficit increased and widening public debt challenges. As such, the government increased taxes on oil, gas and other commodities mainly consumed by the middle class.

8.11 Conclusion

The paper provides evidence of the reactions, measures and speed the government of Kenya took in the earlier phases of the viral spread which somehow delayed the spike in cases and infections and deaths. The pandemic caused shocks through disruption in trade, tourism, foreign direct investment, lives and livelihoods and tax revenue due to the government's economic stimulus measures and loss of jobs. But with the global vaccination drive and the restoration in global aviation, international trade and international arrivals increasing, it is good signal for recovery of the sectors of the economy and resumption to normalcy.

During COVID-19 pandemic, the government of Kenya implemented a range of public health and socio-economic measures, such as a travel ban, curfew, closure of schools and workplaces, expansion of health insurance, cash and food aid, and tax relief, lock-downs and curfews but surveillance, fatigue and security remained a big challenge leading to the spread of the virus.

Similarly, the mitigating measures the government put in place to facilitate trade and to mitigate public health impact were done by the Ministry of industrialization, trade and enterprise development (MoITED) and the Ministry of health (MoH) where they issued guidelines on the cargo clearance process during the pandemic and mobilized various agencies of government to work round the clock and put in place safe and quick measures to facilitate both domestic and international trade.

8.12 Key Messages

- Open more special counters and green lanes and smart gates to provide round the clock clearance at critical ports.
- Customs can conduct off-site audits via video or electronic data transmission or based the audit on the inventory data provided by enterprises rather than on-site audits.
- Guide and train online on clearance formalities, especially to MSMEs to lessen declaration errors and avoid procedural non-compliance
- Recognition of third-party certificates, test reports or self-declaration on quality and safety instead of laboratory testing

- Data exchange and information sharing among customs authorities in countries and the EAC region.
- Embrace technology in trade facilitation
- WTO to enforce the trade facilitation agreement and assist build capacity
- Regional integration should be area of focus as regards to trade facilitation. It proved that neighboring countries can access and trade easily even if there is a pandemic
- The government should have retained some stimulus package for MSMEs and tax free for people of lower earning bracket-Ksh.24000/.

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9.0 KENYA'S ECONOMIC RECOVERY STRATEGIES

By

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9.1 Introduction

This section discusses the strategies that Kenya can use on its path to economic recovery post-COVID-19. The GoK and Kenyans posit an optimistic view of the economic recovering in 2021 as shown by the 2020-2022 Economic Recovery Strategy. However, it is important to remember that the COVID-19 pandemic is not yet over as most countries of the world, Kenya included are now experiencing the 4th wave of the pandemic. Restrictive measures such as curfews, lockdowns among others may be necessary to curb the spread of the pandemic. However, they will have negative economic and social consequences both for the economy and the citizenry. It is important to note that, the initial GoK's socio-economic stimulus program that provided lump sum payments in the form of cash transfers to the most deserving citizens, tax rebates, among others are no more. The situation of most Kenyan firms, individuals as well as households still remains dire. Hence, the government needs to put in place strategies that can protect firms, individuals and households against the negative consequences of the pandemic.

Continued use of NTMs by countries to curb the spread of new COVID-19 variants exposes Kenya to the risk of weak external demand for its exports and falling international tourist arrivals. This has increased public expenditure pressure by government to protect the public and private sectors against continued reduced aggregate demand and continued rise in the cost of living. This means that the GoK needs to come up with monetary and fiscal policies and strategies to maintain macroeconomic and fiscal stability, accelerate the pace of economic growth by achieving resilience and sustainability of economic growth and development.

The policies and strategies are expected to lessen the adverse negative impacts of the COVID-19 pandemic and fasten the pace of the opening up of the economy. They are also designed to accelerate economic recovery and the attainment of sustainable economic growth and development. Some of the strategies should be implemented in the short run, others medium and others in the long run.

9.2 Short Term Strategies

9.2.1 Mass Vaccination

Without the Kenyan community achieving health immunity against COVID-19, then there are few prospects of the economy recovering soon. No one is safe until everyone is safe. The level of COVID-19 vaccination in East Africa and in Kenya is low with only 1,699,584 (5.7%) of the Kenya's total population has been fully vaccinated by the 27th of October 2021. Kenya has been depending on vaccination doses donations from developed countries due to shortages experienced from the usual vaccine producers such as India. There are no signs that this shortage will be over soon unless there are concerted efforts to produce vaccines locally. There is therefore need for collective action in production of vaccine. Rwanda has started production of vaccines not only for its citizens but also to supply the East African market.

The prospects for Kenya's economic recovery depend on the progress of the vaccination effort by the Kenya Government. The Kenya government through the Health ministry should prioritize vaccination in the short term and it has pledged to have 10 million people vaccinated by the end of 2021 and 26 million by the end of 2022. The Government has already ordered 13 million doses of the Johnson & Johnson vaccine and received donations of COVID-19 vaccination doses

from different countries. The Ministry of health has already launched a National Vaccination Plan to all adults to stop the spread of the Delta Variant of COVID-19.

9.2.2 Innovative Covid-19 Preventive Measures

There is need for accelerated vaccine deployment in different counties and use of innovative actions on containment and preventive measures such as continued campaigns to rally the citizens to observe basic hygiene such as wearing of masks, washing of hands and keeping social distance without resorting to lock downs with the unintended consequences of shortages, unemployment and recession.

9.2.3 Quality and Access of Health Services

COVID-19 pandemic found Kenya in a state of unpreparedness in terms of workforce (medical doctors, laboratory technologists, and dentists to nurses and midwives) to handle the situation. Most of the critical workforce is found in Nairobi and other major urban areas. Most hospitals did not have special emergency units with all the necessary facilities to handle emergencies and operating on a 24-hour basis. Only 18.4% of hospitals had all the items required in the outpatient consultation rooms for suspected COVID-19 patients. Only 3% of all health facilities had all the items required to prevent infections, hence increasing the possibility of infection of frontline workers and patients seeking services from these facilities (Kiriti-Nganga, 2021).

Kenya had only 26.2% of the required bed capacity for critical care (2,048) and these are sparsely spread out in the counties with Nairobi, accounting for 51% of Intensive Care Units (ICU) beds in the country and only 256 ventilators available in Kenyan hospitals as at October 2020, with majority of these (65.2%) in Nairobi. The Kenya health system was only at 17.2% in terms of submitting regular information on COVID-19, and most of this information was coming from secondary and tertiary hospitals, public primary hospitals and private/NGO/FBO primary hospital level. Kenya's overall readiness index on all indicators of readiness was at 38.4% (Kiriti-Nganga, 2021). There is therefore need to strengthen the quality of and access to health services.

9.2.4 Subsidies

The government should impose subsidies on essential services and goods such as energy, water, food, transport, PPEs, masks and internet data services. This would reduce the cost of doing business as well as increase demand for goods and services which would be a boost for firms to produce more to meet the increased demand. As the economy improves, these subsidies can be eased off slowly but not abruptly to allow citizens to adjust.

9.3 Medium Term Strategies

In the Medium Term it is important that the Government of Kenya embarks on elimination of inefficiencies in spending on social and investment projects; embark on creating job opportunities and improving the welfare of Kenyans. This entails prioritization of fiscal consolidation even as it tries to balance the needs of its poor and vulnerable citizens who may have been rendered unemployed by the COVID-19 measures and fiscal sustainability. Hence the government needs to continue with the economic stimulus program in order to save the lives and livelihoods of its people while at the same time preparing the economy on a stable economic growth path. Some of these medium term strategies are:

9.3.1 Lower Taxes

As shown earlier, COVID-19 measures led to firms laying off workers while other firms closed altogether due to reduced aggregate demand. This led to high levels of unemployment, reduced income and poverty. Strategies such as lower taxes will give households more disposable income which when spent on domestically produced goods will increase aggregate demand hence prompting firms which already had excess capacity to produce more to meet the increased demand.

There is also need for the government to consider reduction of taxes on essential medical products and equipment. However, this strategy would lead to reduced tax revenues unless the government cuts down on expenditure on long term capital projects such as infrastructure but concentrates on other expenditures such as health care and tourism.

9.3.2 Temporary Basic Income to Households of Laid off Workers

Giving a temporary basic income to workers who have been laid off from work would hedge against them falling into poverty as well as boosting demand for goods and services hence preventing firms from closing down altogether. The temporary basic income as recommended by UNDP (2020) is supposed to be made on an individual basis, regardless of household composition. This would help in avoiding any assumption of economies of scale and unintended within-household discrimination that could be particularly harmful for women's empowerment and control of economic resources.

The amounts given per individual beneficiary will help them cover essential spending, internet connectivity in order to support education as well as those working from home, cover costs associated with childcare, or assist households to prevent the depletion of productive assets.

9.3.3 Job Retention Programs

Some firms laid off workers since they could no longer retain them in employment as the economy plunged into a recession. A program where taxes are reduced or firms are compensated with income equivalent to wages/salaries retained during this time would provide an incentive to allow for continued operation and rehiring of workers by the firms. OECD countries have been using job retention programs as the main policy tools to prevent a rise in unemployment and social fallout of the COVID-19 pandemic. For this policy tool to succeed, it is important for the Government to be on the look out to make sure that programs are not downscaled too quickly or too slowly hence becoming an obstacle to the economic recovery. When the economic situation and health improves, job retention programs should be better targeted to jobs that are viable but at risk of being terminated and place a greater focus on supporting workers such as women at risk of becoming unemployed rather than their jobs (OECD, 2020d).

In countries such as France, employees who are forced to work fewer hours are eligible to receive 70% of their gross wage from the employer. However, during the COVID-19 pandemic, most French employers did not bear any cost of hours not worked as the government reimbursed what they pay to employees to a maximum of 4.5 times the hourly minimum wage. Australia and New Zealand on the other hand, introduced a lump-sum subsidy which acts as a minimum wage for all employees. Those employers who qualify are expected to continue paying as usual for hours worked or pay the level of the subsidy if this is higher.

9.3.4 Restructure Public Debt and Fiscal Consolidation

As mentioned earlier, COVID-19 found Kenya in a situation of rising public debt. The government should restructure public debt to longer maturity loans and any new loans should be on concessional basis. This would give Kenya more time to repay the loans while at the same time leaving the government with enough revenue to meet local needs. At the same time, there is need to reduce the amount of government borrowing to make the debt sustainable while making sure to utilize efficiently the available national resources.

The ratio of public debt to GDP and the proportion of fiscal deficit to GDP should be reduced through fiscal consolidation in terms of mobilizing revenue and rationalizing expenditure. The effect of fiscal consolidation requires entrenching efficiency in expenditure and transparency in the use of funds. This will ensure that government expenditure is directed to the areas where it is most needed while at the same time freeing up resources for private investment.

9.4 Long term Strategies

The Government should take the COVID-19 pandemic as an opportunity to learn how to respond to other epidemics in the future. The government needs to look into the future and assess opportunities that it can take advantage of post-pandemic in order to build resilience and diversify its economy. It is important to remember that COVID-19 pandemic found the economy facing various economic challenges but the pandemic worsened the country's economic stress levels. This section looks at the strategies that the government can use to address some of the structural economic challenges that it has been facing as well as exploring post pandemic opportunities it can take advantage off in its path for sustainable economic growth and development.

9.4.1 Enhance Local Production

The disruption in global value chains and the resulting shortages experienced by both households and firms due to COVID-19 pandemic exposed the risks associated with over dependence on a few global trading partners for the supply of services goods. This was felt more on importation of pharmaceutical/medical supplies as well as equipment to contain COVID-19 after the source countries imposed export bans and restrictions on such goods as well as food products. This experience gives Kenya an opportunity to restructure its economy towards more domestic production and achieve its goal of being self reliant by becoming both the consumer and producer of goods and services. This means that Kenya must move away from over dependence on imports and direct efforts towards supporting locally produced goods in order to retain profits, support creation of jobs and economy-building initiatives (Thakkar, 2021).

The onset of COVID-19 set a new record of reshoring of manufacturing operations and sourcing by various countries with the United States having a total of 109,000 jobs reshored and 51,000 for foreign direct investments. Most of the reshored operations include those dealing with personal protective equipments and pharmaceuticals as well as manufacturers who experienced problems of shortages with off shore sources. Reshoring of production and encouraging local production of these items acts a risk mitigation strategy, creates resilience and helps in increasing the speed of responsiveness to local demand. Also, encouraging reshoring creates local jobs, reduces unemployment, reduces poverty caused by the COVID-19 pandemic, leads to better balance of trade and reduces budget deficit caused by increased borrowing to import pharmaceuticals and COVID-19 vaccines. Lack of local productive capacity and expertise may make it difficult to re-shore or to produce domestically or even achieving the required resilience

in case of another pandemic. However, this can be achieved through regional trade agreements such as the East African Community and the African Continental Free Trade Area (AfCFTA) as discussed later in this paper.

9.4.2 Leveraging Digital Technology

Use of digital technology can fasten Kenya's speed of economic recovery after COVID-19 devastating effects. Digital solutions such as telecommunication, online customer service, on-demand delivery of goods, virtual surveillance, cloud computing, and tech-supported production, tele-working for office workers among others can address the issue of inclusion as well as youth unemployment. Digital gig economy apps have been shown to be giving Kenyans opportunities for self-employment as well as aggregation of demand for services and goods (Kiarie-Kimondo, 2020).

Hence there is need to support for firms' liquidity and digital capabilities as well as improved access to information to safeguard them from permanent closure.

This would entail investment in electricity, digital tools and infrastructure to make internet enabled devices and internet services affordable and accessible to majority of Kenyans.

9.4.3 Electronic Commerce

Electronic commerce has been shown to be cog in the engine driving most economies. Therefore Kenya should fully embrace online services to connect supply chains in order to facilitate merchandise trade. Support economic growth and recovery will come from telecommunication, information, business, financial and audiovisual services that are vital for online supply while distribution, transport and logistics will facilitate merchandise trade.

The Government of Kenya and other trading partners should foster inclusion of Micro, small and medium enterprises (MSMEs) as they automate and streamline border procedures and simplify fees. They should also accelerate digitalization and simplification of import, export and transit procedures such as paperless trade. This would require these governments to expedite advance electronic lodging of documents, electronic payment of all trade-related taxes, digital certificates and signatures, as well as automation in the processing of trade declarations 24/7. This means therefore that there should be acceptance by trading partners of digital trade-related documents, including sanitary and phytosanitary certificates, in place of physical copies as well as implementation of the Single Window in order to speed up border procedures and allowing for "one stop shop" processing.

However, so far Kenya does not have a policy or legal framework for E-commerce hence the need to develop and implement a policy and legal framework for E-commerce

9.4.4 Improvement in Standards for competitiveness

For the products coming from the Kenya to compete in both the regional and global markets, they must improve product and process standards while at the time strive to meet the international required standards of various products vaccines included. Hence Kenya needs to strengthen technical regulations, develop and implement these standards, conformity assessments, metrology, have its laboratories accredited and provide enabling infrastructure for industries to grow. This can be done by taking advantage of the WTO Trade Facilitation Agreement which provides support for developing economies countries like Kenya through the Standards and Trade Development Facility (STDF), which helps imports and exports to meet sanitary and phytosanitary (SPS) requirements for trade based on international standards. Kenya

also needs to reduce the behind the borders (BTB) regulations that act as barriers to trade in services and in the process not only impede foreign suppliers from entering the market, but also prevent local service suppliers from becoming competitive in export markets (OECD, 2008).

9.4.5 Diversification of the Economy

A diversified economy does not rely on a few sectors, relies on a wide range of profitable sectors; has a strong external as well as internal focus and does not overly depend on a one good for export. Economic diversification is important for sustainable development since it can reduce economic volatility and improve the economic performance and activity (Rabih, et. al., 2008).

Economic diversification shifts an economy away from a single income source towards multiple sources as well as to a wide range of sectors and markets. It is a structural transformative and inclusive strategy that involves all sections of population and in the process encourages positive economic growth and development with the aim of improving and sustaining economic performance and growth, poverty reduction, building resilience against product, price and income volatility and creating job opportunities (Nourse, 1968; United Nations Framework Convention on Climate Change (UNFCCC), 2019).

Kenya, like other African countries lack economic diversification with most of them producing and exporting only a few agricultural or mineral products; concentrating on the lowest level of the value chains; producing and exporting unprocessed products and importing and exporting to only a few countries. This increases their vulnerability to external shocks such as COVID-19 that undermine their sustained economic growth and development.

Closure of borders to combat the spread of the COVID-19 in 2020, disrupted production value chains and Kenya found that it could no longer access the products and inputs that it previously imported leading to shortages of supplies such as disease testing reagents, masks, ventilators, pharmaceutical drugs as well as vaccines as the producing countries used export restrictions to prevent shortages locally. Hence, diversification and developing manufacturing are important for Kenya in order to foster growth through development of manufacturing, to be less vulnerable to shocks, and to be able to produce essential goods within its boundaries so as to be less dependent in emergencies like COVID-19.

Kenya still relies on a few export sectors, a few export products, and a few export destinations while its economic growth is generally driven by traditional sectors such as agriculture and services. It is important for Kenya to diversify its economy in order to increase the sources of income and growth. Kenya's recovery depends on product and export diversification. A study done by the United Nations Economic Commission for Africa UNECA, Trade Mark East Africa (TMEA) and the African Economic Research Consortium (AERC) (2021) found that the severity of the COVID-19 crisis in the first three months of the pandemic on intra- and extra-regional trade was uneven. The study found that Kenya's intra-EAC trade exhibited greater resilience compared to its extra-EAC trade.

Kenya needs to be more inclusive among the participants in productive activities, diversify its export destinations, import sources, export products and add value to export products in order to contribute positively to its economic growth and development.

UNDP (2011) defines export concentration as a situation where a country focuses its trade on only a few goods and a few trading partners. On the other hand, export diversification is the degree to which a country's exports are spread across a large number of products and/or trading partners. UNCTAD (2018) and Dennis & Shepherd (2007) argue that a country can diversify its

exports through changing the composition of basket of goods being exported, adding value to existing exports, or enhancing them through technology and innovation.

According to Rabih, et. al. (2008), diversification of exports lowers a country's exports volatility as it creates more quantity and variety of exports as well as buyers and in the process contributes to sustainable growth and development. Exports diversification reduces foreign exchange volatility, more job creation and employment, better pattern of growth and income distribution, increased gross domestic product, improvement in the quality of manufactured goods due to more value addition. One or few export goods are more prone to elastic or unstable demand unlike where a county has a diversified basket of export goods. Hence diversification of export would reduce instability in export earnings and fluctuations in imports and capital. Therefore, Kenya needs to diversify the variety of export products, increase the number of export markets (market diversification) as well as increase the quality of export goods. As mentioned earlier, Kenya exports mainly primary goods which are associated with exogenous price shocks, export instability, fluctuation in terms of trade which implies that diversification of exports will provide Kenya with a hedge against these price shocks. With diversification of exports, Kenya's road to economic recovery and pattern of growth and development will be more inclusive and sustainable.

A more inclusive and broad based economic growth can be triggered by production of more sophisticated exports as a result of higher technology intensity methods of production. Osakwe, Santos-Paulino, and Dogan (2018) contend that as long as a country has the right macroeconomic conditions as well as structural factors, high technology intensity and high sophistication can act as engines of growth as they can promote inter-sectoral and extra-sectoral linkages, rather than isolated enclaves.

Kenya also needs to have more sources of imports (multiple supply chains) to ensure that the free flow of trade is not interrupted due to unforeseen circumstances such as COVID-19. An interruption or delay in the shipment of a single intermediate input in the supply chain can stop the entire production in a factory as happened during the initial months of the COVID-19 pandemic. Hence multiple source supply chains allow producers to respond to unexpected spikes in demand. The reliance on multiple-source supply chains underscores the need for policy-makers to commit to reducing trade restrictions.

Hence, Kenya needs to diversify and transform its economy by strengthening the productive capacity of the private sector to not only transform raw materials locally but also improve domestic resources mobilization and reduce the continent dependence on external financial flows. Essentially, diversification of the economy is a prerequisite for Kenya to achieve positive, inclusive and sustainable economic growth as it strives to recover from the negative effects of the COVID-19.

It is important to remember that diversification is important for sustained economic growth and for economic resilience against the COVID-19 pandemic. Berthelemy and Solderling (2001) and Al-Marhubi (2000) argue that a diversified economy can lead to increased labour productivity and human capital. In the process, this can contribute to economic growth by increasing the number of productive sectors, stability in export revenues, increased investment opportunities, reduction in investment risks and eventual sustained economic growth and development. Hammouda, et. al. (2010) found that diversification deepening leads to improvements in total factor productivity showing that Kenya can scale up its economic growth by raising factor productivity through pursuance of policies that enhance economic diversification.

Such policies are those that help in overcoming constraints to economic growth arising from factor accumulation and hence lead to exports and product diversification. Kenya should aim at increasing its levels of both domestic investments as well as foreign direct investments, addressing governance issues such as corruption, ethnic conflicts especially during elections or due to competition over resources, addressing the rising fiscal deficit and lack of fiscal space through effective mobilization of domestic resources, ensure macroeconomic, monetary, industrial trade policies that foster diversification in order to contain inflationary pressure and ensure regional value chains and global value chains are not disrupted by the prevailing COVID-19 pandemic.

9.4.6 Green Economy

The effects of COVID-19 and the measures to combat it have led to a decline in economic growth, decreased trade, low business revenues and massive layoffs not only in Kenya but in the whole world. The COVID-19 pandemic gives Kenya an opportunity to increase the rate of structural transformation by coming up with stimulus packages and new investments that are aligned with climate change to create a green economy and to build an economy that is more resilient than before the onset of COVID-19.

For Kenya's economic recovery to be effective and sustainable, it needs to include all dimensions of sustainable development, including issues of environmental and its effects on the most vulnerable people including women, children, persons with disabilities and marginalized communities. It is therefore important to have a socially inclusive COVID-19 recovery strategy which is in line with actions on climate change and environmental protection.

Hence Kenya needs to have policies that will ensure equitable use of environmental resources and the promotion of those economic activities that will preserve biodiversity.

Kenya aims at reducing its greenhouse gas emissions by 32% by the year 2030. This will only happen through increased finance for adaptation particularly in the management of water resources, disaster risk management and conservation of forest cover. Kenya also needs to increase investment in key mitigation sectors such as transport as well as giving subsidies and providing incentives to the private sector which has a major role closing Kenya's investment gap. Hence provision of incentives and subsidies and creating an attractive and enabling environment for private investment in the transport, forestry, water, land use, and waste sectors are very important. For example, to reduce fossil energy and cutting of trees for firewood and charcoal, the government should consider subsidizing liquefied petroleum gas to increase its usage among Kenyan citizens. Kenya has already proposed incentive schemes in the national strategy for achieving and maintaining over 10% tree cover by 2022. To increase the production and use of renewable non-fossil energy, the Kenya government should consider subsidizing production of solar panels and their installation in homes, subsidize production of solar and wind energy among others including water harvesting as well as encouraging tree planting and reforestation. There is also need for international public finance to focus on more water, forest, energy and sanitation sectors. Kenya can use innovative financing models to mobilize domestic as well as foreign direct investment into key sectors, such as forestry, transport, and water.

There is also need for improved coordination and reporting between Kenyan actors at all levels: Ministries, agencies, county-level government entities, international development partners, and private sector stakeholders as well as the need for regular reporting from Ministries to the National Treasury on climate-related expenditure.

9.4.7 Bilateral and Regional Agreements

Bilateral and regional agreements are one way that Kenya could use in order escape import and export restrictions on key intermediate input supplies of key traditional routes. Hence the need to take advantage of the opportunities presented by being a member of regional and multilateral groupings to collaborate on managing challenges such as those occasioned by the COVID 19 pandemic.

For example, Kenya is a member of the African Continental Free Trade Area, EAC, COMESA as well as party to the tripartite agreement that brings together the South African Development Community (SADC), COMESA and EAC. An integrated regional economy has the capacity to accelerate economic diversification in Kenya. In order to benefit from this regional integration, it is imperative that member states should harmonize their responses in case of future pandemics as well as providing opportunities for the expanding sectors such as the services sector in Kenya.

Kenya's services sector accounted for an average of 51.3% between 2010 and 2019, of its Gross Domestic Product which is mainly boosted by the rising digital economy. Kenya has been facilitated to enter into new markets by the digital technologies which have created new small and medium entrepreneurs, created jobs, improved productivity, and diversified the economy to some extent.

Kenya's geographical position especially Indian Ocean to the East facing Australasia gives it a geographic advantage of access to key shipping lines between the Mediterranean and Indian Oceans and in the process working towards diversifying its economy and taking advantage of international opportunities such as the fiber optic connection to conduct e-commerce.

For example, COVID-19 lockdown and the resulting shortages showed that there are potentials for Kenyan industries to respond to local demand. The inadequacy of equipments and other medical supplies led to local innovations to fight the spread of the disease in Kenya as students from Kenyatta University invented ventilators while researchers from the University of Nairobi designed a local oxygen concentrator. At the same time textile factories such as Rivatex in Eldoret and another in Kitui that had been closed for decades started manufacturing personal protective equipments including masks en-masse to supply these to other counties in the East African Community and hence the need for industrial priorities and regional trade.

Regional integration is not only beneficial at the continental level but also at the local level such as such as EAC and COMESA as it encourages members states to pool resources to address shortages of essential items whose demand escalates during shocks such as COVID-19. For example On the 18th of April 2018, the EAC partner states resolved to develop their own pharmaceutical industry including vaccine manufacturing as part of the region's social, economic and political integration. This would ensure a stable access and supply of vaccines. The African Development Bank (AfDB) is also supporting development of pharmaceutical products and creation of value chains for the COMESA Member States.

9.4.8 Africa Continental Free Trade Area (AfCFTA)

The African Continental Free Trade Area is considered the largest free trade area as well as the eighth economic bloc in the world. The FTA is expected to create a single continental market for goods and services from member states, transform African countries from being suppliers of raw materials by enabling them to diversify their economies through value addition, integrate into global value chains and local content development, earn more from commodities, facilitate free movement of business persons and investments as well as laying the foundation for the establishment of a Continental Customs Union.

Article 4 of the AfCFTA expects member states to eliminate tariffs and non-tariff barriers and liberalize trade in services progressively. They are also supposed to cooperate on competition policies, investment and intellectual property rights. Member states are supposed to cooperate on all trade-related areas, on customs matters as well as in the implementation of trade facilitation measures. Lastly, they are expected to cooperate in designing a mechanism for the settlement of disputes concerning their rights and obligations and establish and maintain an institutional framework for the implementation and administration of the FTA.

According to the African Union (AU) (2020), Africa countries, Kenya included should turn the current COVID-19 pandemic into an opportunity to help it transform the economy into one that is resilient to external shocks and achieve sustainable development.

The AfCFTA started trading on 1st of January 2021. It has a market of 1.2 billion people and a US\$3.4trillion combined GDP provides an opportunity for product diversification, industries to grow, provide home grown solutions and drive regional value chains. This GDP is expected to more than double by 2050. Attiah (2019) contends that the African Continental Free Trade Area is based on the principle for African countries to move up the ladder in global value chains they have to increase the levels of industrial. Hence African countries should create regional value chains (RVCs) that can better serve their markets and global value chains (GVCs) that serve the rest of the world. It is important to note that the African Continental Free Trade Area is now considered the only conduit or a vehicle for designing trade agreements with African countries which increases the continent's bargaining power in the global market and hence preventing fragmentation of trade agreements among countries and their trading partners.

Songwe (2020) contends that the FTA provides the vehicle for expansion through a pooled African market. It is important to note that the African Union has taken over the funding of the Lamu Port South Sudan Ethiopia Transport corridor (LAPSSET) infrastructure project. The completion of this project will accelerate the inter-linkage between Kenya and other African countries. This will lead to more trade between Kenya and the rest of the African continent.

As intra-Africa trade increases it will be necessary to address hurdles faced in export trade within Africa such as Small and Medium Enterprises' export competitiveness; rules of origin; technical and product safety standards.

So far 36 countries have ratified the AfCFTA and it now has 90% of tariff offers and 34 services offers. This enables sound business and investment decisions for intra-African trade and strengthens increased trade.

A study done by UNECA (2019) found that the African Continental Free Trade Area will increase Kenya's intra-African trade by reducing the tariff and non-tariff barriers on its trade with African countries. The study finds that the AfCFTA presents a unique opportunity for Kenya to bolster its intra-African trade and investment; improve prospects for export diversification through increased demand for manufactured goods; accelerate its industrialization in line with the *Vision 2030*, the *Kenya Industrial Transformation Program* and as well as the *Big Four Agenda*; enhance food productivity and security as per the goals of the *Big Four Agenda*; and boost outward Foreign Direct Investment (FDI) by Kenyan firms towards the rest of the continental market.

Kenya being a member of the AfCFTA can benefit from Free Trade Area entering into international cooperation with development partners to help address the challenges that increase its risks and vulnerabilities to economic shocks. As a region, the FTA can enter into public private partnerships in research and development; deepen regional integration in order to pool financial resources to reduce the risk of shortages as well as collaborating with international

development partners who can provide technical assistance. For example, the University of Nairobi in collaboration with a team from University of Cambridge started a project in April 2020 to develop an oxygen concentrator and ventilator with the support of the Cambridge-Africa program and Cambridge Global Health Partnerships.

The 21st of March 2021 saw the signing of a strategic partnership between the AfCFTA Secretariat and the United Nations Development Program. This partnership is expected to promote trade which would act as a stimulus for Africa's socioeconomic recovery from the COVID-19 crisis as well as a driver of sustainable development particularly for women and youth in Africa, in line with the Sustainable Development Goals and Agenda 2063. Kenya will benefit from this.

9.4.9 Trade Facilitation

The WTO Trade Facilitation Agreement (TFA) is supposed to expedite the movement, release and clearance of goods to reduce trade costs. It establishes measures for effective cooperation between economies to establish customs compliance. It contains provisions for technical assistance and capacity building in this area. The WTO also provides support for developing economies countries like Kenya through the Standards and Trade Development Facility (STDF), which helps imports and exports to meet sanitary and phytosanitary (SPS) requirements for trade based on international standards. The STDF has provided support for the implementation of Africa's SPS policy framework and has helped to strengthen sanitary capacity in many industries.

In the recovery period, Kenya should take advantage of the TFA to meet the new TBT and SPS standards that continue to be imposed by trading partners to combat COVID-19 pandemic. It should also take advantage of the World Bank Trade Facilitation Support Program (WB-TFSP), United Nations Conference on Trade and Development (UNCTAD), Development partners such as African Development Bank (AfDB), European Union (EU), Organization for Economic Co-operation and Development (OECD) among others in aligning their trade practices with the TFA. For example, on the 13th of April 2021, Coalition for Epidemic Preparedness Innovations (CEPI) and the African Union signed a Memorandum of Understanding (MOU) to boost African Vaccine Research and Development and manufacturing. Such trade facilitation measures will not only support African countries diversify their economies, but also leverage on technology, keep up with innovations but also reduce their vulnerability to exogenous shocks. Beverelli, Neumueller and Teh (2015) show that product and geographical export diversifications are increasing in the various provisions of the WTO Trade Facilitation Agreement. Hence, implementing the TFA should create significant diversification of exports gains for Kenya, EAC and the AfCFTA.

There is therefore need to fully implement the WTO Trade Facilitation Agreement in Kenya and rally other African countries to do the same to ensure free flow of goods in the region.

9.4.10 Aid for Trade (Aft)

Aid for trade is a major component of trade facilitation, and has been found to facilitate and increase diversification of imports. In their study, Ly-My, Lee and Park (2020) found that Aid for trade promotes diversification of imports by increasing the number of import commodities and import partner countries. The authors found that all three components of Aid for trade such as infrastructure; building productive capacity; trade policy regulations and adjustment contribute to diversification of imports of recipient countries. Hence Kenya can take advantage

of AfT to diversify the countries that it imports from as well as the products that it imports. Institutions that provide Aid for Trade include the World Bank, OECD, AfDB among others.

9.4.11 International Cooperation

For trading partners to have sufficient information in order to make decisions, there is need for enhanced cooperation among EAC and AfCFTA governments, international organizations and the private sector. This can help promote transparency on essential goods, in particular with regard to production capacity; facilitation of mutual recognition of standards and trade in particular for emergency goods; and to hold inventories to prevent excessive stockpiling. Hoekman, et al. (2021) and OECD (2020c) contend that these governments and trading partners should cooperate to collect and share information on potential concentration and bottlenecks upstream and/or develop stress tests for essential supply chains.

There is need for international cooperation to help Kenya, EAC and the AfCFTA address the challenges that increase their risks and vulnerabilities to economic shocks such as the ones caused by the COVID-19. They can enter into public private partnerships in research and development, deepen regional integration in order to pool financial resources to reduce the risk of shortages as well as collaborate with international development partners who can provide technical assistance. For example, the University of Nairobi in collaboration with a team from University of Cambridge started a project in April 2020 to develop an oxygen concentrator and ventilator with the support of the Cambridge-Africa program and Cambridge Global Health Partnerships.

9.5 Conclusion and Key Messages

This chapter has analyzed the strategies that the Government of Kenya should pursue to support lives and livelihoods of its citizens, support industries to remain in operation and at the same time take advantage of the opportunities offered by the regional integration, the AfCFTA, development partners in the form of trade facilitation as well as aid for trade. The COVID-19 pandemic is still spreading with the country in its fourth wave by the time of writing this report. It is therefore important for the country to stop the spread of the virus by making sure that almost everybody is vaccinated, reduce taxes of essential items such as gas, water and kerosene; continue campaigns of proper hygiene, wearing masks and keeping social distance in the short run. In the medium term, it is necessary that lives and livelihoods are protected both monetary and fiscal strategies while at the same time maintaining macroeconomic stability and fiscal sustainability. In the long run, the government should restructure the economy to increased domestic production of goods and services achieve self sufficiency and stop over reliance on a few global suppliers of goods and services, strive to have a green economy to combat the effects of climate change, diversify the economy in terms of export products, adding value to exports towards more manufactured items and reduced over reliance on exports of raw materials, have multiple sources of supply of goods and services, enhance domestic resource mobilization and diversify sources of financial resources.

Kenya should pursue policies that help in overcoming constraints to economic growth arising from factor accumulation and hence lead to exports and product diversification. Kenya should aim at increasing its levels of both domestic investments as well as foreign direct investments, addressing governance issues such as corruption, ethnic conflicts, addressing the rising fiscal deficit and lack of fiscal space through effective mobilization of domestic resources, ensure macroeconomic, monetary, industrial trade policies that foster diversification in order to contain

inflationary pressure and ensure regional value chains and global value chains are not disrupted by the prevailing COVID-19 pandemic.

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10.0 SUMMARY, POLICY RECOMMENDATIONS AND CONCLUSION

By

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10.1 Introduction

The main objective of this book is to analyze the effects of the Coronavirus (COVID-19) pandemic on international trade and recommend post-recovery strategies in Kenya taking into consideration the opportunities offered by the African Continental Free Trade Area. The book starts by a tracing of the trend of COVID-19 and the measures put in place by governments to combat the disease. This is followed by an analyses the macroeconomic performance of the global, regional, Africa, Sub-Saharan and Kenyan situation before and during the COVID-19 pandemic. This is followed by an analysis of East Africa's trade patterns in terms of products, services and partners. Thereafter, an analysis of the impact of the pandemic on merchandise trade is presented followed by a chapter on the impact of COVID-19 on services and foreign direct investments. The impact of the pandemic on SMEs and on the informal cross border follows as well as the trade facilitation measures that the Kenya Government put in place to preserve lives and livelihoods of both households and businesses. The last chapter is on the Kenya's COVID-19 recovery strategies taking advantage of the opportunities afforded by the Africa Continental Free Trade Area.

10.2 Summary

The 2nd chapter analyses the COVID-19 pandemic and measures governments used to combat spread of disease which turned out to be Non Tariff Barriers. Some of these measures were trade facilitative while others were trade restrictive hence turning into Non-tariff barriers.

International trade flows had been on the increase before the COVID-19 Pandemic in March 2020. This was due to the reduction in trade barriers, transportation costs, tariffs and non-tariff barriers as well as a drop in internal trade and transaction costs. It is important to note that NTMs had increased in terms of the number of goods covered as well as the number of countries using them.

Measures such as relaxing SPS requirements, exemptions from duties and taxes as well as easing of non-automatic licensing requirements on imported medical supplies are expected to help expedite trade of such goods and hence ensure adequate supplies for the source country. On the other hand, the use of export bans; export quotas; requirement for license, permit or registration in order to export on medical supplies can have negative impact on trade and in the process affect the availability of essential goods in import-dependent countries, particularly the most vulnerable ones.

Most NTMs are often imposed without reference or coordination with trading partners. Hence they end up disrupting global value chains as they act as barriers to the smooth flow of trade in critical goods. Some measures such as export monitoring and surveillance requirements are supposed ensure high quality and safety of the product exported. Unfortunately, such measures also end up delaying exports due to the additional inspections and checks imposed.

Most of the NTBs were largely premised on domestic law citing public health and safety as a reason to institute measures which ended up impacting not only internal trade but also cross border and international trade.

The government measures acted as a stumbling block on trade flows in the global economy. They also led to a rise in trade costs and decline in world trade as a result of additional border

controls, transport and associated logistics-related disruptions which are estimated to account for up to a third of the drop in world trade of from 12% to 32%.

These measures placed additional demands on border agencies that were also struggling with how to efficiently carry out their normal functions while at the same time implementing containment measures such as social distancing.

The measures also caused massive traffic snarl-ups at border crossings; slow down of logistic flows and border delays. The introduction of the COVID-19 Passport for travelers to Schengen region: and the differences in the vaccines accepted by the European Member States has created confusion among travelers and will act as an NTB for those travelers from countries that are not eligible to enter the European Union if the vaccine received is deemed not acceptable to the particular destination country.

The measures also led to a disruption of supply chains of essential commodities such as testing kits, private protective equipments (PPEs) and other medical equipment leading to low testing capacities, diagnosis and treatment. The banning by the US government on exportation of any reagents for Roche and Abbott machines led to Kenya scale down testing for COVID-19 resulting to running two systems, a manual system and an automatic Polymerase Chain Reaction (PCR) system. The COVID-19 pandemic measures also led to increased demand worldwide of various pharmaceutical products and developing countries like Kenya found themselves cut off from their suppliers who also needed the same products and they preferred satisfying local demand first.

Developed countries also placed huge orders for these products leaving little for the poor and developing countries. These regions also ordered more than 60% of the world's vaccines before they were even approved for use. Also more than 80 countries had banned exports of medical and personal protective goods especially in the initial months of the pandemic. UNCTAD (2021) found that almost 40% of all trade restrictive NTMs had been terminated by the 15th of March, 2021 implying that almost 60% of these measures are still in place even in 2021.

The 3rd chapter established that the pandemic has adversely affected the macroeconomic performance of all countries in the world. The purpose of the evaluation of the global macroeconomic performance was to; identify the trends of these aggregates prior the COVID-19 pandemic, position when the pandemic struck and the projections past the pandemic. The chapter finds that the pandemic had shocks on labor supply and demand, production, consumption and government expenditure. Countries' growth trajectories were hampered by the global epidemic with real GDP declining but this is expected to grow in the medium and long term perspectives. Further, the fiscal deficit and debt burdens were significantly high and especially amongst the low and medium income countries and well pronounced with the economic crisis in 2020.

It was observed that in 2020, the African continent was hampered by the global epidemic with real GDP declining by 2.1%, but this is expected to grow by 3.4% in 2021. Budgetary balances and debt burdens were directly impacted by the subsequent economic crisis in 2020. Africa's fiscal deficits were 4.6% in 2019 and are expected to nearly double to 8.4% in 2020.

Africa's overall current account deficit was forecast at 5.5% of GDP in 2020, with 4.1% and 2.7% projected in 2021 and 2022, respectively. Trade deficits and net factor payments overseas have been the primary drivers of current account deficits. However, in the short to medium term, Africa's average debt-to-GDP ratio is predicted to rise by 10 to 15 %age points due to product diversification and value addition endeavors by governments. The COVID 19 pandemic has significantly affected the production processes in the Continent like other regions. Africa's currency depreciated significantly due to disruptions in external financial flows (remittances,

foreign direct investment, portfolio investment, and official development assistance). Exchange rate volatility wreaked havoc on tourism-dependent and resource-intensive economies the most. Indeed Foreign direct investment (FDI), tourism, and overseas development assistance (ODA) inflows to Africa all decreased as a result of COVID 19 infections and the relatively weak control measures.

It was further observed that economic activities in Sub-Saharan Africa fell in 2020. In 2021, Sub-Saharan Africa is projected to be the world's slowest-growing region, and as the global economy recovers, the region risks lagging further behind. However, due to strong agricultural growth and a faster-than-expected rebound in commodity prices, the region's resilience in the face of the global pandemic is expected to be critical in the recovery process. On a per capita basis, the region's activities decreased. The public debt situation worsened and continued to worsen. However, Sub-Saharan Africa's recovery is predicted to differ from country to country, with the three largest economies of Nigeria, South Africa, and Angola, expected to rebound the fastest.

The situation within the East Africa region, as was observed is that the region remained the most resilient in Africa during this pandemic period, owing to a lower reliance on primary commodities and a higher degree of diversification. The region grew by 5.3% in 2019 and was expected to expand in 2020 though such projection was affected due to the striking of the pandemic during the year. The region's growth rate declined by 0.7% in 2020, but it still outperformed Africa's general decline of 2.1%. In 2021 and 2022, real GDP growth is expected to be 3.0% and 5.6%, respectively. Djibouti, Kenya, Tanzania, and Rwanda are expected to expand at the fastest rates in East Africa, with 9.9%, 5.0%, 4.1%, and 3.9%, respectively. East Africa is also the fastest growing region within the African continent with Ethiopia, Djibouti, Kenya, Rwanda, Tanzania and Uganda being the drivers of the region. . However, it is important to note that the growth and development processes of the East African region, like other regions of the globe, has been adversely affected by the COVID-19 pandemic. The region's projected growth, though moderate, is expected to be sustainable based on the effectiveness of COVID-19 control and management measures coupled with sustainable public debt management.

A further observation is that Kenya had a decline in its growth projections as a result of the COVID-19 pandemic. The coronavirus outbreak had a significant impact on the country's economic activities in practically every sector of the economy in 2020. Tourism and Services industries took the brunt of the damage. Due to weak aggregate demand occasioned by the pandemic, Kenya's inflation rate dropped to 5.1% because of lower food prices. However, year-on-year total inflation remained within the government target range since the end of 2017. As a result of tax revenue shortages and higher health-care spending, the country's fiscal deficit rose to 8.3% of GDP. The country's current account deficit shrunk to 5.4% of GDP. Notably Kenya's Foreign exchange reserves fell to 7.8 billion dollars by the end of 2020, down from 8.96 billion dollars in 2019 due to reduced net inflows as a result of international lockdowns to contain the COVID-19 pandemic. Effectively Kenya's national currency depreciated by 8.9% to KShs.110 per US dollar in 2020, down from KShs.101 in 2019. However, Kenya's growth rate is projected to return to its long-term average of around 6% in 2021 and 2022 and this is a function of the effectiveness of the COVID-19 containment measures taken by the Kenyan government.

However, due to notable proactive COVID-19 control and management measures globally, the study finds that there is some clear positive recoveries in a few key economies. In these circumstances, the global economy is expected to rise at a rate upwards of 5% in 2021, marking the highest growth of economic resurgence in the last eight decades. Rightly large-scale

government backing and the easing of pandemic restrictions are predicted to boost growth in many economies. Growth in advanced economies is projected to be on an upward trajectory, albeit to a lesser extent. Notably, the pre-pandemic cooperation between countries through trade and international value chains played a crucial role in the economic growth process and subsequently lifting many people out of poverty. Despite this, current trends predict that global trade growth will slow down over the next decade. As poor nations recover from the COVID-19 epidemic, lowering trade prices will create an environment conducive to re-engaging in global supply chains and re-igniting trade growth.

The study concludes that all countries, notably the world's most powerful economies, must take part actively in the attempts to control and manage the pandemic for the common good. In the face of the COVID-19 pandemic, global economic collaboration and partnerships are essential in ensuring the fastest and smoothest possible recovery from the pandemic and reducing the danger of a repeat crisis. It can also help to reduce the long-term costs of the pandemic's unprecedented impact while maximizing the advantages of national efforts to recover.

The 3rd chapter looks at the East African countries trade patterns in terms of products, services and partners. Given that the COVID-19 pandemic has disrupted international trade, this study assesses the performance of EAC's international trade from 2018 to 2021. Trade is assessed by products and partners for both goods and services.

The COVID-19 pandemic started as a health crisis in China in late 2019 but it is now a social and economic risk worldwide. International trade is one of the sectors that have been affected by the epidemic. The growth of exports and imports of goods and services in EAC was also affected. Burundi had the greatest slump in exports in 2020 (-20%) followed by Uganda (-16%), Kenya (-13%), Rwanda (-12%) and Tanzania (-3%) respectively. As for imports, the magnitude of the collapse was highest in Burundi (40%) followed by Uganda (12%), Rwanda (8%), Tanzania (2%) and Kenya (0.2%) respectively, in 2020. To understand the effect of the pandemic on EAC's international trade, it is imperative to understand the performance of trade before and during the COVID-19 period. Specifically, imports which are seldom covered in empirical studies yet they are vital for inputs of the manufacturing sectors of EAC countries. A dearth of literature also exists on trade in services in the EAC region yet services account for as high as 48% of total goods and services exports in countries like Kenya and 39% of total goods and services imports in South Sudan. More so, EAC countries are undergoing pre-mature deindustrialization which means that the role of services in these economies is increasing.

By conducting descriptive statistics on macroeconomic data ranging from 2018 to 2021, this study establishes several findings. As for goods: Kenya is the top exporter and importer of merchandise in the EAC region. It is followed by Tanzania, Uganda, Rwanda and Burundi respectively. Imports and exports of goods in most EAC countries increased during the pandemic except for a few instances of slight drops in exports in Tanzania and imports in Rwanda. All EAC countries had a trade deficit (imports exceeding exports) in goods before and during the pandemic. The trade deficit worsened for Kenya and Tanzania during the epidemic while that of the other EAC countries compressed. EAC countries mainly export food products except for Tanzania which exports manufactured intermediate commodities such as electrical machinery equipment. EAC countries mostly import manufactured commodities and mineral fuels and oils. The top ten export products made up at least 55% of total exports in EAC countries while the top ten import products account for at least 62.1% of imports by EAC countries. The United Arab Emirates (UAE) is by far the top trading partner of most EAC countries. China, the United Kingdom (UK), and the United States of America (USA) are the major non-oil export trading

partners of EAC countries. China is by far the top import trading partner of EAC countries. India, UAE and Saudi Arabia are also top import partners. Both intra-EAC and intra-Africa export and import trade in goods are strong among EAC countries. The top twenty trading partners account for at least 78% and 83% of exports and imports of goods from the EAC region respectively.

As for services: Kenya is the top exporter and importer of services in the EAC region. Tanzania, Uganda, Rwanda and South Sudan follow in that order for exports. Uganda, Tanzania, South Sudan and Rwanda follow in that order for imports. Service exports dropped in all EAC countries during the pandemic but imports increased in Uganda and South Sudan. Other countries experienced a drop in imports of services. Tanzania and Kenya have a trade surplus (exports exceed imports) in services while the rest of the EAC countries have a deficit. The surplus for Kenya and Tanzania massively reduced during the pandemic while Uganda's deficit worsened during the COVID-19 period. EAC countries mainly export travel services followed by transport services except for Kenya and South Sudan which majorly export transport and Other Business Services (OBS) respectively. Transport, followed by travel are the main services imported in EAC except for Tanzania which imports more travel services than transport services. Across the region, imports and exports of travel services dropped during the COVID-19 pandemic. Exports and imports of transport services increased except in Uganda which experienced a decline. OBS exports and imports increased in all EAC countries especially in Uganda whose OBS imports almost doubled in 2020. The USA is by far the highest service export and import trading partner of EAC countries. Other top trading partners are spread across Europe (Germany, France, UK etc.) and Asia (China, India, Japan, UAE, Saudi Arabia etc.). Both intra-EAC and intra-Africa service export and import trade are weak. Overall, the top twenty partners account for at least 72% of service export and import trade in EAC.

The 4th chapter analyzes the impact of COVID-19 on merchandise trade in Kenya. African trade, especially exports, was predicted to greatly decline due to COVID-19. The argument was that most of the exports from African countries, especially to developed countries like United States, China, Japan, Germany, France, Italy and United Kingdom, would greatly fall due to the strict measures taken by these nations to combat the spread of the virus.

These nations form the main destinations of Africa's exports, thus closing their borders was expected to significantly affect Africa's merchandise trade. The effect was mainly expected to affect exports through the network of global value chains. This was so because most industries in developed nations import raw materials from African markets. This study analyses the impact of the spread of COVID-19 and government responses towards the pandemic on merchandise trade in Kenya.

The analysis of the impact of COVID-19 on merchandise trade observed volumes of imports and exports, before and after the invasion of COVID-19. The measure of COVID-19, involved the spread of the disease and government response to the pandemic. The spread is defined by the period when COVID-19 came into place in January 2020 up to the current period of study, May 2021. Government measures, is defined by the period when Kenyan government began to take measures to combat the spread of the pandemic. The spread of COVID-19 is observed to have reduced exports by 0.47% and imports by 0.29%. However, over time, exporters are observed to adjust their reactions towards the spread of the disease and thus exerting an upward pressure on exports. On government measures, imports reduced by close to 0.9% while exports reduced by around 0.6%.

On specific product categories, data from Kenya National Bureau of Statistics (KNBS) shows that the negative impact of the spread of COVID-19 on merchandise exports was more observed on consumer goods, followed by industrial supplies and finally food and beverages. Consumer goods declined by 29%, followed by industrial supplies at 25% and finally food and beverages at 14%. The three products form the largest shares of merchandise exports in the country. Government response to COVID-19 led to a decline in exports of transport equipment by 50%, followed by consumer goods at 45% and finally industrial supplies by 35%.

In terms of imports, the largest negative impact of the spread of COVID-19 was observed on imports of fuel and lubricants. Imports in this category dropped by 37%. According to KNBS (2021), products in this category form 16% of the share of merchandise imports. The largest share of imports is industrial supplies (41%). Imports of these products reduced by close to 15%. Consumer goods form the least of import shares at 9%. Import of these products increased by close to 23% during the period of COVID-19. On government measures, Imports of fuel and lubricants experienced the largest decline of around 80%. Import of industrial supplies, which contribute the largest share of imports, reduced by close to 23%. Consumer goods that form the least in import shares, recorded an increase of 18%. However, over time this increase is observed to decline.

Generally, in terms of magnitudes of the impact, large impact is observed on government response to COVID-19 in relation to the general spread of the disease. The strict measures placed by the government, like closing of its borders are observed to affect both volumes of imports and exports in the country. The negative impact was large on imports compared to exports. However, over time, both exporters and importers began to adjust their importing and exporting reactions. These adjustments are seen to exert a positive and upward pressure on both imports and exports in the country.

On products the largest negative impact of COVID-19 is observed on imports and exports of industrial supplies. This shows that manufacturing sectors that are dependent on these industrial supplies were the most affected by COVID-19. Specifically, the results reflect a situation where COVID-19 led to a shutdown of some manufacturing industries. This led to a decline in the demand and supply of industrial supplies in the country. Finally, imports of consumer goods recorded a significant increase of between 17% and 23%. Apart from reduction in domestic production of these goods, the increase could as well be attributed to ‘panic-purchases’ due to the uncertainty caused by the virus or where COVID-19 led to an increase in the purchase of ‘new consumer goods’ like face masks.

The 5th chapter analyses the effects of COVID-19 on small and medium enterprises and informal cross border trade in Kenya and argues that COVID-19 measures significantly affected the informal cross-border trade activities between Kenya and her neighbors.

Informal cross-border trade involves men and women crossing the border with goods loaded on their heads, backs and even hands. Some even use bicycles, hand carts, wheelchairs and even automobiles to transport their merchandise across the border. This special kind of trade provides essential income to many for livelihood. Majority of the participant in this trade are women making up to 70% due to its nature.

The composition of goods traded include majorly agricultural produce, intermediate goods and industrial commodities ranging from animals and animal products, cereals, horticulture, electronics, vehicle parts and other consumer goods. On average, ICBT contributes approximately 43% of the total trade within the continent. Yet it is largely ignored by many policy makers in Africa. It accounts to almost 99% of agricultural trade across the borders.

Majority of the traders in this sector operates fully outside the formal economy thereby escaping trade related regulations like duty payments to the respective government revenue agencies.

The study finds that the first wave of corona virus pandemic brought in confusion to many African countries. This placed cross border trade on hold as border activities were suspended. The process led to the introduction of border restrictions and regulations to help manage cross-border transmission of the virus. This formed the immediate regulatory measure by many countries to help curb the spread of COVID-19. It implied closing of land and maritime borders as well as suspension of international flights while introducing mandatory quarantine period for those entering the country. For instance, Kenya introduced a 14-day quarantine period on external flight passengers.

The EAC member countries either closed their land and maritime borders or/and suspended their international flights. For instance, all EAC countries restricted their land border crossing points except Kenya and Tanzania. Among the EAC countries, only DRC closed its maritime border entry points while only South Sudan didn't restrict flights during the first wave of the pandemic.

The regulations significantly contained the rising viral infection and allowed only essential service providers and emergency services to move around to aid transfer of cargo across the borders but limited the movement of cross border traders affecting their livelihood. However, the regulations required mandatory testing and proper sanitization of the providers while limiting the number of passengers and crew members on board.

Significant cross border trade activities in Kenya take place mainly with the Ugandan and Tanzanian counterparts. For instance, the benefits from trade balance for Kenya is mainly on industrial manufactured goods while Uganda and Tanzania trade balance is mainly from exports of agricultural produce especially food trade.

The countries are among the EAC members that have suffered a great deal on the effects of COVID-19. The impact is gravely felt on the informal cross border traders than formal trade sector. For instance, there was a significant shift from informal to formal trade on weekly average of trade volumes for rice and maize at Isebania border between Kenya and Tanzania. This reflected in most border points.

Apart from cereals and grains, perishable goods also constitute the largest share of ICBT amongst the many agriculture and food commodities traded in Africa. Kenya for instance is a net importer of most perishable commodities from Uganda and Tanzania. These include mainly fresh fruits and vegetables products direct from the farms. These products don't require costly border procedures which make formal trade impractical. In East Africa, there were disruptions on the shipment of fresh food under COVID-19 restrictions. This created food shortage at the point of demand and wastage at the point of production due to surpluses.

Much of trade in livestock and food products also takes place in Kenya especially with the northern neighboring countries like Ethiopia, Somalia and South Sudan. This kind of trade requires strict sanitary and phytosanitary measures for its formality. However most of the traders in this case are small scale and therefore these measures are an impediment to their existence. The strict measures therefore give cross border traders incentives to circumvent official controls. COVID-19 pandemic made governments to enhance sanitary and phytosanitary measures at border points and this greatly hampered ICBT activities.

Enhanced COVID-19 restrictions have also intensified bribes and illicit fines and created more checkpoints along the corridor nodes. Both formal and informal cross border traders are adversely affected. These numerous checkpoints cause a significant time delays leading to bribes. By April 2020, the illicit collections and bribes had increased by almost 50%.

Kenya closed most part of its borders following the wake of COVID-19 regulations. However, this was not the case on some parts of the partner's borders. Some countries took long to limit movement making it easier for cross-border traders to shift and settle on the other side of the border. This allowed some limited opportunities for informal cross-border trade irrespective of the COVID-19 regulations. Many traders who shifted however found it difficult to cross back due to the closer of border points and were forced to live in precarious conditions.

Limited movements also complicated transshipment of goods and services by traders on either side of the border. Some would therefore resort to paying truck drivers to buy and transport goods on their behalf. This involved certain risks. The arrangement implied compromise on quality and quantity of consignments and some would end up being duped by truck drivers entrusted by the consignees. For instance, truck driver at Busia border would buy low cost maize from Ugandan side thereby compromising on the informal cross-border trader's products quality. The 6th chapter investigates the impact of COVID-19 on Kenya's service sector as well as Foreign Direct Investment. The service sector in Kenya has a crucial key role both directly and indirectly through job creation and revenue generation and indirectly through fostering forward and backward linkages to other sectors in the economy thereby contributing both to job creation and to the GDP. It is the largest contributor to GDP compared to the agricultural, manufacturing and industrial sectors.

The COVID-19 pandemic affected some sectors of the economy more than others. World Bank (2021) posits that the overall GDP contracted by 0.4% year on year in the first three quarters of 2020, driven by the pandemic's severe impact on the services sector. The World Bank argues that real services sector (tertiary) output contributed 2.5 %age points to year-on-year GDP in the first quarter of 2020 but subtracted 5.5 %age points from growth in the second quarter as the full impact of the pandemic was felt. It is further submitted that in the third quarter services output rose from quarter two levels but remained lower than its level one year previously consequently reducing year-on-year GDP growth by 2.7 %age points. The report argues that the main driver of the drag on the services sector output growth was education reflecting the impact of the closure of most education institutions as a containment measure by the government which has resulted in significant losses.

Activity in the accommodation sector and the restaurant subsector was severely impacted by the pandemic as international travel was suspended for much of 2020. Hotels closed or significantly scaled down their operations since movement restrictions were imposed in most countries.

Receipts from services exports fell sharply reflecting the collapse of international travel and transport. The subsector contracted by 57.9 % year-on-year in quarter three subtracting 0.8 %age points from overall GDP growth.

However, the Kenyan economy staged a recovery in Q₃ of 2020 and the services sector increased by 2.9% year-on-year contributing 0.2 %age points to GDP. The other service subsectors like Finance, Insurance, Information and Communication (ICT) as well as Real estate picked up in the second half of 2020.

Growth in the finance, insurance, ICT, real estate renting, and business services sector strengthened to 5.3%, 7.3% and 5.3% Year on Year respectively in Q₃ of 2020. The Financial sector's performance has been supported by continued credit growth. The ICT sector benefited from the government measures to facilitate digital money transactions and promote more E-commerce.

On the other hand, the COVID-19 pandemic caused a dramatic fall in global foreign investments (FDI) in 2020, and brought FDI flows to a level last seen in 2005. It has been an immense

negative impact especially on the most productive of investments, the Greenfield investment in industrial and infrastructure projects. The UNCTAD (2020) shows that FDI fell by one third to US\$1 trillion which is well below the low point reached after the global financial crisis of 2008-2009. The COVID-19 pandemic reduced Africa's FDI inflows due in part to her severe dependence on commodity trade.

The pandemic caused a serious drop of FDI to Kenya as it muzzled trade arrangements across the world. The UNCTAD (2021) investment report on FDI shows that Kenya attracted US\$717 million worth of FDI investments in 2020 compared to US\$1.3 billion in 2019. This was the second straight drop considering that US\$1.6 billion was attracted in 2018. Kenya, considered to be East Africa regions powerhouse lagged its neighbors Uganda at US\$823 million and Tanzania at US\$1.013 billion.

However, it is projected that FDI will recover this year (2021), after an almost 35% drop in 2020 due to COVID-19 crisis. According to the UNCTAD 2021 report the global FDI is projected to increase by between 10 and 15% in 2021 although it will still be below the pre-pandemic levels.

The lockdowns witnessed worldwide led investors to pause investment projects and made Multinational Enterprises to shy away from new projects. Investments flows to Africa are unlikely to fully recover in the near term.

COVID-19 pandemic affected peoples' health (life) and their livelihoods (jobs and other sources of income). The effects have been more severe in the service sector that relies on face-to-face interactions like hotel accommodation, wholesale retail trade and education.

Foreign Direct Investments (FDI) flows have fallen by an appreciable proportion during the early part of the pandemic as MNCs were reluctant to expand their activities and even put new investments on hold due to uncertainty which comes with such major disruptions as a global pandemic. The FDI flows of the developing countries dropped even more since the severely impacted sectors like primary and manufacturing sectors accounts for a larger share of their FDI inflows than in the advanced countries.

The expectation is that the FDI flows could remain below the pre-crisis levels through the whole of 2021 unless the public health measures and economic support policies pursued by the government are effective.

The 7th chapter provides evidence of the reactions, measures and speed the Government of Kenya took in the earlier phases of the viral spread which somehow delayed the spike in cases and infections and deaths. The pandemic caused shocks through disruption in trade, tourism, foreign direct investment, lives and livelihoods and tax revenue due to the government's economic stimulus measures and loss of jobs.

During COVID-19 pandemic, the Government of Kenya implemented a range of public health and socio-economic measures, such as a travel ban, curfew, closure of schools and workplaces, expansion of health insurance, cash and food aid, and tax relief, lock-downs and curfews but surveillance, fatigue and security remained a big challenge leading to the spread of the virus.

Similarly, the mitigating measures the government put in place to facilitate trade and to mitigate public health impact were done by the Ministry of industrialization, trade and enterprise development (MoITED) and the Ministry of health (MoH) where they issued guidelines on the cargo clearance process during the pandemic and mobilized various agencies of government to work round the clock and put in place safe and quick measures to facilitate both domestic and international trade.

Some of these measures were fiscal and others were monetary. For example, the Kenyan government responded to the devastating effects of the pandemic through an economic stimulus

plan that were implemented via a Tax Amendment Act 2020 and became effective on 1st April 2020 to allow:

The allocation of Ksh.44.8B for health care, contact tracing, monitoring expenses, food reliefs, social protection and cash transfers, the government reduced VAT from 16-14 %, reduced personal income tax rate from 30-25 %, corporate tax was reduced from 30-25 % and increased from 10-15 % for nonresidents, while the tax turnover was reduced from 3-1 % and turn over thresholds increased from Ksh1-500 million for MSMSEs. On the same breath low income earners of Ksh.2400/ and below were exempted from tax.

Similarly, to save the MSMEs from further damage, the government temporarily suspended the listing of any person, corporate entity to Credit Reference Bureau for any loan overdue or in arrears. Government also promised to pay Ksh.13B of the pending bills, verified VAT refund claims amounting to Ksh.10B and encouraged the private sector to follow suit in clearing outstanding bill among themselves, while Ksh.1B was to be appropriated from the Universal health care coverage vote to recruit more health workers.

On the other hand, the executive announced through the president to take a voluntary pay cut, whereby the presidency reduced their salaries by 80 %, the Ministers, Speakers of Parliament and Chief Administrative Secretaries reduced by 30 % and Principal Secretaries by 20 %.

The government also insisted on cashless payment to reduce the spread of the virus from one person to the other, allocated Ksh.3B as seed capital for MSMEs credit guarantee scheme (to provide affordable credit), another Ksh.3B for the supply of farm inputs to about 200,000 small scale farmers implemented through e-vouchers, and Ksh.1.5B for flower and horticultural producers to access international markets.

Not to be left out is the worst hit sector of the season-the tourism and hospitality sector, where hotels closed because of lockdowns around the world and within. The government allocated Ksh.2B to cushion the sector from collapse. The money would be taken as a soft loan to support renovations and restructuring the business model. The government also gave Ksh.100 million for Artists, Actors and Musicians through the ‘work for pay’ initiative, while Ksh.1B was given to support around 160 community conservancies.

Subsequently, the Central bank of Kenya on 23th March 2020, reduced the lending rate to 7 % and continues through September 2021, reduced the cash reserve ratio also to 4.25 %, increased the maximum tenor of purchase to 91 days from 28 days, and waived charges on mobile money transactions.

To compound the monetary measures of central bank, IMF approved Ksh.79B emergency disbursement, World Bank activated a facility of Ksh.5B and an additional Ksh.1B to support 2020/2021 budget and in May 2021 IMF provided US\$739M interest free loan to help weather the initial COVID -19 shock.

On the other hand, the government embarked on a project to supply adequate water to informal settlements, schools, market places and public places in order to encourage hygiene, especially, washing of hands to prevent the spread of the virus. In major towns and especially Nairobi city the government constructed more new hospitals and refurbished others in the effort to fight the pandemic.

It is important to note that the GoK has got a positive outlook of economic recovering in 2021 and that explains why it came launched the 2020-2022 Economic Recovery Strategy. However, the pandemic is not over yet as shown in the 8th chapter which demonstrates that the pandemic is now in its 4th wave. The possibility of bringing back restriction measures such as curfews and lockdowns although necessary to control the spread of the pandemic, could have negative

economic and social consequences for the citizenry. At the same time, the initial Kenya Government's economic stimulus plans that provided cash assistance to the most vulnerable, reduced taxes, among others have already come to an end. The situation of most Kenyan individuals as well as households still remains uncertain. Strategies are therefore necessary to protect individuals and households and firms from these negative consequences.

This means that policy makers need to come up with strategies that require use of both fiscal and monetary measures to maintain fiscal and macroeconomic stability and at the same time build and strengthen the resilience of the economy. These strategies are expected to lessen the negative effects of the COVID-19 pandemic and in the process facilitate the opening up of the economy, build resilience, speed up economic recovery and the attainment of sustainable economic growth and development.

In the short term, the most important strategy is to ensure that all adult Kenyans are vaccinated. There is also need for collective action in production of vaccine. There is need for accelerated vaccine deployment in different counties and use of innovative actions on containment and preventive measures such as continued campaigns to rally the citizens to observe basic hygiene such as wearing of masks, washing of hands and keeping social distance as well as strengthening the quality of and access to health services. The government should also impose subsidies on essential services and goods such as energy, water, food, transport, PPEs, masks and internet data services.

In the medium term it would be prudent to lower taxes, have a policy of temporary basic income for those who lost their jobs due to the pandemic, subsidize on essential goods such as energy, gas, kerosene, water, food and transport. This would reduce the cost of production and increase consumption. Other medium terms strategies include job retention programs, restructuring public debt towards longer maturity non commercial loans and making sure that any new loans are taken only on concessional basis. At the same time, the GoK should ensure that resources are used efficiently by reducing the level of corruption.

In the long run, efforts should be put in place towards restructure the economy to more local production of goods and services with the aim of achieving the goal of being self reliant by Kenya becoming both consumer and producer of its own goods and services.

It is also important to Kenya to leverage use of technology in order to speed up its pace of economic recovery after COVID-19 negative effects on the economy.

In the long term, it is also important for Kenya to increase local production, strengthen electronic commerce since it has been seen as the cog in the engine driving the modern economies. Kenya should also consider digitalization and simplification of procedures used in import, export and transit of goods and services. These include procedures such as paperless trade, electronic payment of all trade-related taxes, digital certificates and signatures, or 24/7 automated processing of trade declarations developing and implementing a policy and legal framework for E-commerce.

Kenya's exports should meet set product and process standards if they have to compete in the local and international markets. Kenya needs to remove technical barriers to trade, develop and implement set standards as well as conformity assessments. It also needs to have all its laboratories accredited and provide soft and hard infrastructure to enable industries to grow. There is need to diversify destination of exports, export products, sources of import, be more inclusive among the participants in productive activities and add value to export products.

Kenya also needs to have policies that will ensure equitable use of environmental resources and the promotion of those economic activities that will preserve biodiversity such as increase

investment in transport, forestry, water, land use, and waste sectors. Consider subsidizing liquefied petroleum gas to increase its usage among Kenyan citizens; production of solar panels and their installation in homes; production of solar and wind energy, water harvesting as well as encouraging tree planting and reforestation.

Bilateral and regional trade agreements could help in reducing import and export restrictions on input supplies of traditional trade partners. An integrated regional economy has the capacity to accelerate economic diversification in Kenya. In order to benefit from this regional integration, it is imperative that member states should harmonize their strategic and policy responses in case of other pandemics. Regional integration also provides opportunities for the expansion of certain sectors such as the services sector in Kenya.

Kenya's geographical position especially Indian Ocean to the East facing Australasia gives it a geographic advantage of access to key shipping lines between the Mediterranean and Indian Oceans. Hence Kenya should work towards diversifying its trading partners while at the same time and taking advantage of the fiber optic connection to conduct e-commerce.

The AfCFTA's will increase Kenya's trade with other African countries since the AfCFTA promises to reduce tariffs and non-tariff barriers to facilitate intra-African trade.

Kenya is a signatory to the WTO Trade Facilitation Agreement and it should take full advantage of it. Other trade facilitation facilities that Kenya should take advantage of are the World Bank Trade Facilitation Support Program; African Development Bank; UNCTAD, OECD as well as the EU.

Aid for Trade will promote import diversification by increasing the number of both import commodities and import partner countries.

Enhanced cooperation among EAC and AfCFTA governments, international organizations and the private sector is critical to ensure that all trading partners have sufficient information to make decisions.

10.3 Policy Recommendations

The second chapter recommends the following:

- a) Important that the Kenya Government comes up with strategies to stop the spread of COVID-19 while at the same time protecting lives and livelihoods of its citizens.
- b) EAC as well as other African countries should prioritize vaccination in the short term to stop the spread of the COVID-19.
- c) Trade restrictive measures which have translated into NTBs requires Kenya and other African countries to start thinking of how they can become producers as well as consumers of its own products and more so those products that are essential for human life such as pharmaceuticals and vaccines.
- d) Need for the EAC and other African countries to harmonize strategies/measures to deal with future pandemics

The third paper recommends a number of possible policy measures. A variety of policy solutions have been implemented to cushion economies and populations since the outbreak of the COVID 19 pandemic. In the short term, governments made concerted efforts to ensure that economies that had been damaged continue to function amid the pandemic situation. However, it is imperative that governments play a critical role in implementing appropriate macroeconomic policies such as lowering of interest rates and expansionary fiscal policies to facilitate growth and thus effective budget policy functions of governments (distribution, allocation and stabilization) should be undertaken cognizant of the COVID-19 pandemic for socioeconomic

enhancement and sustainability. There is need for wide dissemination of good hygiene practices and this should continuously be encouraged as it is a low cost and highly effective endeavor. Quarantining people and limiting large-scale social interaction have shown to be successful responses in many countries. Global cooperation, especially in the sphere of public health and economic development should be the focus for countries now that the COVID-19 pandemic has brought in a new normal globally. Global cooperation is critical, particularly in the areas of public health and economic development.

The results of this study have several policy implications for policy makers as follows:

1. Given that both exports and imports of goods increased in EAC countries during the pandemic, EAC countries should continue implementing trade facilitation measures to boost the region's international trade.
2. EAC countries should consider boosting the services sector given the massive drop in exports and imports of services of most member states.
3. Travel services were the most affected by the COVID-19 pandemic, suggesting that EAC members should continue opening up the tourism sector while applying policies that reduce the spread of the virus and enhance safe border trade.
4. The massive increase in exports and imports of Other Business Services, which by their nature are transacted online, implies that EAC countries should adopt and enhance the digitalization of services. Businesses, especially MSMEs, can also be supported to transit towards digital trade.
5. The weak intra-EAC and intra-Africa trade in services indicate a need for further prioritization and discussion of services in the ongoing AfCFTA negotiations.
6. EAC countries should also pursue policies that diversify both markets and products for goods and services.

From the findings, the 4th chapter makes a number of policy recommendations.

- First, on industrial supplies, the government might consider providing alternative incentives to promote imports and exports of these products. A continuous drop of these products could adversely affect the economy in the long run. Some industries that depend on supply of these products would end up shutting down and causing massive unemployment in the country. One of the practical incentives to promote imports would be a reduction of import tariffs of these products. Since some of them could already be attracting zero tariffs, reduction of alternative taxes like excise duties may be considered by the government.
- Secondly, the surge in imports due to COVID-19 shows that there is a risk of an economy being over dependent on imports. There is thus a need for the government to create a conducive environment that promotes production and consumption of domestic commodities. Finally, there is need to control the volatility of exchange rates in the country. The results have shown that exchange rate volatility in the country negatively affects the level of exports.

The 5th chapter recommends the following:

1. The Kenya government being a member of the EAC participated in the publication of COVID-19 border guidelines. But, to enhance perception of COVID-19 border regulations and how to safely trade, government authorities should develop a simplified step-by-step guides for small cross-border traders and truck drivers. Their aim should focus on easing the implementation challenges at borders.

2. They should make efforts to widen the scope of guidelines to facilitate movement of merchandise across the border. This will create more business opportunities and further help kick-start economic recoveries towards the “new normal”. Priority should be given towards speedy movement and clearance of essential goods and services.
3. Any new updates or advancements on border regulations should be made public and announced in advance to allow stakeholders to adapt to avoid conflicts at border posts. This should include sharing of updates on test certificates for drivers and other essential service providers at designated testing points and border points.
4. Kenya and the greater African continent through African Union should develop a common COVID-19 protocol for the region as the region is characterized by membership overlaps. This will help harmonize and coordinate the implementation of trade and transport related regulations.
5. Mobile banking and cashless payment systems should be encouraged to control the spread through cross border trade. Mobile lending platforms should also be encouraged to facilitate credit transfers to cross-border traders. Similar guidelines should be encouraged and be issued in other countries and regions as well.
6. There is need for the government to design a system that can be used to capture informal cross-border trade data and integrate it into the national database. However, caution must be taken to ensure that the data is not being used against the informal traders.
7. More appropriate information and customs regulations should be provided to protect small-scale and female traders especially during the pandemic.

The 6th chapter recommends the following:

- Use of digital platforms and E-Commerce to enable firms and other sectors cope with uncertainty brought about by the pandemic since social distancing precautions is limiting face-to-face interactions.
- Leverage access to public support in response to COVID-19 shocks on firm sales, jobs, and finances. This public support is equally likely to be more prevalent among larger firms as informal ones stand on their own.
- Integrating RVCs should be considered a long-term policy objective for many countries in the wake of COVID-19. Policy makers in Kenya and Africa in general should enact simplified and robust investment and business facilitation measures.
- Economic diversification by Kenya would result in a wider distribution of economic activities. This will mainly affect services and the GVC- intensive manufacturing industries. Diversifying value chains can lead to new opportunities.
- Regionalization could also lead to a transition towards RVCs that have shorter turn around in production length but not also less fragmented in terms of quantity of cooperation agreements. Regionalization would help create new opportunities for developing economies like Kenya to be competitive in attracting FDI and participating in value-added activities.
- Kenya should consider having a policy environment that favors gradual adjustment of international production networks.
- Policy makers should aim at focusing more investments in resilient infrastructure, health services and universal access to and distribution of COVID-19 vaccines.

The 7th Chapter recommends the following:

- Open more special counters and green lanes and smart gates to provide round the clock clearance at critical ports.

- Customs can conduct off-site audits via video or electronic data transmission or based the audit on the inventory data provided by enterprises rather than on-site audits.
- Guide and train online on clearance formalities, especially to MSMEs to lessen declaration errors and avoid procedural non-compliance
- Recognition of third-party certificates, test reports or self-declaration on quality and safety instead of laboratory testing
- Data exchange and information sharing among customs authorities in countries and the EAC region.
- Embrace technology in trade facilitation
- WTO to enforce the trade facilitation agreement and assist build capacity
- Regional integration should be area of focus as regards to trade facilitation. It proved that neighbouring countries can access and trade easily even if there is a pandemic
- The government should have retained some stimulus package for MSMEs and tax free for people of lower earning bracket-Ksh.24,000/.

The 8th chapter recommends the following:

- Kenya should accelerate the rate of investment in electricity connectivity, digital tools and infrastructure with the aim of making internet enabled devices such as computers, mobile phones among others as well as internet services more affordable and accessible to as many Kenyans as possible.
- Kenya needs to remove technical barriers to trade, develop and implement set standards as well as conformity assessments.
- It also needs to have all its laboratories accredited and provide soft and hard infrastructure to enable industries to grow.
- Kenya must also endeavor to reduce the cost of production as this makes local products and services uncompetitive in export markets.
- Endeavor to have a green economy in an effort to combat the effects of climate change
- There is need for pursuance of policies and strategies that will support and sustain firms, individuals and households in the long term, medium and short terms.
- Policy makers should take advantage and embrace opportunities offered by bilateral and regional trade agreements, African Continental Free Trade Area, enhance regional and international cooperation with development and other trading partners, make use of existing trade facilitation facilities as well as aid for trade.
- Pursue policies that help in overcoming constraints to economic growth arising from factor accumulation and hence lead to exports and product diversification.
- Kenya should aim at increasing its levels of both domestic investments as well as foreign direct investments, addressing governance issues such as corruption, ethnic conflicts, addressing the rising fiscal deficit and lack of fiscal space through effective mobilization of domestic resources, ensure macroeconomic, monetary, industrial trade policies that foster diversification in order to contain inflationary pressure and ensure regional value chains and global value chains are not disrupted by the prevailing COVID-19 pandemic.

10.4 Conclusion

East African Community and Kenya in general have relatively been protected from high infection rates as shown in this report. The containment measures have led to relatively low COVID-19 infection rates and death rates.

This report has shown that there is need for value addition policies to support export and import diversification, E-commerce policies to support economic diversification in line with digital trade within the AfCFTA and small and medium enterprises.