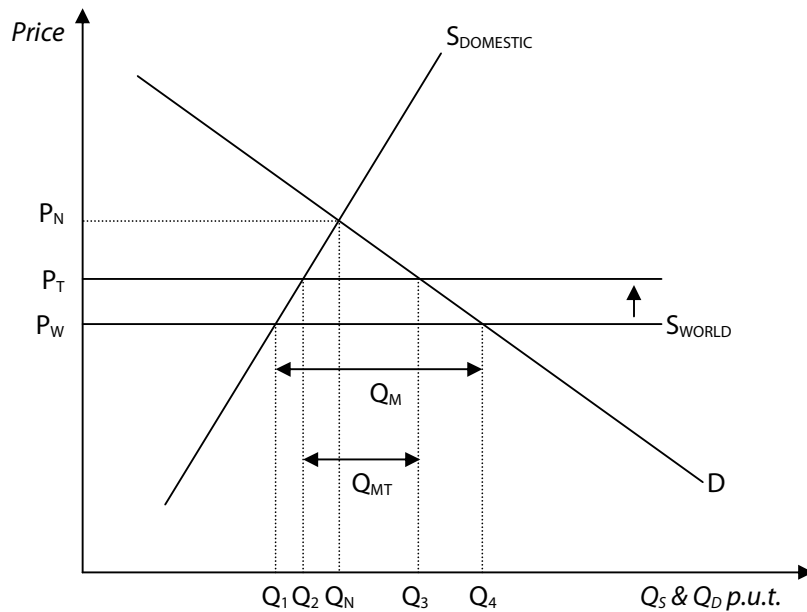


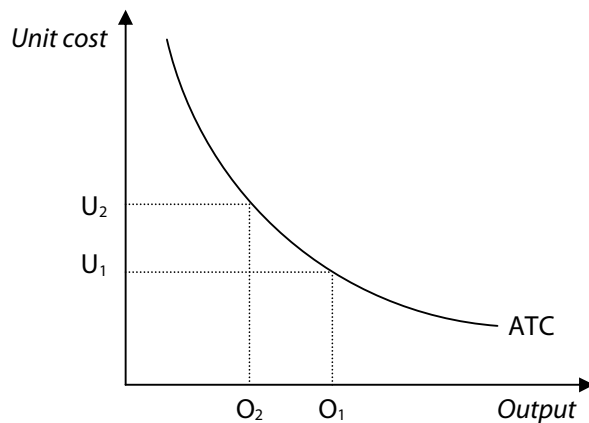
## Protectionism in Kenya

### Clothing in Kenya



Clothing is produced in Kenya, but the market equilibrium is a higher price than world supply. World supply is modelled as being perfectly elastic as there are large stocks of clothes.

By allowing free world trade the supply curve shifts to S<sub>WORLD</sub>, and so the equilibrium price decreases from P<sub>N</sub> to P<sub>W</sub> and quantity consumed within the economy increases from Q<sub>N</sub> to Q<sub>4</sub>. However domestic production falls from Q<sub>N</sub> to Q<sub>1</sub>, and the quantity marked on the diagram as Q<sub>M</sub> represents the level of imports if free trade is implemented.



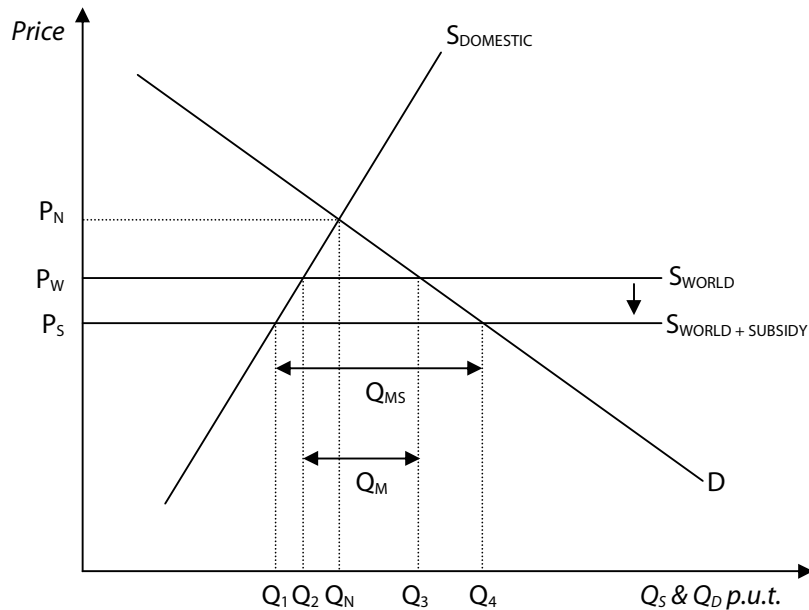
This can be undesirable for an economy that has infant industries. A tariff is one form of protectionism. For industries with high fixed costs a reduction in output mentioned above due to world trade will cause a proportionally large increase in unit costs as illustrated to the left the movement from O<sub>1</sub> to O<sub>2</sub> causes a proportionally larger increase in unit costs from U<sub>1</sub> to U<sub>2</sub>.

Thus a tariff can be viewed as desirable to protect infant industries and so raise domestic production to a higher output, lowering unit costs. The size of the tariff can vary, but as illustrated above a tariff of magnitude P<sub>W</sub>P<sub>T</sub> causes a decrease in total quantity demanded and supplied from Q<sub>4</sub> to Q<sub>3</sub>, an increase in domestic production of Q<sub>1</sub>Q<sub>2</sub> and lower imports

down to  $Q_2Q_3$  from  $Q_1Q_4$ . So, whilst the tariff benefits domestic producers as it increases their production total consumption is lower and the consumer is paying a higher price.

### Agriculture in the EU and its effect in Kenya

The production of agricultural goods in the EU is heavily subsidised. The subsidies were introduced after the Second World War as an incentive for production yet today lead to overproduction of goods for which subsidies are available and arguably should be removed.



$S_{DOMESTIC}$  represents the domestic supply in Kenya, and  $D$  the domestic demand. By allowing free trade supply shifts to  $S_{WORLD}$ , which is assumed to be at a lower price than those made in Kenya. This causes an increase in total consumption of produce from  $Q_N$  to  $Q_3$ . The domestic production has decreased from  $Q_N$  to  $Q_2$ , and  $Q_M$  represents the imported produce. The effect of the EU subsidy on the production of agricultural products is to lower the world price further as the subsidy reduces the costs of producers in the EU.

For the consumer in Kenya this arguably makes them better off, the equilibrium price falls further from  $P_W$  to  $P_S$ , and the quantity consumed increases from  $Q_3$  to  $Q_4$ . However imports rise from  $Q_M$  to  $Q_{MS}$ , and domestic production falls further from  $Q_2$  to  $Q_1$ .

Whilst the relative size of these changes depends on the elasticity of domestic supply and demand and the size of the tariffs in markets where suppliers have very few variable costs decrease in output may mean they can no longer compete with imported prices (a further shift to the left along the ATC curve on the previous page). In the long run this could result in the economy becoming reliant on subsidised production from Europe.