



Finance Management

Elixir Fin. Mgmt. 56A (2013) 13706-13714

Elixir
ISSN: 2229-712X

A study on the impact of china's investments in Africa; the case of Kenya

Kennedy Mwengei

ARTICLE INFO

Article history:

Received: 8 August 2012;

Received in revised form:

21 March 2013;

Accepted: 23 March 2013;

Keywords

China, Kenya,

Foreign direct investment (FDI),

Aid,

Trade.

ABSTRACT

This study shows that China has strategically, for the time period studied between 2000 and 2010 increased its investments in Kenya. The increase in China's economic and political involvement in Africa is arguably the most momentous development on the continent today. One of the contentious issues surrounding Sino-African relations involves investments. Although Africa and China have been trading with each other for centuries, the level and intensity of their trade relationship have increased dramatically since 2000. China has gained long strides in the global arena and more so by investing heavily in Africa. China has become a major source of a wide range of manufactured goods and foreign investment in many Africa countries. The trends and patterns of trade between China and Africa suggest many possible impacts in Africa. While many African welcome the capital and know-how, others fear that China is stepping in with heavy boots in various cycles. This has raised concerns with the developed nations and big world donors raising concerns whether China would bring hope or problems. This paper examined the impact of the China's Investments, economic and developmental activities in Africa with focus to Kenya. However, there are both gains and losses in the relationship between the two countries. Data and information was gathered from the existing literature, books, journals, newspapers and internet search. It appeared that there is scarcity of the up to date data and information about China-Kenya and much of the information available captured a number of the past years and since this was the information the author could access, it was the same information used to examine the research paper study issue.

© 2013 Elixir All rights reserved.

Introduction

Description of the research

China's growing political and economic presence in Africa and its involvement on the continent has alarmed many in Europe and the United States, best characterised by media headlines such as Why China is trying to Colonise Africa? (D. Blair 2007), and think-tank pieces entitled Beijing's Safari (J. Kurlantzick 2006). China's recent activities, such as the November 2009 pledge of US\$ 10 billion in low-cost loans for Africa over the next ten years, and its debt-forgiveness for many of Africa's poorest states, have only added to Western suspicions about China's activities in Africa.

In 1963, China established diplomatic relations with Kenya, trade between the two countries was in Kenya's favour at KES2 9.2 million. Chege M, 2010 Since then, a number of Chinese companies have invested in various projects, and by 2010 China had become the leading source of Kenya's foreign direct investment (FDI), investing KES 2.5 billion into the country's economy(Kenya Investment Authority, Annual reports 2010). Having already benefitted from the development of hydro-power plants and a loan of US\$ 16 million for roads, plus recent news that Chinese firms will construct a multi-billion dollar port near Lamu (on the East coast a second port (Lamu Port) and the Southern Sudan-Ethiopia Transport Corridor (LAPSSET) project), the construction of vehicle assembly plants and oil exploration.

According to the Kenyan National Bureau of Statistics (KNBS) show's that the country's imports come from a variety of states. The rate of imports since 1996 has generally increased

and imports from China have increased the most dramatically at a rate of 2,084% from 1996-2008. In 2011 the two governments signed 10 agreements, including a concessional loan to finance a proposed Kenyatta University Teaching and Referral hospital; solar energy generation; a malaria treatment project; hydropower station construction and upgrading; educational exchange and co-operation; a Memorandum of Understanding between China State Administration of Radio, Film and Television and Kenya's Ministry of Information and Communication; and a co-operation agreement between China Central Telecoms and Kenya Broadcasting Corporation. (Nairobi Star, 'East Africa 22 April 2011.)

Chinese electronic company AUCMA has set up a television assembly factory in Kenya with a Sh117 million investment. The facility has the capacity to assemble 800 television sets per day and employs 52 people. Kenya received a Sh200 million grant from China for projects to be identified jointly by the two governments. The two countries have signed two technical and economic co-operation agreements to support economic recovery programmes under the Ministry of Planning and National Development.

Huawei Technologies has signed a contract with the Kenyan government for the Kenya Rural Telecommunications Development project at its Shenzhen, China, headquarters. First Automobile Group has teamed up with Trans Africa to market vehicles in Kenya. Another significant investment in Nairobi has been the establishment of a factory, estimated to be worth US\$3 million, at Industrial Area to produce concrete poles.

Chinese President Hu Jintao has told Kenyan President Mwai Kibaki that China is ready to expand political and economic cooperation with Kenya to deepen bilateral ties. The Kenyan government firmly abides by the one-China policy and supports China's efforts for national re-unification. Bilateral co-operation in the fields of economic development, trade, health, tourism and infrastructure construction are under negotiation. It is the aim of this paper to assess the impact of China's Investment, economic and developments activities in Africa by focusing on a single African country: Kenya since it has been benefiting from China. The study's specific objectives are as follows;

- i. To examine the type of investments being made in Kenya by china
- ii. To examine China – Kenya trade relations
- iii. Identify features and significance of Chinese aid to Kenya
- iv. To identify China-Kenya military relations

Research hypothesis

✓ China's investment in Africa aims at achieving tangible developmental results and the conditionality are suitable for African countries.

Research question

✓ What is the impact of China-Kenya's relation in terms of, investment, trade and aid?

Sub-research questions

✓ What is the composition of China's FDI in Kenya?

✓ What are the major exports from China?

✓ What type of aid does Kenya receive from China?

Structure of the research paper

The study paper examines the impact of China's investments in Africa with special focus on Kenya. The study is structured in such a way that it starts by providing introductions. The introduction part is comprised of the study abstract which in a nutshell captures the main issues undertaken in the study. The theoretical perspective of the study explores the theories that explain why China and other East Asian countries were able to develop while African countries did not. The main study issues that follow are divided into five sections and section one explores China's foreign policy, China-Africa relations and boils down to diplomatic relation between China and Kenya. Section two examines Chinese investment in Kenya and provides some data on what kind of investments is being undertaken. Section three examines China-Kenya trade relations by exploring on the exports of China to Kenya. Section five briefly highlights on China-Kenya military relations which is quite a new initiative and has not been fully developed.

The conclusion part highlights some of the important points that have been gathered along the study paper.

Theoretical perspective there are various theories that argue about the rise of China. For some neo-liberals who advocate globalization, the rise of China is key to their case that globalization is good for development. Globalization has its benefits and also costs but some arguments state that China cannot rise just because of the benefits of globalization alone. There is an argument which is skeptical about Chinese success story and suggests that China is an example of sustained capitalist accumulation which has been undergoing a highly contradiction and conflict ridden process even if there has been some social gains made.

Another argument is that some have linked China's economic activities in Africa with its refusal to condemn the regimes in the Sudan and Zimbabwe, and – more specifically to

the focus of this paper – China's silence during Kenya's electoral-turned-ethnic strife in 2007¹.

However China has tried as a state to deliberately foster large companies. China's growth is attributable in the very least to its market conforming policies. It is argued that if China was further liberalized, its growth would be greater. The rise of China is not a zero-sum game and that is where its relation with Africa and Kenya in particular comes into play. The question is whether African countries will be able to follow the example of China and other East Asian countries that have been able to develop while Africa is still struggling with development.

Foreign policy for China

Since the founding of the people's republic of China in 1950, Chinese leadership has wrestled with the dilemmas of the need to restore the country to its historical standing as a leading power against the milieu of its own development challenges. According to Alden (2007) in 1978, the new leader Deng Xiaoping set China on a gradual capitalist –oriented development road which produced three decades of double digit growth with income per capita of US\$1, 700 in 2005 (page 10). Alden continues to state that the approach to foreign policy was based on the following: - "observe calmly, secure our position. Hide our capabilities and bide our time. Be good at maintaining a low profile, never claim leadership". –

According to Pere (2006), Chinese development is not a zero-sum game and so the policy statements express six themes, namely;

- 1). China is a peace-loving nation and opposes the use of force in international disputes, with the exception of Taiwan.
- 2). China is a developing country, and pursues unity with the third world countries
- 3). China is co-operative in international affairs, and supportive of international organizations and international treaties.
- 4). Chinese foreign policy is independent and autonomous
- 5). China is an aspiring great power with growing national strength and rising international status.
- 6). China pursues "people-centered" (or put people first) development and policies (Xiaoxing 2005).

China – Africa relation

China was attracted to Africa as early as the T'ang dynasty (A.D. 618 – 907) and the 19 century reports of the meat-eating, ivory exporting people of po-pa-li who are the inhabitants of the now modern Kenya or Tanzania confirms this (Rotberg, 2008). It is in the 15th century that China started its first certain direct involvement with Africa. From Kenya or Tanzania a number of giraffes and other animals were strapped to the tumbling decks of Chinese junk and transported across the sea to the imperial palace in distant Beijing (ibid). Since then China and Africa have enriched each other intellectually, culturally and commercially, but still there are questions as to whether China's promises to do more for economic growth and poverty alleviation more than Western nations will bear results. China's goals are ideological as well as material. It is not in competition with United States or Europe for Africa or to score in the ongoing battle for global hegemony². Diplomatically China has established embassies in 38 of Sub-Saharan Africa's 48 countries and exchanged military attaches with African nations (ibid.). There are scholarships available for study in China for African students.

China and Africa's shared reliance on one another can be evidenced in Beijing Summit of the Forum on China-Africa Cooperation (FOCAC) which is held every third year. In 2006 the summit included the heads of state, government officials and representatives from forty eight African countries and the former Chinese President Jiang Zemin visited Africa four times. As of 2007, President Hu Jintao had paid five visits to the continent-twice as vice president and three times as president (ibid). According to Li Anshan as cited by Rotberg 2008) China's African policy can be divided into three periods, namely;

- 1). 1949–1977: a period of normal development;
- 2). 1978–1994: a transitional period; and
- 3). 1995 to date: as a period of rapid development

Within these periods there has been gradual shift in Chinese policy towards economic development which was followed later by new foreign policy of independence, peace and development. After the founding of People's Republic of China (PRC) in 1950, China foreign policy was hemmed in by international politics. In 1982, the Communist party of China (CPC) had its new principle of party relation – independence, complete equality, mutual respect, noninterference in others affairs and promised to network with other parties within and outside China. A good number of delegates were sent to visit ruling parties of sub-Saharan countries. High level visits have been frequent since 1990s. For example in 2006, twenty one African parties sent delegates to China while CPC delegations visited Africa.

In 1982, Premier Zhao Ziyang had his first visit to eleven African countries with an intention of showing China's diplomatic focus on Africa as well as other developing countries and to establish mutual understanding, friendship and strengthen two sides cooperation. Zhao announced four principles on Sino-African Economic and Technical Cooperation, namely equality, bilateralism, effectiveness and co-development.

The four principles were a supplement to Zhou Enlai's 8 principles of Economic and Technical Aid which were put forward during his visit to Africa in December 1963 –January 1964 (Rotberg 2008) and they are as follows;

- ✓ Aid should not be considered as a unilateral grant, but as mutual help.
- ✓ Neither conditions nor privilege should be attached to the aid.
- ✓ To reduce the burden of the recipient countries, the repayment period could be extended for no-interest or low- interest loans.
- ✓ The purpose of aid is to help recipient countries develop independently.
- ✓ To increase the income of recipient countries, Chinese programs should produce faster results with less investment.
- ✓ China will provide the best equipment and materials for the recipient countries, and promises to replace them if the quality is not what was stipulated in the agreement.
- ✓ Guarantee that technicians in recipient countries will master relevant technology when technical assistance is provided.
- ✓ Experts from China should never enjoy any privileges and should receive the same treatment as the local experts in recipient countries.

These principles are more of a declaration of China's aid framework which provided favourable conditions for the recipient countries in Africa and most importantly the “no political strings” issue coupled with the Beijing's willingness to provide aid and concessional loans.

Chinese – African relations are characterized by summit diplomacy, equality, co-development and cooperation and it is worth mentioning that summit diplomacy is not found with any other country, except in Africa. Rotberg (2008) argues that China has a unique feature in foreign policy embedded in the

principle of noninterference in the internal affairs of other countries. China's African policy has retained its principles while at the same time adapting to domestic and international conditions.

The Chinese-Africa cooperation is an example of equality and co-development in international relations.

China and Kenya's cooperation in historical perspective China- Kenya relation according to this paper is subdivided into three historical periods, namely;

1. President Jomo Kenyatta Era (1963 – 1978): This diplomatic corporation between Kenya and China covers a number of issues, like the anti-piracy corporation, roads and bridges corporation, oil exploration corporation, to mention only but a few.
2. President Daniel Arap Moi Era (1978–2002): The year 1978, saw President Daniel Arap Moi in power, and only after then that the relation of the two countries fetched a fast development.
3. In December 2002, a new government was formed under president Mwai Kibaki and he expressed to hold a great account of the relations with China, willing to further deepen and expand, the friendly cooperation between the two countries (China-Kenya Embassy website). China-Kenya economic relations in the Kibaki era began with high-level political PJ Business Administration and Management 489 contacts between the two states followed by a series of agreements President Mwai Kibaki made an official visit to China in August 2005, accompanied by 11 Kenyan trade- and investment-seeking delegations.

During this visit President Mwai Kibaki held extensive talks with President Hu Jintao and Chinese government officials who resulted to a five-part agreement covering official development assistance in grants for infrastructure and energy, extended air services between the two countries, technical assistance for assessment and classification of standards in industrial products, and modernization of equipment and training at the state- owned Kenya Broadcasting Corporation (Gadzala, 2009, p. 209). The delegation also paid the obligatory visit to Shanghai, where discussions with its mayor Han Zheng, on the functioning of special export industrial zones were held. The same delegation explored prospects in tourism, joint ventures in power generation, and machinery. The outcome of this visit was a highly successful Chinese trade exhibition in Nairobi in mid-2006. February 2005 (China-Kenyan Embassy). In general, the establishment of the diplomatic relations between the two countries has realized a series of aid and assistance provided by China to Kenya which include Moi International Sport Center, methane-generating pit and the expansion project of Eldoret hospital, Confucius Institute at Nairobi University, Teaching Chinese and Joint Research Work on Vegetables with Egerton University, Road Construction Projects, and the list does not end there.

The two countries signed an agreement for cultural cooperation in September 1980 and a new Cultural Cooperation agreement was recently (May 2009) signed between the Permanent Secretary, Ministry of State for Culture and National Heritage and Vice minister for Culture of China (China-Kenya Website). The two countries signed the protocol for the cooperation in higher education, according to which China provides Egerton University with apparatuses for teaching and researches, with 2 lecturers sent over to work there. Starting from 1982, China would provide Kenya every year with at least, 10 scholarships. And in 2002, the Kenyan students studying in China came to 58 in all. In 1985, China's Xinhua

News Agency set up a general branch office at Nairobi in Africa" (ibid).

Importance of the relation

Following the information gathered in terms of China-Kenya relations, China views Kenya as an opportunity to the region and it has become a key focus of China's trade and economic strategy in Africa. Kenya is a war-free country with stable political situation and this makes it an ideal regional flat form for Chinese investors to increase their business in Africa. Currently China is offering favorable loans to Kenya, building hospitals and schools for less developed areas, has set up malaria prevention and control centers as well as sending volunteers to train the locals.

Gains and Losses for the corporation

According to Rotberg (2008), China and Africa greatly need each other and China cannot easily grow without Africa and vice versa and it's like both benefit from this remarkably symbiotic relationship. China with its world largest growing population sucks up basic commodities from all over including Africa and so its appetite does not equal any other world power. China not only purchases Africa's unprocessed returns of the sub soil, but also constructs or refurbishes roads and railways, creates export processing zones (EPZ), supplies equipment, supplies military free power, builds barracks, provides uniforms and offers various types of assistance. Kiely (2007) argues that foreign direct investment is good for growth because it leads to increase in income and employment and allows developing countries to import advanced technologies developed elsewhere hence creating room for competition (page 146).

Foreign Direct Investments by China in Kenya

In Kenya, Foreign direct investment (FDI) is defined as investment in foreign assets, such as foreign currency, credits, rights, benefits or property, undertaken by foreign national for the purpose of production of goods and services, which are to be sold either in the domestic market or exported overseas (Investment Promotion Center Act, Chapter 518). The records of FDI transactions are kept by the Central Bank of Kenya. Like in most African countries, Kenya has recently liberalized the investment environment

Natural Resources

While the country has little proven actual resources such as oil and gas 'an offshore exploration deal was signed between the Kenya Government and China, allowing CNOOC to explore in six blocks covering 445,000 square miles in the north and south of the country'. This deal caused some controversy in Europe as six key oil blocks were given 'to Chinese companies to the detriment of potential European competitors. Companies such as Cepsa [Compania Espinola de Petrolas] of Spain and Swedish Lundin International lodged complaints on this perceived favouritism. More controversially, this deal came on the back of a meeting between Mwai Kibaki (Kenya's President) and Hu Jintao (China's Premier) in 2006 to secure anti-malaria medicine worth RMB 5,000,000, rice stocks to deal with food shortages – important in a county still prone to drought – and maintenance for the Moi International Sports Centre.

The Manufacturing and service Sector

Kenya has witnessed a growing Chinese presence in its manufacturing and service sectors. Chinese firms that have been present in Kenya since around 2000 have produced and exported anything from the manufacture of solar panels, processing maize and wheat, building bicycles, growing mushrooms, producing sausages and farming ostriches. In 2000 Kenyan authorities documented that nine new Chinese companies had taken up business in Kenya, from 2001-2002 eighteen new companies

registered, in 2003 eleven, 2004 twelve, 2005 thirteen and 2006 a further nine. All, except coffee producing firms, were involved in the manufacturing and services sector. The rate of investment has been varied with Chinese Huangpai Grain Processing Ltd spending US\$ 924,000 in 2000 in capital costs, and Chinese supermarket chain Horizon Ivato Supermarket Ltd making capital costs of US\$ 11,154,000 in 2003.

Composition of Chinese investment projects in Kenya currently number about 96 with a workforce of about 6,700 Kenyans and an investment capital of 52.6 million US dollars (Kenya Investment Authority). Most FDI from China is made by companies from China which is either wholly or partially state-owned even though in Kenya they operate as private companies. Until the year 2000, the FDI from China remained very low. The flows from China became remarkable in 2004–2006.

According to Chege (2008) in the year 2001 and 2002, there were 17 Chinese investments established in Kenya. In the year 2003, 11 Chinese firms were also started, which were fully owned by the Chinese, mostly in services sub-sector making 82 % of the firms while the rest were in manufacturing. It was noted that capital investments in these firms were entirely foreign, averaging US\$ 1.3 million per firm and most of the capital was invested in service sector.

More so eight (8) Chinese firms were established in Kenya in 2006, again mostly in the services (63%) and manufacturing (37%) sub-sectors and most of the capital was invested in services sector. The average capital investment amounted to US\$ 636,000, with a bigger share of it going into services investment. Employment averaged 85 persons per firm for locals and 8 persons per firm for foreigners.

Within the firms, employment averaged 45 persons, with local employment averaging 37 (82%), while foreign averaging 8 (18%) persons per firm. By 2004 there were about 60 Chinese companies doing their businesses in Kenya of which firms had established their activities the in same year with capital costs averaging US\$ 775,000 per firm (ibid.). Employment was mainly local (97%), averaging 114 per firm and foreign (3%), averaging 4 persons per firm. Onjala (2007, p. 19) mentions that in 2005, 12 Chinese firms commenced their operations in Kenya and most of the firms were in the manufacturing and services subsectors.

These companies have also been quick to make use of Kenyan labour, countering remarks that 'there are constraints to the number and quality of jobs created through Chinese investment' because of a lack of transparency between Chinese businesses and civil society³. Of the total 72 Chinese companies that were established in Kenya from 2000-2006 326 employees were Chinese and 4,940 employees were sourced locally. The only reported case where the level of Chinese employees exceeded Kenyan employees was the case of Changhong Electronics Ltd. where 70 employees were Chinese compared to 46 local employees. The wage labour situation in Kenya also appears comparatively fair for those employed as production workers in the manufacturing sector. Larossi estimates that the average for this category of labourer working in large firms (100> employees) is US\$ 116 per month which corresponds to the Kenyan national average. In medium firms (employing 20-99) the rate is also US\$ 116, whereas smaller firms (employing 20<) see a rate of US\$ 93 per month.

Road Infrastructure

Current transport infrastructure in Kenya equates to 177,500 KMs of roads, with 63,000 KMs making up classified (read major) roads and 114,500 KMs of unclassified (read rural) roads, with that said major investment is still required for approximately 40% of roads in an unmaintained condition located mainly in rural areas. Connecting these areas is clearly the key infrastructure task at hand for the Kenyan government, and to its credit it has actively tried to encourage such development, promoting itself as a stable and geographical “gateway” to Africa. The Chinese government, having its largest African embassy in Nairobi, have seized on the opportunity to develop major transport links to support its own economic interests and employs Chinese firms to carry-out the work (although these firms do not work exclusively for the government).

Chinese investment in Kenyan roads began in 2006 and has resulted in the rehabilitation or construction of approximately 905.4 KMs of road at an estimated cost of € 316 million over a four-year period. Chinese firms have, for example, sought to ease traffic congestion in cities such as Nairobi by completing by-passes in the north, east and south of the city and by linking the Jomo Kenyatta International Airport to the city centre.

Where motorways are concerned the Chinese have invested approximately € 200 million in the rehabilitation of the Nairobi-Mombasa (termed the A109 officially, but the “China Road” by Kenyans on an informal basis). Ambitiously, the China Road and Bridge Cooperation (CRBC) is also in the process of taking-on a former British colonial dream ⁴of linking-up Africa, by investing an estimated € 43 million in a 530 KMs connecting Kenya with Ethiopia. Chinese firms are honing their road-building skills and learning from experiences in Kenya. This learning process perhaps, in part, explains why Chinese contractors gain exclusive rights to work on Chinese investments.

Source: Adapted from Onjala J, A Scoping Study on China-Africa Economic Relations: The case of Kenya, AERC (African Economic Research Consortium), May 2008

Source: Invest Promotion Centre (IPC), Kenya Investment Authority (KIA) data sets NB: MANU = manufacture; SERV = Service; CAPCOST F= capital cost (foreign); CAPCOST L = capital cost (local); EMP F= employment (foreign); EMP L= employment (local)

Source: Onjala, J., (2008, p. 13): calculations based on the Investment Promotion Centre and Kenya Investment Authority data sets

In addition to the above, sources from Investment Promotion Centre and Kenya Investment Authority show that an offshore exploration deal was signed between Kenya Government and China, allowing Chinese oil companies to explore oil in six blocks covering 44 500 sq miles in the north and south of the country. Kenya gave six key oil blocks to Chinese companies (CNOOC) against the potential European competitors. Beijing Holley Cotec Pharmaceuticals which is one of the China’s largest pharmaceutical companies opened a drug distribution Centre and an East Africa Logistics Centre, in Nairobi and was meant to serve the East and Central African region. The centre distributes anti-malarial medicine to the private and public sectors at less than current market prices.

In general Chinese investment in Kenya is concentrated in the manufacturing and service sector and recently they are moving to mining and mineral exploration. According to

Investment Promotion Centre (IPC) and Kenya Investment Authority (KIA), so far the Chinese firms in Kenya are not a joint venture, but most of them are fully owned by Chinese companies which are privately owned with very limited local capital. Interestingly also, the structure of employment is progressively changing, with rising percentage of Chinese employees.

Importance of China’s FDI in Kenya

In the recent past, the FDI inflows from China have become significant and this can be elaborated by two factors according to Kipngetich (2008);

- 1). The weakening of Kenyan competitiveness to attract direct foreign has been filled by the China’s FDI inflows and this constitutes a very important proportion for the country.
- 2). China’s adoption of new policy to Kenya with closer economic ties has increased Chinese enterprise presence in the country.

However the China’s FDI flows to Kenya has been more in terms of capital investment rather than the quality of activities, because the firms established are engaged in services such as trade. The FDI flows from China have assumed significant proportions even though they remain low i.e. ranging from US\$ 1-3 million in the last 6 years as shown in table 4.

Beneficiaries and losers as result of Chinese investment in various sectors

The FDI from China to Kenya has been of great importance and the following are some of the results experienced from such relations; - FDI goes along with technological transfer using advanced technology and managerial skills and with such Kenya has been able to benefit from China’s FDI.

There has been diversification of FDI as noticed from table 3. Chinese have been able to invest in retail services, tourism, transport, construction, power plants and telecommunication. As an example, Huawei Telecom Company from - China provides cell phone services in Kenya.

There has been creation of employment as noticed in table 3 where some Kenyans have been able to get jobs with Chinese firms. Local contractors argue that Chinese companies have increased unhealthy competition in the market, which leads to local companies being unable to compete and having to close down.

In Kenya approximately 44 Chinese firms are working on various projects. They include small and medium enterprises that provide auto repairs and maintenance, home furnishings, construction, agricultural machinery and restaurants. Kenyan contractors have demanded the government introduce protectionism measures, arguing that infant industries need to be protected so that they can grow and become profitable. However, the government has ‘confidence in Chinese contractors for the good job they have done and continue to do’.

Indeed, compared to other contractors, Chinese firms provide high quality and competitively priced work in the construction sector.

The Chinese government helps its companies to be competitive through a number of measures, for instance by providing companies with operating capital, which gives them a competitive edge. The Chinese government also at times negotiates at a government-to government level on behalf of their companies for contracts. In this context, the open and fair procurement process in the awarding of tenders is seen to be violated, an argument that the Kenyan government has refuted.

Table 1: Types of investment by China in Kenya (\$ thousands)

Mode of investment	Project	2003	2004	2005	2007	2010
Loans	Gambogi Serem Road	3,100	–	–	–	–
	Kipsigis-Shamkhokho Road	3,000	–	–	–	–
	Purchase of tractors	66	–	–	–	–
	Rural telecommunications development programme	–	–	24,500	14,583	–
	Kenya power distribution system modernisation and strengthening	–	–	20,130	6600	19,220
	Kenya e-Government	–	–	–	–	7,688
	Nairobi Eastern and Northern Bypass Project	–	–	–	–	57,662
	Nairobi-Thika Highway Improvement Project (LOT 3)	–	–	–	–	60,289
	Drilling of Olkaria IV Geothermal Wells	–	–	–	–	55,791
	Kasarani Sports Ground maintenance	39	3,620	–	43,846	12,698
Grants	Various courses in China	300	–	–	–	–
	Government office equipment	–	120	–	–	–
	Maize flour processing project in Bomet and drought-hit areas	–	3,330	–	1,766	–
	Tsunami relief Kenya	–	–	442	–	–
	Economic and technical co-operation Kenya	–	–	10,387	–	–
	Rehabilitation of Nairobi roads and street lighting	–	–	21,538	–	–
	Technical training courses to government officials	–	–	548	–	–
	Gambogi Serem Road	–	–	–	–	640
	Construction of hospital in Eastlands	–	–	–	–	1,096

Source: Adapted from Onjala J, A Scoping Study on China–Africa Economic Relations: The case of Kenya, AERC (African Economic Research Consortium), May 2008

Table 2: China's FDI to Kenya 2006

Sector	Company name	activity	Cap Cost F US\$ (000)	Cap Cost L US\$ (000)	EMP F	EMP L
MANU	Hua long auto repairs co ltd	Manufacture of motor vehicle bodies	385	0	9	23
MANU	Gold lida ltd	Manufacture of PVC products	154	0	9	90
MANU	Dong fang auto assembly co ltd	Manufacture & assembly of motor vehicle bodies	385	0	9	23
SERV	Zenith rubber roller co ltd	Re-rubberizing of rubber rollers	131	0	1	6
SERV	Afri-China international co ltd	Grain handling	222	0	8	50
SERV	Fast track Kenya ltd	Recycling plastics	519	0	2	10
SERV	Datang optical company	Glazing & assembling of spectacles	333	0	3	327
SERV	Ando roofing products (K) ltd	Importing & selling of roofing tiles & paints	954	0	3	56
SERV	Proparco E. Africa ltd	Grain handling	554	0	10	57

Source: Invest Promotion Centre (IPC), Kenya Investment Authority (KIA) data sets NB: MANU = manufacture; SERV = Service; CAPCOST F = capital cost (foreign); CAPCOST L = capital cost (local); EMP F = employment (foreign); EMP L = employment (local)

Table 3: FDI from China 2000 – 2006

Year	Total FDI in US \$ (million)	CHINA		
		No of projects	Capital US \$ (million)	Employment
2000	110.9	9	4.08	787
2001	5.3	12	2.79	1313
2002	27.6	6	1.67	170
2003	81.7	11	13.95	493
2004	46.1	12	9.03	1414
2005	21.2	12	3.74	239
2006	51	8	2.51	681

Source: Onjala, J., (2008, p. 13): calculations based on the Investment Promotion Centre and Kenya Investment Authority data sets

Table 1: China's Exports and Imports to Kenya 2001 – 2010 (\$ thousand)

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Imports	94875	74956	86513	163335	304058	412441	678736	932203	965179	1579659
Exports	3033	3684	7621	10558	16957	21554	21859	29432	32180	32995
Trade balance	-91842	-71272	-78892	-152777	-287101	-390887	-656877	-902771	-932999	-1546664

Source: International Trade Centre, http://www.trademap.org/Bilateral_TS.aspx

Table 8: Distribution of Aid Sources to Kenya Showing China's Contribution: 2002-2005 (in million U.S. dollars)

Sources	Year			
	2002	2003	2004	2005
Multilateral	181	229	266	242
China	0.20	6.5	7.1	56
Other Bilateral	272.8	300.5	342.9	379
Total	454	536	616	677
China's Share (%)	0.08	2	2	13

The increase in cheap Chinese products affects local companies, which have to retrench employees (to cut operation costs) due to declining revenues and loss of market share. Kenyan companies also have higher production costs, as their equipment is often obsolete compared to the modern Chinese factories. However, some companies have benefited through trading with Chinese companies and importing cheap goods from China. Certain producers also gain, albeit in isolation. For example, the Chandarana retail chain reportedly has a factory in China that manufactures products to sell on the Kenyan market. Nevertheless, Kenyan exports face competition from Chinese exports in other developing countries. As more Chinese manufacturers enter the Kenyan market, the manufacturing sector is becoming more labour intensive and attracting workers from the rural areas of Kenya. This development could change rural-urban incomes and population disparities. However, the downside is that improved technology may result in unskilled workers losing their jobs. In addition, the continued scramble for market share by new actors such as China presents a unique opportunity for Kenya to take greater ownership of and to co-ordinate various donor projects, as well as to set up strong institutions that improve accountability and transparency of foreign companies operating in the domestic economy, ensuring alignment with the country's needs and national development strategy. For example, in addition to China's role in infrastructure construction, tariff exemption and unconditional aid in Africa, there is room for greater collaboration in general budget support, debt relief, investment in manufacturing plant and equipment, capacity building and technical training.

Section 3 (Trade relations between China – Kenya)

The volume and size of Kenya exports and imports to China has been growing over time as evident in table 1. Onjala (2008) argues that trade between Kenya and China did not pick up well until the mid of 1990s when there was increase in Kenya's imports from China and very low value of Kenya exports to China (p. 24). Chege (2008, p. 26) argues that the increase of China's imports to Kenya came as a result of two things, namely;

- 1). In 1994 Kenya liberalized its exchange rate as part of economic liberalization programme supported by IMF and World Bank.
- 2). China's industrial modernization produced goods that Kenyans desired at more competitive prices than other suppliers. This displaced import sources and local suppliers in favour of China and it is in this period for the first time many individual traders and firms from Kenya started traveling to Dubai and Asians countries to obtain products directly rather going through the intermediaries.

As the figures in the table 4 shows, despite all the efforts by both governments to boost the volume of Kenyan exports to China, the balance remained in favor of China. Recognising this widening trade imbalance, the two governments recently agreed to work towards bridging the gap. Some effective short to long-term measures could include EAC countries enacting legislation that ensures value is added to locally produced commodities before exporting, similar to the law in Uganda that requires any extracted oil to be processed before exporting.

Composition of Kenyan Imports from China

As observed in the table above, as a result of trading opportunities in the expanding economy, Kenya's imports from China were on the rise in 2000s. The Chinese exports to Kenya mainly include telecommunication equipment, electrical machinery, civil engineering equipment, motor and transport vehicles, rubber tyres, motorcycles, and iron and steel products, household electric appliances, textile goods, commodities for daily use, building materials and drugs (Kenya daily nation 29

2010). In the year 2002 saw the trade value between China and Kenya reach US\$186.37 million, whereby the Chinese export took up US\$180.576 million while the import was US\$5.798 million (Chinese-Kenya Embassy). There are over 20 Chinese companies doing their businesses in Kenya, such as Jiangsu International Economic and Technological Cooperation Co, Sichuan International Economic and Technological Cooperation Co Ltd and China Road Bridge Construction (Group) Corporation and China Import and Export (Group) Corporation for Complete Sets of Equipment, and so on (table 2). Chege (2008) notes that the most important imports from China to Kenya are as follows; - Machinery and transport equipment which comprise 40 per cent of the value of Chinese imports - Manufactured goods classified chiefly by material – 35 per cent - Miscellaneous manufactured articles – 14 per cent and - Chemicals and related products – 10 per cent.

Composition of Kenyan exports to China

The main Kenyan exports to China include scrap metals (copper and aluminium waste), fruits and nuts, black tea, coffee, sisal fibre, leather, raw hides and skins and fish (Kenya daily nation, 29th June 2010). According to November 2, 2009 news the Kenyan government statistics showed that Kenya exported goods worth 2 billion shillings to mainland China in 2008 compared with imports worth 63 billion shillings (Reuters Africa). In 2008, total trade was \$106.8 billion which is 45.1 percent on 2007 (ibid). "While Kenya's exports to China increased from Sh1.2 billion in 2005 to Sh2.5 billion in 2009, its imports rose to Sh74.5 billion from Sh19.4 billion in 2005, because most of the imports are capital goods or goods for industrial use" (Kenya Daily Nation, 29th 2010). This shows that the Kenya imports more from China than it exports there.

Beneficiary and loser in trade

In terms of imports there has been a gain where Chinese goods have gained inroads into African markets including Kenya. There are huge quantities of cheap Chinese products available in Kenyan markets. However, there have been some experiences of losses due to competition from Chinese imports which has hurt the local textile and other local manufacturing sector (Onjala, 2008, p.32). On the side of exports, there have been losses because Chinese have duplicated the local goods and have been trading with them. From the BBC interview, Nicholas Makombi expressed the following; "they used to come here and take photos of our products. Then they go and produce almost the same designs and they sell it at a cheaper price".

Section 4 (Chinese Aid to Kenya)

According to Kiely (2007, p. 45), Aid is a loan to a country at concessional or zero rates of interest. Moyo (2009) classifies aid into three broad categories, namely, humanitarian or emergency aid, Charity-based aid and systematic aid (page 7). This study paper tracks on systematic aid which is the type of aid payments made directly to governments and in this case it is the official development assistance from Chinese government to Kenya. The development aid Kenya receives from China varies considerably from that originating from Western donors. In the first instant the difference captures the "terms and conditions" imposed, and secondly, on the aspect of "tying" (McCormick, 2008). China is not so much concerned about the issues of internal governance, human rights and democracy in Kenya like the donors from the West. Besides subscribing to the 'One China Policy', in the case of China, there is no any other conditionality imposed on the recipient country (ibid.). China aid is "tied" to using Chinese companies and procurement of materials in China, but nonetheless, most government officials believe that China is perhaps one of the most price-competitive sources

whether its development aid is “tied or not (Onjala, 2008). In respect to scholarships and technical training, decisions are made by the relevant Ministry in Kenya. China is considered to be much more flexible than the Western donors in accepting domestic constraints. It does not change its reporting and accounting procedures like the Western donors once aid has been disbursed. According to China’s African Policy, China will provide assistance “with no political strings attached” (Rotberg, 2008). The only political condition China provides for the establishment of its relations with African countries is the “one China” principle, i.e. not to give formal recognition to Taiwan (Pere, 2006). In April 2011 the two governments signed 10 agreements, including a concessional loan to finance a proposed Kenyatta University Teaching and Referral hospital; solar energy generation; a malaria treatment project; hydropower station construction and upgrading; educational exchange and co-operation; a Memorandum of Understanding between China State Administration of Radio, Film and Television and Kenya’s Ministry of Information and Communication; and a co-operation agreement between China Central Telecoms and Kenya Broadcasting Corporation.

Features of China’s aid to Kenya

The Chinese development aid until mid-1990s was directed towards liberation movement in Africa, but later in the same decade, China changed its aid policy from liberation to debt reduction, promotion of investment and assistance in human resource development (Mohan and Power, 2008, p. 29). Chinese aid varies from monetary and monetary aid packages which cover grants and loans for infrastructure, plant and equipment, scholarships, training opportunities and technical assistance (McCormick, 2008). McCormick notes that monetary aid from China is tied to the use of Chinese goods and services and the only adherence required is the “One China” policy but not “good governance” as the conditionalities that currently characterize the western donors. This suggests that Chinese aid and trade are intertwined in many ways and is hard to separate the two. Kenya is among the beneficiary countries of Chinese aid, but the sources of information do not specify if the companies are state owned or private sector firms. However the assistance from China to Kenya is project based though in diverse ways (Onjala, 2008). Since the establishment of the diplomatic relations, the projects of aid and assistance provided by China to Kenya mainly include: Moi International Sport Center, methane-generating pit and the expansion project of Eldoret hospital, Confucius Institute at Nairobi University, Teaching Chinese and Joint Research Work on Vegetables with Egerton University, Road Construction Projects, and so on (China-Kenya Embassy website). The two countries signed the protocol for the cooperation in higher education, according to which China provides Egerton University with apparatuses for teaching and researches with 2 teachers sent over to work there. Starting from 1982, China would provide Kenya every year with at least 10 scholarships and the new number has been increased up to 20 yearly. Table 8 shows the type of Aid Kenya has received from China from 2003 up to 2007. However, Kenya does not only receive aid from China alone and table 8 shows the sources of Aid for Kenya China being included; The figures for the years between 2003 and 2005 (table 8), show that most of china’s development aid to Kenya went into a rural telecommunications project that linked Kenya’s administration units, with Chinese equipment of course; the controversial “tying of aid” to donor suppliers is still part of china’s aid policy (China-Kenya Embassy Website). In the same period, other projects included rural and urban roads and additional maintenance at the Kasarani Sports Complex. There is Nairobi roads project, now in

progress, which is a fine example of the “China way” of doing development, and it has earned China’s aid the popularity referred to earlier – because the roads are being undertaken by Chinese companies (Chege, 2008). The economic boom since 2003 has seen an increase in number of personal and business vehicles, mostly around Nairobi and Kenya on average registered an average of 5, 000 vehicles per month in 2007 and the trend seems to continue. This is a part of the reflection in the growth in business and partly an example of emerging middle class in personal cars from East Asian.

Beneficiary and loser

The obvious benefit from the types of aid given to Kenya by China are in terms of infrastructural development and market development and these are the most recipient sectors (manufacturing and service) based on the analysis.

In addition to direct investments, China has also offered diverse development aid to Kenya including package deals projects and humanitarian aid.¹⁸ Most recently, during the famine that struck the larger Horn of Africa, China donated foodstuff worth KES 2 billion to Kenya.¹⁹ Chinese development aid to Kenya supports infrastructure development; improvement of education standards, both academic and technical; human relief and tariff exemptions. Other areas of assistance include the modernisation of power distribution; rural electrification, water; renovation of sports facilities; provision of anti-malaria drugs; construction of a malaria research centre and the modernisation of international airports in Kenya.²⁰ The impact of Chinese investment and aid to Kenya has been mixed. The low import prices of Chinese consumer and producer goods have reduced monopolistic tendencies among Kenyan enterprises, and yet employees and firms are negatively affected by the influx of cheap products. These effects in turn trickle down to the national economy with both gains and losses.

However, if the main issue in respect to China’s aid is the move to access raw materials and markets in Kenya, then this will hurt Kenya’s economy in the long run by undermining the ability of the local firms to exploit the same markets and resources. The rapid expansion of china’s Aid to Kenya and the lack of aid conditionalities, may result to overshadowing of the aid from many traditional Western donors.

The no political strings attached policy has raised much debate and reactions from external actors; first, the non-interference policy which has its roots in china’s historical experience of western interference and therefore China is careful not to interfere in African countries. Secondly, the

Sources:

Kenya Development Cooperation Report 2005; Ministry of Finance, Development Estimates 2005/2006; 2007/2008.

Chinese government is careful not to interfere as it sees its political problems in Taiwan and Tibet as internal affairs.

Thirdly, the principle is based on China’s own experience of being able to develop according to its national context without facing conditionality. However while analyzing the lack of political strings policy, there is some fear that this provides a risk presented as follows:

- 1). That such policy will fortify repressive regimes/elites that are not working in the interest of poor people or development in general.
- 2). Such policy will weaken social and environmental standards
- 3). It will weaken efforts to combat corruption and promote good governance in Kenya.

In general, Chinese aid is closely packaged with infrastructural projects, often linked to the extraction and export of minerals

and oil to China -these facts indicate that the aid might hurt Kenya in the long-run (Gadzala, 2009).

Section 5 (China – Kenya military relations)

The military exchanges between China and Kenya have been increasing in the recent past. It is a new venture and there is no much information about it. In December 1996, General Liu Jingsong, commander of Lanzhou Military Area headed the first Chinese military delegation to visit Kenya. In October 2000, General Li Jinai, political commissar of the General Equipment Department led a friendly delegation to visit Kenya and in December 2001, General Fu Quanyou, chief of the General Staff too led a delegation to visit Kenya. The Kenyan military visits to China include: Major General Nick Leshan, commander of the Kenyan air force (1997); General Doudi Tonje, chief of the General Staff (1997); Lieutenant General Daniel Opande, president of the Institute for National Defense (1998); and General Joseph Kibwana, chief of the General Staff (2002). In March 1998, Kenya sent its military attaché to its embassy in China (China-Kenya Website).

Conclusion

To drive the point home, the trade, investment and aid figures between Kenya and China are not that huge as compared to other trading partners of Kenya. Nevertheless, as the study hypothesis states, „Chinas” relation with Africa aims at achieving tangible developmental results and the conditionality are suitable for African countries”, this paper highlights important issues as follows:

There has been a rise in FDI through manufacturing and service sector in Kenya and the Chinese interest in Kenya have also extended to mining and mineral exploration. However there seems to be very limited joint ownership or local capital in Chinese investments and more so, the employment level in such firms for both Kenyans and China is very low.

The above trend conforms to the hypothesis that Chinese relation with African countries aims at achieving tangible developmental results and the terms are favourable. China views Kenya as a gateway to East African region and is a focal point in terms of China's trade and economic strategy in Africa. China's investment in a number of road construction projects attests this. More so China currently offers favourable loans to Kenya for hospital and schools construction in less developed areas, it has set malaria prevention and control centers as well as providing volunteers to train the local people.

Generally, the impact of China's diplomatic relations, trade, FDI and Aid to Kenya is a mixed one because there are both gains and losses. This ranges from low prices of imports for both consumer and producer goods, which provides cheap products notwithstanding quality. However this creates competition where local producers become losers and this extends to local firms which collapse due to lack of means to withstand competition and so employees end up losing jobs too.

References

- Alden C, Large D, Oliveira RS (2008). *China Returns to Africa: A Rising Power and a Continent Embrace*. Hurst Publishers Ltd, London
- Alden C (2007). *China in Africa*. Zed books Ltd, London/New York
- Amineh M (2010). *Class Handouts and Discussions Aid Watch* (www.aidwatch.org.au)
- BBC (<http://www.bbc.co.uk>)
- China Government Publication (<http://www.cgdev.org>)
- China-Kenya embassy (<http://www.kenyaembassy.cn>)
- China Daily (www.chinadaily.com.cn)
- Central Bank of Kenya (2007)
- Country report (<http://www.gfmag.com/gdp-data-country-reports/244-kenya-gdp-country-report.html>) Gadzala A (2009). *Survival of the fittest? Kenya's jua kali and Chinese businesses*. Merton College, University of Oxford, UK (*Journal of Eastern African Studies*, Vol. 3(2): 202-220)
- Kenya Investment Promotion Center (www.ipckkenya.org).
- Kenya daily nation (<http://www.nation.co.ke>) Reuters Africa (<http://af.reuters.com>)
- Kipnetich J (2008). *Kenya's Competitiveness in Business*. Investment Promotion Centre, Nairobi.
- Kiely R (2007). *The New Political Economy of Development: Globalization, Imperialism and Hegemony*. Palgrave Macmillan.
- Kaplinsky RD, McCormick D, Morris M (2007). *The Impact of China on Sub Saharan Africa, Working Paper 291*, Institute of Development Studies, University of Sussex, Brighton.
- Kenya, Ministry of Foreign Affairs (2006). *A Brief Prepared for Institute for Development Studies, University of Nairobi*.
- McCormick D (2008). *China and India as Africa's new Donors: The Impact of Aid on Development*. (Review of African Political Economy Journal, March 2008, 35(115): 73-92)
- Moyo D (2009). *Dead Aid: why Aid is Not Working and How There is Another Way for Africa*. Penguin books Ltd.
- Power M, Mohan G (2008). *New African Choices? The Politics of Chinese Engagement* (Review of African Political Economy Journal, March 2008, 35(115): 23-42).
- Pere G (2006). *China in Africa: mercantilist predator, or partner in development*. Institute for Global Dialogue Midrand, South Africa.
- Rotberg R (2008). *China into Africa: Trade, Aid and Influence*. Brookings Institution Press, Washington, D.C.
- Onjala J (2008). *A Scoping Study on China – Africa Economic Relations: The Case of Kenya*. African Economic Research Consortium (AERC), Nairobi, Kenya (5th March 2008).
- O'Brien R, Williams M (2007). *Global Political Economy*. Palgrave Macmillan. Wise geek (www.wisegeek.com)
- Source: International Trade Centre, http://www.trademap.org/Bilateral_TS.aspx