

**UNIVERSITY OF NAIROBI**

**INSTITUTE OF DIPLOMACY AND INTERNATIONAL STUDIES**

**IMPACT OF CHINESE ECONOMIC FOREIGN POLICY ON DEVELOPMENT IN  
AFRICA: A CASE STUDY OF THE REPUBLIC OF KENYA.**

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**R50/74828/2014**

**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT FOR THE  
DEGREE OF MASTER OF ARTS IN INTERNATIONAL STUDIES**

**DECEMBER 2018**

## DECLARATION

I declare that this is my original work and has not been submitted to any other college, institute or university.

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This research project report has been submitted for examination with my approval as the  
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**PROF. MARIA NZOMO**

## **ACKNOWLEDGEMENTS**

I do thank God for providing me with resilience, knowledge and vitality to make this research work a reality. To my family, I appreciate for the financial and moral support, encouragement and understanding during the period I was working on this; you are the best one can ever have. Thanks for the mentorship, Prof. Maria Nzomo, and the faculty at the University for the support and assistance. I am deeply grateful to my lecturers. Finally, I would like to acknowledge my acquaintance Nickson Ongeru for the regular guidelines on the overall research process and expectations. God bless you all.

## **DEDICATION**

It is with great humility and warmest regard that I dedicate this work to God Almighty for the successful completion of my Project. To my parents, Mr. George Gondi and Mrs. Trizer Gondi, my much-loved children, Liam Buoga and Urbain Kita, my sister Salwa Barbra and brother Bill Gondi; thank you for encouraging me to be the best I can be and may God continue showering His blessings upon you all.

## **ABSTRACT**

Majority of African countries are increasingly compelled to make a tradeoff between pursuing policies geared towards sustainable development of their economies and accommodating economic interest of multinational organizations. This has led to realignments in the international foreign policies and hence emergence of nontraditional partners such as China. This study sought to examine the current Chinese economic policy on Africa with a view of accessing effects of increased activities by Beijing in Kenya. Descriptive research design was used to investigate the effects of Chinese economic foreign policy on the development of Africa. The findings of the study revealed the existence of robust economic ties between China and Kenya and that foreign policy of the former seemed to be beneficial to the latter. The policy and economic cooperation between the two countries is working for Kenya economically in various ways which include: investment, foreign aid, economic cooperation and FDI, health and education sectors. Development funding from the Chinese government is directed towards infrastructure projects, hydropower stations, stadia, hospitals and schools.

This study recommends that Kenya must continue to attract economic ties from multiple sources but ensure the resources are spent prudently and in a manner that prioritizes high impact areas. Kenya needs to strengthen its manufacturing sector with a view of not only supplying the country's needs but also competing with China's low cost goods at regional level. This is through a skills upgrade and specialization of the growing workforce. Similarly, Kenya must negotiate with traditional export markets to be granted preferential terms to access these market. The developer of trade policies need to focus on expanding the export market and also improving industries contribute immensely in creating employment opportunities.

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## ABBREVIATIONS AND ACRONYMS

AGOA	-	African Growth and Opportunity Act
CCP	-	Chinese Communist Party
CDN	-	China Development Bank
CI	-	Confucius Institute
CIC	-	China Investment Corporation
CNOOC	-	Chinese companies
DAC	-	Development Assistance Committee
HIV	-	Human Immunodeficiency Virus
JKUAT	-	Jomo Kenyatta University of Agriculture and Technology
KTB	-	Kenya Tourism Board
MOFCOM	-	Ministry of Commerce of the People's Republic of China
NAU	-	Nanjing Agricultural University
SAPs	-	Structural Adjustment Programs
SASAC	-	State Owned Asset Supervision Administration Commission
STDs	-	Sexually Transmitted Diseases
UAE	-	United Arab Emirates
UN	-	United Nations
UON	-	University of Nairobi

# 1. CHAPTER ONE

## INTRODUCTION

### 1.1. Background

Foreign policy governs the relational aspects between countries and underpins their negotiation activities. Vital goals in most countries' foreign policy include preservation of promotion of world peace, national security, and the maintenance of power balance among nations. For instance, Kenya's foreign policy serves to protect Kenya's territory and sovereignty, promote integration, advance Kenya's economic prosperity, enhance regional peace and security and promote multilateralism among others. The foreign policies adopted by the Chinese government are based on: peaceful coexistence; non-interference in partner states internal affairs; reciprocated friendship; respect for territorial integrity; and equality. In other words, foreign policy refers to collection of human behaviors that seeks to influence actions of other communities to achieve certain desirable outcomes.<sup>1</sup> The definition given by Modelski emphasizes on policy geared towards the change of the behavior of certain countries as the primary objectives of foreign policy.<sup>2</sup>

Historical relations between Africa-China dates back to when the Ming Dynasty (1368-1644) navigator Zhengm docked on coast of East African approximately three times.<sup>3</sup> The relations were further enhanced in 1949 through the shared history of independence where the People's Republic of China concurrently gained independence at the same time with many African

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<sup>1</sup>Modelski, George. *A theory of foreign policy*. No. 2. Praeger for the Center of International Studies, Princeton University, 1962. Pg. 5-7.

<sup>2</sup> Moldeski, p.7

<sup>3</sup> Tull, Denis M. "China's engagement in Africa: scope, significance and consequences." *The Journal of Modern African Studies* 44.3 (2006): 459-479.

countries. During this period there had been a continuous strengthening of co-operation among China and African countries.

The first China's foreign policy dates back to 1950s when Mao Zedong rose to power under the Chinese Communist Party (CCP). The main objective of Mao Zedong was to position China republic as one of the most 'progressive force' in the international space. During this period, the China foreign policy was defined to "establish diplomatic relations with nations that observe principles of mutual respect and benefit, equality and observe territorial sovereignty and integrity". Five principles that defined China's foreign relations at the time which can be summarized as 'Principles of Peaceful Coexistence.'<sup>4</sup> The principles clearly indicating that China was opposed to power politics that were dominating the international relations at the time.

In 1978, Deng Xiaoping redirected China to a gradual capitalist-based development that led to a double-digit growth in three decades with an income per capita of \$ 1.700 in 2005.<sup>5</sup> In early 1980s, four principles that targeted technological and economic cooperation between Africa and China were put forth by Chinese leaders. The principles focused on mutual benefit and equality, diversity in form, pursuit of a common development with an emphasis on practical results. In May 1996 as President Jiang Zemin visited Africa, he added a fifth principle of all-round cooperation with African states to ensure a long-term and stable friendship.<sup>6</sup>

With the third world solidarity concept, the Beijing's foreign policy changed focus to developing countries by reemphasizing the 'Five Principles of Peaceful Coexistence'. They include: 'mutual non-aggression', 'mutual respect of each state's sovereignty', 'peaceful coexistence',

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<sup>4</sup> Alden, Chris, and Cristina Alves. "History & identity in the construction of China's Africa policy." *Review of African political economy* 35, no. 115 (2008): 43-58. pg.6-10

<sup>5</sup> Alden, C., (2007). *China in Africa*. Zed books Ltd, London/New York

<sup>6</sup> Ibid

‘noninterference with each other’s interior matters’ and ‘impartiality and mutual benefit.’<sup>7</sup> China unlike the dominant western powers distinguished itself by advocating for ‘aid without conditions’. This is a significant contrast to ‘Structural Adjustment Programs (SAPs) that were being used by the western donors’. The African Governments have been known to acknowledge aid from China as it fails to include economic and political conditionalities associated with SAPs.<sup>8</sup> The application of the principles in the post-Cold War era is postulated as a treat by the traditional donors.

Opposed to the power politics and interference, the Beijing’s early foreign policy is based on the China’s identity what is considered to be ‘Third World’ countries. With full knowledge that the aggressive policies are likely to increase the ‘threat image’ in the U.S. Beijing’s policies after 1989 led to the development of China’s ‘soft power’. China identified itself more with the ‘Third World’ countries through mutual interest without emphasis on Western conditionalities.

In recent years, China has gained weighty influence on African economies with the increase in economic expansion apparent in many African states.<sup>9</sup> China’s quest for oil consumption influences Chinese-African trade relations. The trade relations have also impacted on China’s GDP with a growth rate of 10% over the last decade. Over the years, the rising global demand for industrial raw materials has facilitated foreign direct investment (FDI), especially from China and India in several Africa’s countries rich with the natural resources. In 2006, FDI to Africa

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<sup>7</sup> Taylor, pg.550

<sup>8</sup> Bräutigam, Deborah. "Introduction." In *Chinese Aid and African Development*, pp. 1-12. Palgrave Macmillan UK, 1998.

<sup>9</sup> Adisu, Kinfu, Thomas Sharkey, and Sam C. Okoroafo. "The impact of Chinese investment in Africa." *International Journal of Business and Management* 5.9 (2010): 3.

recorded a 25 % increase to \$39 billion with 2015 statistics indicating \$61 billion.<sup>10</sup> Consequently, China's protagonist play as a development partner to Africa has been on the rise with its reorientation of its (FOCAC) Forum on China-Africa Cooperation policies. The recent FOCA V 2012 (Beijing Declaration and Action Plan) focuses on scaling up the (CADFUND) to over \$ 5 billion with a duty-free and quota-free treatment for African countries.<sup>11</sup>

In Kenya, economic relations and bilateral trade with China are evident in areas such as communications, transport and infrastructural development, electric power, and other investment ventures. The bilateral trade treaties signed between the two countries include the 2001 bilateral agreement on promotion and protection of investment and the 1978 bilateral agreement on economic and technological cooperation between Kenya and China. In 2015, the worth of China's exports to Kenya increased by 61% making China the largest FDI source to Kenya.<sup>12</sup> Also, the share of Chinese import to Kenyan market rose from 13% in 2012 to 22% in 2014. Despite China's immense economic presence in Kenya, majority of its financing is on loans. The Chinese Exim Bank's 97% financing falls under official flows and suppliers' credits. The other 2.9% is foreign aid. In addition, the Chinese government issued loans in excess of \$200 million in 2015 to support implementation of development programmes.<sup>13</sup>

## **1.2 Statement of the Problem**

China's presence in Africa is highly noticeable. Development assistance, diplomatic effort, state-owned enterprises and institutional support are some of the main driving force of China-Africa

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<sup>10</sup> UNCTAD, "Recent FDI trends in Africa", 2017.

<sup>11</sup> Forum on China-Africa Cooperation, 2012

<sup>12</sup> Sanghi, Apurva, and Dylan Johnson. *Deal or no deal: strictly business for China in Kenya?*. The World Bank, 2016.

<sup>13</sup> Sanghi. & Johnson (2016)

relations.<sup>14</sup> Similarly, Kenya has become a gateway to China's entry into the region with China offering readily available loans to Kenya that focus mainly on infrastructural development such as Thika Superhighway, Standard Gauge Railway and Kenyatta International Airport. Mutual benefits characterize the foreign policy on development in Africa however; the balance of trade between China and Africa would be termed as unidirectional with a skewness towards China. Kenya's exports to China are less compared to its imports from China with Kenya experiencing an increasing debt burden to China. Kenya owes China over Sh534.1billion amounting to approximately 72% of the country's total bilateral debt<sup>15</sup> .

Despite these capital and knowledge investments by China, some people are worried that China's interest in Africa will eventually result in colonialism. This is by derailing growth of African industries due to uncontrolled imports, lack of employment for locals due to Chinese citizens involvement in retailing businesses and direct import of personnel by Chinese companies for construction contracts.<sup>16</sup> Moreover, Chinese have taken over local contracts and construction jobs as most of the financing from Beijing has terms that require execution by Chinese companies thus creating large employment gaps for Kenyans. Therefore, it may be interpreted that China has other interests in Africa that affect the continent's development strategy.

Extant studies have been done on foreign investment policy to African countries. For example, Mashingaidze 2016 examined China's changing foreign policy towards Africa with Zimbabwean case study. He found out that China's foreign policy has transformed from unconditional aid to conditional to open door strategy but no longer fully adhere to the five principles that underpin

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<sup>14</sup> O'Brien, Robert, and Marc Williams. *Global political economy: Evolution and dynamics*. Macmillan International Higher Education, 2016.

<sup>15</sup> Central Bank of Kenya. 2018. *Kenya Central Government External Debt*

<sup>16</sup> Sanghi, Apurva, and Dylan Johnson. *Deal or no deal: strictly business for China in Kenya?*. The World Bank, 2016.

her foreign policy. Also, Moss 2012 investigated the effect China had on Africa's development both economic and social using Kenya as the case study. The findings indicated that Chinese aid flows to Africa were on an upward trend and crucial for African development. However, the aid's impact was uncertain. Thus, many scholars have focused on China-Africa ties and China's foreign policy with little focus on China's foreign investment policy targeting development of Kenya and Africa at large. However, most indicate that Africa is experiencing infrastructural expansion and growth but backed with massive debt. Therefore, there exists scarcity on literature and a gap in knowledge on the Chinese foreign investment policy and its impact in Africa's development.

It is against this background of questionable Chinese-Africa development ties that this research seeks to examine the Chinese foreign policy on Africa, describe the trading activities and balance of trade between Kenya and Beijing, and FDIs in Kenya. Also, the study assesses the effects of the activities on Kenya's development.

## **1.2. Study Research Questions**

- i. What is the Chinese economic foreign policy on development in Africa?
- ii. What are the economic activities between China and Kenya as influenced by the Chinese economic foreign policy on development in Africa?
- iii. What are the social and economic impacts of Chinese economic foreign policy on the development of Kenya?

## **1.3. Objectives of the Study**

The study investigated the effects of Chinese economic foreign policy on the development of Africa.

### **1.3.1. Specific Objectives of the Study**

The following were the specific objectives of the study:

- i. To define the Chinese economic foreign policy on Africa
- ii. To describe the economic activities between China and Kenya as influenced by the Chinese economic foreign policy on development in Africa
- iii. To assess the effects of Chinese economic foreign policy on the development of Kenya

## **1.4. Literature Review**

This section contains a discussion on the nature of the policy adopted by the Sino-Africa as well as the ties between the two regions.

### **1.4.1. China's Foreign Policy and Investment Model in Africa**

China's foreign policy is guided by communism ideologies. The communist party in 1978 launched policies aimed at engaging in economic reforms and opening up China. The primary aims of China's foreign policy as initiated by Deng Xiaoping include: maintaining the dominance of the communist party, defending dominion and territorial integrity of the county and ensuring economic development. The country's foreign policy is greatly influenced by the country's growth path and domestic issues. Resources, specifically raw materials drive China's foreign policy from which external economic relations and policies form the basis. China's surge for raw materials affects global commodity prices with over 90% of China's imported metals and minerals being direct purchases from international commodity markets.

China and Africa's shared interdependency for economic development is evident with the transitional shift of the Chinese policy towards Africa's economic development over the three periods, namely: (1949-1977)-the normal development period; (1978-1994)-a transitional period

and rapid development period from 1995 to date<sup>17</sup>. Further, Premier Zhao Ziyang strengthened China-Africa economic relations by formulating four principles on Sino-African Economic and Technical Cooperation, namely; bilateralism, effectiveness, equality and co-development. These four principles were a supplement to the eight principles of Economic and Technical Aid put forth by Zhou Enlai during his 1963-1964 visit to Africa<sup>18</sup>. The eight principles were:

- i. No conditions or privilege attached to aid
- ii. Aid is should be considered as a mutual help and not a unilateral grant
- iii. To increase recipient countries' economic growth, Chinese programs should utilize low investment but with faster yields.
- iv. The purpose of the aid is to support countries to autonomously develop economically.
- v. Repayment period should be standard with interest free loans
- vi. China to provide the best materials and equipment for recipient states
- vii. Chinese experts to receive similar treatment to local experts in recipient countries with no additional privileges
- viii. Guarantee the mastery of technology by technicians in recipient countries with the provision of Chinese technical assistance

The principles characterized China's aid framework declaration that provided favourable conditions for African countries

The current China's policy towards Africa majors on five principles though the principles build on previous principles and policies to Africa. One is adhering to the Five Principles of Peaceful Co-existence by respecting the political system and path of development made by African states.

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<sup>17</sup> Kaplinsky, Raphael, Dorothy McCormick, and Mike Morris. "The impact of China on sub-Saharan Africa." (2007).

<sup>18</sup> Rotberg, Robert I., ed. *China into Africa: Trade, aid, and influence*. Brookings Institution Press, 2009.

Two, support African countries without outside interference in their quest to strengthen unity and cooperation and promoting African unity. Three, strengthen and grow a long-term steady relationship and promote cooperation. Four, provide governmental assistance without political conditions to African countries and improve the performance of the projects built by China's assistance and enlarge bilateral trade relations. Five, appeal to developed nations to encourage peace and development for Africa. Hence, Chinese investment model in Africa occurs through state agencies such as China-Export-Import Bank (Exim Bank) created in 1994 to promote Chinese FDI on infrastructural areas like roads, mining, railroads, and telecommunication. Also, Chia Development Bank (CDN), China export and credit insurance corporation (SINOSURE) and China Investment Corporation (CIC) support China's financing mechanism to Africa.

#### **1.4.2. Africa-China Development Ties**

The relationship between China and Africa has seen the rise of Sino-Africa trade volume US\$1 billion in 1980s to over US\$163.9 billion in 2012. Africa has benefited from the bilateral engagements through the exports of raw materials to China. For instance, in agriculture, Africa supports a third of China's oil supplies with China enhancing the developmental agendas of the African countries through exploration and mining strategies. For example, Burkina Faso, Mali and Benin supply almost 20% of China's cotton, Cote d'Ivoire supplies of cocoa, a lot of coffee by Kenya and fish products by Namibia.<sup>19</sup> Moreover, China has benefited from Africa from the continent's massive shift to China for imports. Majority of African products come from China due to the competitive prices presented by Chinese suppliers.

The debt sustainability of African economies is worrying with China's continual funding. The recent 2018 FOCAC saw China pledging \$60billion to finance projects in Africa for three

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<sup>19</sup> Rotberg, R. *China into Africa: Trade, Aid and Influence*. Brookings Institution Press, D.C. pp 16, 2018.

Washington,

years.<sup>20</sup> Unfortunately, majority of African economies are already experiencing huge debt burden towards China. Hence, the questions as to the viability of the bilateral relations and the mutual benefits inherent in the foreign policy. Is China trying to take over Africa under the misconception of trade relations and aid? The cooperation between China and Africa on issues dealing with health, education, culture maintain have led too strengthened cooperation for the two groups. In the quest to advance especially on economic grounds has led to its massive invasion of Chinese investors and workers into the continent. Apart from agreements between China and Kenya on physical infrastructures, Kenya has also benefited from scholarships to Kenyan students.

### **1.5.3 African Perspective on China's Impact in Africa**

African scholars have divergent views on China's augmented existence in Africa. Other scholars view China's economic prowess and growth as the effective developmental model that Kenya, Africa and the third world countries would emulate<sup>21</sup>, others see China's behaviour in the continent as parallel to neo-colonialism. On trade and economic perspective, Kaplisky states that China-Africa relations impact trade in two ways. First, it is the competition within internal market for domestic manufacturers and the other is competition in external markets. The balance of trade is in favour of China as cheap Chinese products flood the local markets creating trade imbalances<sup>22</sup>. Chinese manufacturers experience low production costs unlike African producers resulting in unfavourable competition between African states and China. Moreover, Chinese sponsored projects utilize Chinese labour instead of local workers. Hence, African nations continue to experience rising and worrying rates of unemployment among the youth. For

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<sup>20</sup> Ibid

<sup>21</sup> Alden. China and Africa. *Survival*, 47(3), 147-164, 2005.

<sup>22</sup> Alden, 2005.

instance, many Kenyan local factories have been forced to close down due to Chinese impact.<sup>23</sup> The African perspective holds that Chinese investment has greatly influenced Africa's development but not without a substantial price. The price is not limited to the negative impact on commerce and local trade, dominance of Chinese culture in local culture and considerations with little benefit to the African labourer.

### **1.5. Theoretical Framework**

The scope of this study is anchored on the dependency theory and the international relations theories. The international relations theories on focus in this study include Realism, Constructivism, Liberalism and Marxism. In late 1950s through Raul Prebisch's guidance, the dependency theory was developed. According to them, economic growth in advanced industrialized countries did not reflect a growth in poorer economies. Their studies suggested that economic activities in wealthy nations often led to serious economic problems in poor developing states. Their study contrasted with the neoclassical theory that assumed Pareto optimal of growth. In Prebisch's explanation, poor nations export primary commodities to wealthy states who in turn manufactured products and sold back to poorer countries. The same situation characterizes the China-Kenya relations where Kenya (poor state) exports crude oil, minerals, and other raw materials to China (rich state). China manufacturers end products and sell them at a cheap price in the local market causing closure of local industries due to stiff competition from Chinese companies. Moreover, the FDI offered by China on economic grounds positively affect Kenyan economy but it is never without negative effects like the rising public debt and unfair market competition. The "Value Added" by manufacturing an end product

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<sup>23</sup> Anshan. China and Africa: Policy and Challenges. *China Security*, 3(3), 69-93, 2007.

usually cost more than the primary goods used to create the products. Therefore, poor countries never earn enough to balance off their imports with exports.<sup>24</sup>

Dependency theory is explained as the view of resources flowing from underdeveloped states known as the periphery to a "core" of well-off states, elevating the latter at the cost of the former. Amicably, the economic relationship between China and Kenya is unequal and can be seen as exploitative. Moreover, dependency theory stipulates the involvement of the state in markets. State interference causes a disruption of the functionality of the natural market resulting in an economic failure.

Haq Mahbub ul, 1976, identified the origins of inequality between advanced and emerging countries to be their history. He stipulates that the era during colonialism aggravated the gaps between the rich and the poor countries by placing the wealthy nations of the North in the center of the world and the developing countries of the South at the periphery, supplying raw materials to the North. Haq argues that these manipulative links evident in the intellectual slavery and economic dependence remains despite decolonization. The author focused on providing a solution to change the exploitative relations. To do this, he suggested a two-pronged offense as the best mechanism to abolish inequality. The national governments in the two sides (developed and developing) share this responsibility with developing countries ensuring the existence of equality in their engagements to benefit from the international system. Also, developing countries to carry out internal reforms to provide the same for their poor so as to remove domestic structural biases.

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<sup>24</sup> Moyo, Dambisa. "Why foreign aid is hurting Africa." *The Wall Street Journal* 21 (2009): 1-2.

The realists stipulate that all states work towards increasing their own power. Self-preservation is of great essence for the nations as they seek to gain economic, political and social power over other nations. Morgenthau states that the main focus of countries in the international system is the quest of personal interests known as “power”.<sup>25</sup> The national interests under this perspective underlie the political and cultural aspects for foreign policy formulation. For realists, the survival of the state within the international system is key. Hence, nations are rational with the view of states and non-states actors in the international field. For instance, China’s recent involvement in Africa and the international model has been seen as a growing prowess to become economically and diplomatically stronger unlike the view of economic and political integration.<sup>26</sup> Similar to economic nationalism, realists stipulate that wealth and power are interconnected and maximization of the economic power leads to political power. It can be viewed that Chinese foreign policy and any related adjustments are context-specific to serve Chinese nationalism: “to seek and preserve China’s national independence”<sup>27</sup>

The Marxist view the international system from the structure of production with the intent that market relations are naturally exploitative. Hence, foreign policies get formulated with underlying aspects of self-gain against the exploitation of the other party.<sup>28</sup> On the other hand, liberalism holds that preferences of nations determine state behavior and not state capabilities. Amidst this, morality is key and a state’s involvement in the international market is minimal to

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<sup>25</sup>Morgenthau, Hans, and Politics Among Nations. "The struggle for power and peace." *Nova York, Alfred Kopf* (1948).

<sup>26</sup> Ibid

<sup>27</sup> Kiely, Ray. *The new political economy of development: globalization, imperialism, hegemony*. Palgrave Macmillan, 2007.

<sup>28</sup> O'Brien, Robert, and Marc Williams. *Global political economy: Evolution and dynamics*. Macmillan International Higher Education, 2016.

avoid disturbing the natural course of the market mechanisms.<sup>29</sup> Unfortunately, liberalism may not hold in China's foreign policy in Africa case since majority of China's economic engagements are state-led.

It is within the stated theoretical approaches that this study will evaluate the impact that China's economic foreign policy on development in Africa.

## **1.6. Justification of the Study**

Economic growth is a key aspiration for any state. However, trade exchange and relations in the international market play a vital part in a country's economic development. Africa and Kenya, in particular, has been a beneficiary of this act. The benefits and detrimental aspects of the relations lie in countries' foreign policy. A lapse in economic policies is detrimental to any gains accrued to trade which affect economic growth. China's increased interest in Africa after the Cold War is eminent. However, China's economic foreign policy is a great influence on the significance of the trade relations between China and African countries.

This study will form a basis for strengthening choice and approach to economic policies by policy makers both in Africa and China that promote Africa's economic development. Moreover, the study will add to existing academic knowledge on China's economic effect in Africa's development. Further, the findings of the study will aid in understanding the nature of Chinese economic foreign policy on development in Kenya and its implication to the Kenyan government, investors and local market players in different sectors.

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<sup>29</sup> Ibid

## **1.7. Study Hypotheses**

- i. The composition of the Chinese economic foreign policy positively influences Africa's economic development
- ii. There is a balance in trade between Africa and China as a result of the Chinese economic foreign policy on development in Africa
- iii. China's economic foreign policy aims at achieving palpable developmental results and the conditionality is appropriate for Kenya.

## **1.8. Methodology**

The study will employ a descriptive research design with the use of qualitative and quantitative approach. This research design consents for prudent comparison of research findings making it the most appropriate for this study and aids describes the effects of Chinese foreign policy on Kenya economic growth.

The study relied on primary and secondary data. The secondary data involved a review books, academic papers, journals, government documents and other internet sources. The secondary data was presented in an explanatory design. On the other hand, primary data was obtained through semi-structured questionnaires. The technique is adopted because of the need to compare the research findings.

### **1.8.1. Sampling and Sample Selection**

The study adopted a purposeful sampling approach to select participants from Ministry of Trade and Industry (MoTI) and Ministry of Foreign Affairs (MoFA). it is important to note that MoFA develops and implements foreign policies while MoTI is charged with promotion of trade while protecting the local industries. Only questionnaires with 90% of the questions filled were included in the data analysis.

### **1.8.2. Data Entry, Analysis, and Presentation**

Both the primary and secondary data were collected, classified coded and analyzed. Primary data was analyzed quantitatively using SPSS. Qualitative data analysis was carried out on secondary data from reports, articles, academic papers, government documents, periodicals, journals, electronic library, published and unpublished materials. Tables and graphs were used to present the results of the study.

### **1.8.3. Ethical Considerations**

To maintain confidentiality and security of the participants involved in the study, ethical issues have to be taken into considerations. This includes protection of the data to be collected, ensure consent from the participants and high confidentiality. During the survey, interview questionnaires will be tailored in a concise manner to prevent any misunderstanding by the respondents. The respondents will be given adequate time to respond to the questionnaire to minimize any errors and inaccuracies in the feedback. It will include providing an allowance for one not to answer some of the questions if they consider it not to be appropriate.

## **1.9. Chapter Summary**

### Chapter 1

The chapter details the introduction with background information on the study, the statement of the problem, research questions, study objectives, literature review, and methodology.

### Chapter 2

It examines the first objective to the study which defines the Chinese economic foreign policy on Africa. This includes the factors that have influenced the changes in the economic foreign policy over time.

### Chapter 3

The chapter describes the second objective on recent economic activities between Kenya and China as influenced by the Chinese economic foreign policy on development in Africa. The chapter will also establish the balance of trade between the two countries.

#### Chapter 4

It discusses the third objective on assessing the effects of Chinese economic foreign policy on development in Kenya from existing literature and the structured questionnaires administered.

#### Chapter 5

It lays out data analysis and the study findings underpinning the three objectives and their implications.

#### Chapter 6

The chapter will outline the study's conclusion and provide evidence-based recommendations on future economic policy to be adopted between Africa and China on matters of development.

## 2. CHAPTER TWO

### DISCUSSION OF THE CHINESE ECONOMIC FOREIGN POLICY ON AFRICA

#### 2.1. Introduction

The surfacing of China as a growing middle power has revolutionized the way the Asian country deals with African states, Kenya included. Chinese interests in Africa range from political, economic, security and ideological interests<sup>30</sup>. All these interests are without doubt intertwined, and success in one may as well mean success in the others. In this section, this paper discusses the economic policies of China, with particular reference to the continent of Africa.

There have always been debates in China on whether economic and political interests should characterize China's main concern in Africa foreign affairs policy. China's economic foreign policy towards Africa can be divided into three phases<sup>31</sup>. The first phase was between 1949 and 1979. In this period, the economic activities of China in Africa were stirred by the country's political agenda. Focus was laid on Provision of economic assistance to newly independent nations of Africa. This was motivated by the desire by China to build and improve diplomatic ties in the continent. These ties, it was believed, would go way further in helping the African countries join the eastern leaning world to fight imperialism of the west.

The second phase of China's economic foreign policy towards Africa was between 1979 and 1990s. In this particular period, the focus of the foreign policy was behind domestic economic progress. As a result of this focus, there was gradual adjustment of China's priorities on African policy. The new policy was aimed at helping China extract mutually beneficial economic

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<sup>30</sup> Alden, Chris. "China in Africa." *Survival* 47.3 (2005): 148-165.

<sup>31</sup> Sachs, Jeffrey D., et al. "Economic reform and the process of global integration." *Brookings papers on economic activity* 1995.1 (1995): 1-118.

cooperation. In addition, the policy changed to promoting investment, trade and service contracts as opposed to providing assistance as was the norm.

The third phase is approximated to have started in the mid-1990s until now. This period correspond with the time China became a middle power<sup>32</sup>, becoming number globally in terms of economic strength. Since the beginning of this period, China has changed strategy and decided to make use of domestic and international resources and markets. It is within this period that China has realized a boom in its international economic cooperation. Within this third phase of economic foreign policy the country has embraced the “Going Out” strategy<sup>33</sup>. This strategy was set up in 1996, when the then president, Jiang Zemin, visited African countries. Later on the strategy was adopted in 2000 by the Politburo. Other economic foreign policies about Africa are shaped under this strategy.

### **2.1.1. The “Going Out” Strategy**

The “Going Out” Policy is a strategy in the Chinese government, where enterprises are encouraged to invest out of the country. Unlike most governments that focus on attracting internal investments and passively participate in encouraging external investment, Chinese government focuses both in external and internal investments. In regard to this policy, the government of China jointly with the China Council for the Promotion of International Trade has launched several plans to aid domestic companies in developing an international strategy to make use of opportunities in the growing global and local markets.

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<sup>32</sup> Maddison, Angus. *The world economy volume 1: A millennial perspective volume 2: Historical statistics*. Academic Foundation, 2007.

<sup>33</sup> Nolan, P. (2012). China and the global economy. In *Charting China's Future* (pp. 55-64). Routledge

This policy has five goals. The goals include increasing of Chinese Direct Foreign Investment, improvement in the quality and levels of projects, pursuing of product diversification, expansion of financial channels and promotion of brand acknowledgment of Chinese companies in the US and EU markets. The launch of this strategy has significantly encouraged overseas investment by Chinese firms especially those owned by the state. According to past reports, China's' foreign direct investment rose to 35 billion US\$ in 2003 from 3 billion US\$ in 1991<sup>34</sup>.

Part of the "Going Out" strategy is the creation of the right environment for foreign investment. However, to attain the goals of this policy, the government has come up with restricting efforts meant to improve state owned enterprises. The body that is mandated with these efforts is the State Owned Asset Supervision Administration Commission (SASAC). This body is mandated with developing the country's equity market exchange and supports foreign investment of China. The duty of this body include the evaluation and supervision of state-owned enterprises, drafting of laws recruitment of top executive talent, oversight of state-owned assets, administrative rules and regulations that promote increased development of corporate law.

The "Going Out" Strategy is the pillar upon which China has formed its policy not only with the developed world, but also with Africa. As stated earlier, the economic policy is anchored to other policies, which are of use for the country to attain financial benefits. The security, political and ideological policies are therefore central parts of the economic policies forged under the "Going Out" Strategy.

### **Chinese Going Out Policy in relation to Africa**

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<sup>34</sup> Lum, Thomas, and Dick K. Nanto. "China's Trade with the United States and the World." LIBRARY OF CONGRESS WASHINGTON DC CONGRESSIONAL RESEARCH SERVICE, 2007.

Since the inception of this strategy, solid obligations have been prepared in China-Africa relations in quest of development and mutual peace within Africa. In this regard, there is strict observation of actual action by relevant governments. Correspondingly, analysis of Sino-Africa relations and foreign policy has to be accustomed to mirror these developments. Two issues have been used to critically analyze China's post 2000 foreign policy. One is adherence of China to the institutional framework that export and depict a culture of mutual growth. The second issue is how they handle responsibilities decentralization on strategic foreign policy aims in different departments and subordinate institutions.

Chinese foreign policy in Africa is promoted by several institutions and institutional mechanisms<sup>35</sup>. They include China's Exim Bank, The Forum on China-Africa Cooperation (FOCAC), the Chinese Military, Chinese Provinces, and the Chinese Think Tanks. All these play important roles in forging ahead the economic policies of China towards Africa just like the rest of the world. Through exploration of the specific functions of these institutions and institutional mechanisms, foreign policy of China to Africa can be well defined. In this section, consequently, this paper will discuss in depth the roles played by the institutions and the attendant mechanisms.

### **2.1.2. The Exim Bank**

In Africa, China's need to expand and increase economic cooperation is financed through several state supported financial institutions. Apart from China Export-Import Bank (Exim) other financial institutions include China International Trade and Investment Corporation (CITIC), Industrial and Commercial Bank of China (ICBC), China Development Bank (CDB), the China

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<sup>35</sup> Alden, Chris. "China in Africa." *Survival* 47.3 (2005): 147-164.

Export and Credit Insurance Corporation (CECIC) and Sinosure<sup>36</sup>. According previous reports, these institutions have supported the development of African economies as well as advance China's foreign policy through the provision of export credit, overseas construction loans, global guarantees, investment loans, as well as lines of credit<sup>37</sup>

The Exim Bank has taken a leading role in providing preferential loans to 25 Africa states since its establishment in 1994 and as a new instrument of trade diplomacy. Like most import-export banks, the Exim Bank was designed to give finance meant to support and increase China's exports. As a result, the bank has become pivotal in implementing Chinese foreign policy. This is achieved mainly through promotion of Chinese commercial welfare abroad and securing raw materials. The latter has been referred to by scholars as the "Angola mode" due to controversial manner in which it is carried out.<sup>38</sup>

The model in which Exim Bank uses, as state owned institution, together with its guiding policies firmly adheres to China's foreign policy. For example, the bank does not impose any conditions, economic or political on the applying government before and after disbursing the loan. This also agrees with the principle of co-existence as instituted by the Mao Era<sup>39</sup>. China's use of its financial institutions to carry out its foreign strategies in Africa has extended to comprise purchasing and investment of substantial stakes in Africa's big banking institutions. One such example is acquiring of stake in Standard Bank and Barclays Bank. The former

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<sup>36</sup>Moss, Todd, and Sarah Rose. "China ExIm Bank and Africa: new lending, new challenges." *CGD notes* (2006).

<sup>37</sup> Bräutigam, Deborah. "Aid 'with Chinese characteristics': Chinese foreign aid and development finance meet the OECD-DAC aid regime." *Journal of international development* 23.5 (2011): 752-764.

<sup>38</sup> Corkin, Lucy. "Uneasy allies: China's evolving relations with Angola." *Journal of Contemporary African Studies* 29.2 (2011): 169-180.

<sup>39</sup> Moss, Todd, and Sarah Rose. "China ExIm Bank and Africa: new lending, new challenges." *CGD notes* (2006).

operates in about eighteen African nations and the latter is the biggest financial institution on African continent. This confirms that China's finance has practically reached out to the remote parts of Africa where these banks have their operations. Financial statistics show that the bank had dispersed around US\$ 12.6 billion towards infrastructural development projects in sub-Saharan Africa by 2006. This amount is estimated increase substantially to around 200 billion by 2020 <sup>40</sup>

The Exim Bank has financed multiple projects in Africa that include Mozambique ( US\$ 2.3 billion loan for the construction of Mepanda Nkua dam and hydroelectric plant), Ghana ( US\$ 1.2 billion, of which US\$ 600 million was for the construction of the Bui dam<sup>41</sup>), Nigeria (US\$ 300 million towards the construction of Moamba-Major dam; US\$ 1.6 billion loan to establish a Chinese oil project, and a US\$ 200 million preferential buyer's credit for communications satellite) and Angola (US\$ 2 billion)<sup>42</sup>. Basically, Exim Bank is mainly concentrating on infrastructure development. By the year 2008, the bank had financed more than 300 projects at a cost of US\$ 6.5. Currently, the bank is best known for its deal structures, which are known as the 'Angola mode' or 'resource for infrastructure'. This mode will be discussed in subsequent sections of this work.

On the other hand, the western countries are skeptical about the approach used by China in the distribution and selection of concessional loans in Africa. They argue that the procedure is biased and tilted towards rich African states. For example, most loans given to Africa were dispersed to

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<sup>40</sup> Kou, Liang, et al. "Growth, morphological traits and mycorrhizal colonization of fine roots respond differently to nitrogen addition in a slash pine plantation in subtropical China." *Plant and Soil* 391.1-2 (2015): 207-218.

<sup>41</sup> Corkin, Lucy. "Redefining foreign policy impulses toward Africa: The roles of the MFA, the MOFCOM and China Exim Bank." *Journal of Current Chinese Affairs* 40.4 (2011): 61-90.

<sup>42</sup> Moss, Todd, and Sarah Rose. "China ExIm Bank and Africa: new lending, new challenges." *CGD notes* (2006).

resource rich states like Sudan, Angola, Zimbabwe and Nigeria. However, China's loans, like any other loan facility, are given based on the state's capacity to repay. As a consequence, natural resources happen not to be a criterion for allocation but merely a form of collateral for the loans. It has been established that the loans are destined to fund infrastructure construction projects, social welfare projects and manufacturing projects in the borrowing nations. This generates good social returns benefits or economic returns as well as financing the procurement of Chinese products for example electronics by the borrowing country<sup>43</sup>

### **2.1.3. The Forum on China-Africa Cooperation (FOCAC)**

The Chinese foreign policy making machinery has at all times been challenging to analysts. The challenge stems from the fact that the Chinese are secretive and not from previously thought obscure and unclear foreign policy goals. The secretive nature of China's' policy making strategy came to an end with the launch of Forum on China-Africa Cooperation in the year 2000. The Cooperation also provided a mouth piece through which foreign policy goals are disseminated and understood.<sup>44</sup> As a joint initiative between Africa and China, FOCAC was intended to serve as a platform to advance collective, ensure meaningful dialogue and pragmatic consultation between the two parties.<sup>45</sup>

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<sup>43</sup> Corkin, Lucy. "Redefining foreign policy impulses toward Africa: The roles of the MFA, the MOFCOM and China Exim Bank." *Journal of Current Chinese Affairs* 40.4 (2011): 61-90.

<sup>44</sup> Gu, Jing. "China's private enterprises in Africa and the implications for African development." *The European Journal of Development Research* 21.4 (2009): 570-587.

<sup>45</sup> Burke, Christopher, Johanna Jansson, and Wenran Jiang. "Formulation of energy policy in China: Key actors and recent developments." *Centre for Chinese Studies, University of Stellenbosch* (2009): 1-28..

FOCAC also provides a platform for China and Africa countries to have their ties institutionalized, formalized and strengthened<sup>46</sup>. Scholars have argued that the cooperation guarantee achieves economic and political interest for all parties which enhance mutual development. On the basis of partnership strategies, FOCAC is considered as an arm of Chinese government that need to solidify diplomatic, political and economic cooperation with Africa<sup>47</sup>. The increased number of African presidents at the second and succeeding FOCAC meetings has immensely contributed to the success of this institutional machinery designed to progress dialogue and cooperation. Since its inauguration, ministerial meetings have been held in various cities. These include, Beijing in China-2000, Addis Ababa in Ethiopia-2003, Beijing in China - 2006, Sharm El Sheik in Egypt-2009, Beijing in China-2012 and Johannesburg in South Africa - 2015<sup>48</sup>. Despite of challenges, for instance the Asian financial crisis, the conferences have managed to convene every three years. Therefore, this shows the dedication and commitment towards greater integration between African nations and China.

Commitment towards the success FOCAC can as well be considered in terms of the policy documents released and the type of follow up mechanism before and after the meeting. For instance, following the Beijing 2000 conference, the Beijing Declaration of the Forum on China-Africa Cooperation, Program for Africa-China Cooperation in Socio-Economic development were adopted<sup>49</sup> FOCAC provides with an incorporated structure that guides China-Africa

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<sup>49</sup>Burke

<sup>47</sup> Cisse, Daouda. "FOCAC: trade, investments and aid in China-Africa relations." (2012).

<sup>48</sup>Green, Andrew. "Forum on China-Africa Cooperation: what it means for health." *The Lancet* 392.10152 (2018): 998-999.

<sup>49</sup> Hon, Tracy, et al. "Evaluating China's FOCAC commitments to Africa and mapping the way ahead." (2010).

relations and at the same time emphasizing on Chinese businesses in Africa especially oil companies.

FOCAC serves as an instrument and framework of Chinese foreign policy. It is mandated with drawing the guiding principles by which the state can advance its policy strategy in the African continent. It is through FOCAC meetings that China puts together all the opportunities and challenges faced by African policy makers and what can be offered in their respective countries. Information gathered is then used to tailor policies that attract as well as advance Chinese national interests in Africa.

Debt cancellation and forgiveness, establishing trade relations through provision of loans, investment funds for infrastructural development and credit facilities portray African economic challenges. However, in equal measures, it presents means through which African governments embrace Chinese partnership<sup>50</sup>.

A number of challenges related to FOCAC and those inherited have been experienced or projected<sup>51</sup>. However, these challenges are not restricted to FOCAC forum but are related to China's foreign policymaking strategy and processes. The relationship between FOCAC and China's foreign policymaking machinery is complementary. Failure in one leads to a multifunction of the other. Similarly, demerits of FOCAC as an agent of China's foreign policy directly or indirectly affect the whole strategy behind achievement of China's Africa policy.

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<sup>50</sup> Li, Shubo, and Helge Rønning. "Winning hearts and minds: Chinese Soft Power Foreign Policy in Africa." *CMI Brief* 3 (2013).

<sup>51</sup> Cisse, Daouda. "FOCAC: trade, investments and aid in China-Africa relations." (2012).

Some scholars have criticized FOCAC for its frail follow up mechanisms<sup>52</sup>. Out of 51 FOCAC member states only three members, China, Ethiopia and South Africa, are the only countries that have set up measures that allow for monitoring progress on the agreements made in the forum. Contrary, in most countries decisions are made based on the experience and personality of specific individuals. This is evident with African diplomatic corps in Beijing which depends on the expertise from African Ambassador to evaluate, implement and initiate more cooperative policies that arise from commitments set up during the forum. This point supports the hypothesis that most African countries interest in this meetings are the pledges that China makes and not learning and acquiring experience from various players participating in the meetings.<sup>53</sup>

#### **2.1.4. Chinese Provinces**

China has 33 province divisions. The divisions are made up of 2 administrative regions, 4 municipalities, 5 autonomous regions and 22 provinces. For a long time, governance affairs and matters involving foreign policy of these provinces were determined by the state. In the old China, with a long history of totalitarianism, centralization in decision making was an inherent feature. The regional governments had little or no powers in decision making on matters to do with foreign policy architecture. In the centralized China, provinces had no power to carry out economic relations with other states and foreign companies<sup>54</sup>

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<sup>52</sup> Yumei, Liu. "China's Soft Power and the Development of China-Africa Relations." *China Int'l Stud.* 7 (2007): 81.

<sup>53</sup> Grimm, Sven. "The Forum on China-Africa Cooperation (FOCAC)-Political rationale and functioning." (2012).

<sup>54</sup> Zhimin, Chen, Jian Junbo, and Chen Diyu. "The provinces and China's multi-layered diplomacy: The cases of GMS and Africa." *The Hague Journal of Diplomacy* 5.4 (2010): 331-356.

According to Zhimin and Junbo, (2009), it is only in 1978-1992 during Deng's leadership 1978-1992 that an economic restructuring program was experienced in China.<sup>55</sup> This program transformed China from being a centralized country into a decentralized and globally oriented state. The adaptation of this program pushed China's provinces into the international arena. Decentralization and internationalization propelled the provinces into global actors and afterward actors in Chinese foreign policy making. Currently, the provinces have the ability to operate individually on matters of international trade and can influence the internal foreign policymaking structures<sup>56</sup>

In 1982, the constitutionally, the provinces acquired powers to administrate over local affairs. During the reforms the provinces were mandated with management of social development and local economic as well as providing employment and welfare to locals. All these demanded that the provinces exercise substantial power over economic policy.<sup>57</sup> Gradually provincial bodies were transferred more power and sovereignty particularly in approval of foreign investment projects and areas of economic relations. Even though the wave of empowerment was not even, all the provinces were empowered.

As sub-national actors in global relations, assessment of their impact and role in making decision proceed in two directions. Firstly, they can be looked at as paradiplomacy and second as multi-layered diplomacy. The former is based on their investigative role. They investigate emergence of new actors in foreign policy formulation. The latter considers the growing involvement of

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<sup>55</sup> Zhimin, & Junbo

<sup>56</sup> Zhimin\*, C. Nationalism, internationalism and Chinese foreign policy. *Journal of Contemporary China*, 14(42), (2005). 35-53.

<sup>57</sup> Zhimin, C., Junbo, J., and Diyu, C. The provinces and China's multi-layered diplomacy: The cases of GMS and Africa. *The Hague Journal of Diplomacy*, 5(4), (2010). 331-356

sub-national unions in foreign policymaking which is a sign of evolution of the policymaking process. The emergence of China's provinces globally is as a result of the domestic circumstances in China. These circumstances brought about international attention over Chinese domestic issue for instance low politics.

The multi-layered theory does not recognize foreign policy as the only responsibility of the central government. To a certain extent, all levels of governance have a say and contributes towards process of foreign policymaking. The beginning of transformation and globalization made multi-layered model functional in China. This was so despite the fact that the Chinese government controls the important decision-making process. Because of the model, stratified system was adopted in foreign policymaking. The system places top officials of the Chinese Communist Party on top of the hierarchy. Down the hierarchy, are the communal and provincial structures which are based on the importance of the decision that needs to be made.<sup>58</sup>

As a way of attracting FDI, the Chinese provinces have asserted their interests abroad<sup>59</sup>. Following this, they have become economically strong that they can fund their activities globally. The strong economic pillar in the provinces has promoted corporation between the government and the provinces. The state now highly depends on the provinces in order to support its foreign policy goals. This has resulted into provincial governments/structures sending trade delegations internationally especially Africa. For instance, a high profile delegation to Africa, in October 2004, led by Zhang Dejiang of Guangdong province culminated in the signing of contracts valued at US\$ 1.2 billion.

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<sup>58</sup> Zhimin, Chen, and Jian Junbo. "Chinese provinces as foreign policy actors in Africa." (2009).

<sup>59</sup> Huang, Yasheng. *Selling China: Foreign direct investment during the reform era*. Cambridge University Press, 2003.

In the year 2006 trade between Africa and Chinese provinces had reached US\$7.9 billion with Zhejiang and Shanghai trading US\$ 2.31 billion and US\$ 3.048 billion respectively. In total the Africa trade with the provinces amounted to US\$ 106.8 billion in 2008. However, when considered as a percentage of the provinces total trade these levels are considered insignificant. Looking at percentage levels, African trade constitute 1.5% for Guangdong's and 1.3% of Shanghai's trade both which fall below the national average of 3.1%. Economic activity between Africa and the provinces is increasing quickly. The provinces now 29 consider Africa as a region to sustain diversify and expand trade. This school of thought is replicated at the national level.<sup>60</sup>

### **2.1.5. Chinese Major Think-Tanks**

The growth and importance of Chinese think-tanks currently does not differ from the military significance when it comes to foreign policy making. The improved economic growth in the past (20) twenty or so years unraveled a multifaceted political economy for China. Transformation and reformation provided a platform for Chinese government to continually tackled new challenges and issues that had a global dimension. Such a phenomenon required careful contribution and consideration from independent and state organs in order to sustainably develop the country. Accordingly, the government sought the help of scholars and think-tanks. The current think-tanks of China owe their existence to this phenomenon.

Chinese fast economic progress made it vital for the government to employ professional advice if they were to make sound decisions concerning foreign policy. This prompted think-tanks dealing with economic cooperation, national security and foreign affairs to take part in and have

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<sup>60</sup> Zhimin, Chen, and Jian Junbo. "Chinese provinces as foreign policy actors in Africa." (2009).

authority on foreign policy<sup>61</sup>. The chief authority these think-tanks have on foreign policy is through submission of reports asked for by government. In past, the think tanks have engaged and provided the together with the public expert analysis, as a way of gaining influence in the policy making process. In addition, think-tanks have extended influence on foreign policy through their leadership. For instance, China Institute of International Studies and Chinese Academy of Social Sciences are regarded as ‘soft-power buffers. The two contribute the policymaking process through informal dialogues with institutions, participation in think-tank seminars, and preparing the Ambassador’s public interventions<sup>62</sup>,

## **2.2. Foreign Policy Instruments**

The institutions discussed in the previous section that support China’s foreign policy utilize several materials and resources available to influence closer ties with China. These instruments, which include FDI packages, interest free loans, debt cancellation and aid relied upon extensively by China as a means of luring African governments to expand her partnership territory and economic cooperation. It is therefore important to understand these instruments, in order to analyze the Africa-China relationship.

### **2.2.1. Interest Free Loan and Foreign direct investment**

Interest free loan and FDI are the most critical foreign policy tools embraced by China when trading with the Africa. Based on this model, China’s FDI intended for Africa, against retreating financial activity internationally, improved with 20.5% in 2009 as reported by Information

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<sup>61</sup> Ahmad, M. The Role of Chinese Think Tanks in Foreign Policy Making: Growing Influence and Political Limitations. *The Dialogue*, 3(3), (2008). 388-406

<sup>62</sup> Bondiguel, T., & Kellner, T. *The impact of China's foreign policy think tanks*. Brussels Institute of Contemporary China Studies(2010).

Office of the State Council of the People's Republic of China<sup>63</sup>. In actual terms, FDI increased to US\$2.52 billion from US\$ 1.44 billion. In total, China's FDI destined for Africa rose to US\$21.23 billion from US\$9.33 billion same period.

Growth in these key statistics indicate that Africa investment and development patterns are appealing to China. This further indicates that Africa is a big factor in determination of China's foreign policy. Investments in Africa by China have been on the increasing trend with over 2000 companies belonging to Chinese now operational in the continent. The companies have partnered and invested with companies from Africa. Most of these companies deal in manufacturing, agriculture, resource processing, mining and construction. It is reported that, almost thirty-two (32) of the fifty-four (54) African countries had entered into bilateral treaties with China. In the same year, forty-five (45) countries equally established joint economic commission mechanisms with Africa. Through Africa-China Development Fund, China had invested about US\$1.806 billion in 53 projects by the year 2012<sup>64</sup>. Today they are over 49 African nations that have entered into framework agreements with Exim Bank<sup>65</sup>.

### **2.2.2. Aid packages**

Moyo in 2009 categorized aid into three extensive categories, specifically, charity-based aid, humanitarian or emergency aid and methodical aid<sup>66</sup>. Chinese aid package, according to some

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<sup>63</sup> Pigato, Miria, and Wenxia Tang. *China and Africa: Expanding economic ties in an evolving global context*. Vol. 2. Washington DC: World Bank, 2015.

<sup>64</sup> Mashingaidze, Andrew Michael. *China's changing foreign policy towards Africa: a critical assessment of the possible implications, the case of Zimbabwe*. Diss. 2016.

<sup>65</sup> Tan-Mullins, May, Giles Mohan, and Marcus Power. "Redefining 'aid' in the China–Africa context." *Development and Change* 41.5 (2010): 857-881.

<sup>66</sup> Moyo, Dambisa. "Why foreign aid is hurting Africa." *The Wall Street Journal* 21 (2009): 1-2.

scholars are instruments used to broker closer cooperation. According to the Development Assistance Committee, Organization for Economic Co-operation and Development assistance involves loans or grants given to low income states through government to government bodies. The Chinese view of development support closely relates to that used by the DAC but is rather, more ambitious and wider.

China's aid is characterized by using their companies and purchase of materials in China. Despite of this, most African government officials are still convinced that China has one of the most competitive resources whether its development aid is 'tied' or not<sup>67</sup>. Instead of being restricted to a state centric model, China considers development assistance as contracts with Chinese companies and government and co-operation in terms of FDI. This broader description adopted by Chinese signifies a wide range of policy issues that are addressed by China in Africa. China takes advantage of the aid and developmental aid as a mechanism to drive ahead its striking strategy of deepening collaboration with Africa. According to China's African Policy, China intention is to provide help "with no political strings attached". The single radical ailment China provides for the establishment ties with African states is the 'one China' principle.<sup>68</sup>

Chinese aid to African countries varies from monetary aid and monetary packages which cover loans and grants for equipment, military assistance, web printing press and office equipment, infrastructure, plant and training opportunities, agricultural assistance, scholarships, and technical assistance among many others<sup>69</sup>. As viewed by McCormick, China's monetary aid is basically tied to utilization of Chinese services and goods. The scholar further adds that the only

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<sup>67</sup> Onjala, Joseph. "A scoping study on China-Africa economic relations: The case of Kenya." (2008)

<sup>68</sup> Brittingham, Michael Alan. "The "role" of nationalism in Chinese foreign policy: a reactive model of nationalism & conflict." *Journal of Chinese Political Science* 12.2 (2007): 147-166.

<sup>69</sup> McCormick, Dorothy. "China & India as Africa's new donors: The impact of aid on development." *Review of African political economy* 35.115 (2008): 73-92.

adherence required is the "One China" policy but not "good governance". This implies that China's trade and aid are tangled in many ways and are inseparable.<sup>70</sup> Kenya just like most African countries is one of the beneficiaries of Chinese aid. Nonetheless, there is no clear information as to whether these companies are private or state owned. Reports have indicated that China's assistance to Kenya is diverse and project based<sup>71</sup>. Table 2.2-1 shows the type of Aid China has given to Kenya from 2003 up to 2007.

**Table 2.2-1: Chinese Aid to Kenya**

Type of aid	Purpose	USD Million/Year						
		2003	2004	2005	2007	2010	2013	2015
Loans	Serem -Gambogi road	3,101						
Loans	Shamkhokho - Kipsigak Road	2,998						
Grants	Maintenance of the Kasarani Sports Ground	40	3, 622		43,855			
Loans	Health & population						574.4	
Loans	Energy & Petroleum Infrastructure							175
Grants	Chinese Training Sponsorship	299						
Loans	Procurement of Tractors	65						
Loans	Education					120,00	1.3	

<sup>70</sup> Woods, Ngaire. "Whose aid? Whose influence? China, emerging donors and the silent revolution in development assistance." *International Affairs* 84.6 (2008): 1205-1221.

<sup>71</sup> Zafar, Ali. "The growing relationship between China and Sub-Saharan Africa: Macroeconomic, trade, investment, and aid links." *The World Bank Research Observer* 22.1 (2007): 103-130.

						1		
<b>Loans</b>	SGR							304.6
<b>Grants</b>	Procurement of equipment for government offices	120.00						
<b>Grants</b>	Project for Maize Flour Processing in Bomet and other Drought hit Areas		3,331.00		1756.00			
<b>Grants</b>	Relief for Tsunami			442.00				
<b>Grants</b>	Economic & Technical Cooperation Kenya			10387.00			407.5	
<b>Loans</b>	Rural Telecommunications Development Programme Project			24,500.00	14,583.20			25
<b>Loans</b>	The Kenya Power and Lighting Company Distribution System Modernization & Strengthening Project			20,130.00	6600.00			
<b>Grants</b>	Nairobi Street Lighting and Road Renovation Programme				21,538.46			
<b>Loans</b>	Provision of Technical Training Programs for state officials			548.00				
<b>Total</b>		<b>6,505.00</b>	<b>7,071.00</b>	<b>56,007.00</b>	<b>88,333.81</b>	<b>120,000</b>	<b>983</b>	<b>2001</b>

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

### 2.2.3. Debt Cancellation

One of the key components of Chinese foreign policy implemented in Africa is debt relief/forgiveness. The policy is mostly applicable where there are low interest loans. Debt cancellation exercise practiced by China has resulted into huge impact and prospective for Chinese advancing foreign policy goals in Africa. Although there is no clear record regard amount of debt cancelled by China in Africa, there have been estimations for the debts. The estimations range from US\$ 1 billion in 2000 to US\$ 752 million in 2003 and all the way US\$ 1.1 billion in 2007. In another incidence, President Hu Jintao, during his Africa trip, visited Mozambique where he announced the cancellation of US\$ 20 million debts.

### **2.3. Chapter summary**

This chapter has provided information on Chinese economic foreign policy on Africa. Based on the discussion, it has been found that Chinese comeback in Africa has been built strongly on ideological momentum that propels establishment of new political dispensation globally. In order to fit in this new dispensation, China perceives the occurrence of peace internationally and regionally as pivotal. In 1996, the five tenets of the Sino-Africa friendship; sovereign equality, reliability, mutually beneficial development, non-interference with the existing international cooperation and domestic policies were instituted to toughen common trust between these two actors. These principles recognize explicit areas and issues in which foreign policy adopted by the Chinese government would recognize and put into practice as a strategy for strengthening Sino-Africa Corporation.

Further, to balance the advanced and rapid industrial progress in the country, China's synchronized its foreign policy to Africa along the lines of the emerging challenges. Consequently, its policies had to recognize and be eye-catching to target states as well as put into practice an open-door-policy. Following the complexities in a globalized global structure, China brought on board sub-national actors that would encourage and help out the decision making processes of the foreign policy. These institutions include the China Think-Tanks, FOCAC, Provinces, Chinese Military and Exim Bank. Based on the discussion in this chapter, it is clear that the Chinese think-tanks and FOCAC are critical when it comes to decision making compared to the other three. The two institutions are responsible for identifying probable areas which are then explored by the other three institutions. Through expert analysis, they offer solutions on challenges arising from foreign policies. The solutions are then adopted by earlier

mentioned institutions and other stakeholders for implementation and promotion of China's foreign policy. In Africa for instance foreign policy has been promoted by Chinese Exim bank through disbursement of aid, provision of low cost capital, investment, exploitation and creation of trade centers in Africa.

### **3. CHAPTER THREE**

## **DISCUSSION OF THE ECONOMIC ACTIVITIES BETWEEN CHINA AND KENYA**

### **3.1. Description of Activities**

Kenya and China established diplomatic relations more than 55 years ago and since then, the two countries have been cooperating on various economic fronts. In the recent times, China has grown to become Kenya's largest trade partner, contractor and investor. Under assistance of Chinese government, there have been completions of more than 100 projects in Kenya. Notable among these projects is the Standard Gauge Railway and upgrading of Moi International Sports Centre at Kasarani.

The Standard Gauge Railway (SGR) was financed and constructed by one of the Chinese Companies; the China Road and Bridge Corporation. The SGR connects Mombasa to Nairobi. It runs parallel to the East Africa Railway line that was completed in 1901 by the British colonial government. With almost US\$3.6 invested in the project, SGR is Kenya's most expensive infrastructure project since independence. The SGR was completed within two and a half years and is expected to aid in economic development of Kenya. Madaraka Express is the name given to the train that ferries passengers between Nairobi and Mombasa. The first trip of this train, using the developed railway line, was launched on 1<sup>st</sup> June 2017. The project is thought to have cut the transportation cost by 40%, created 46,000 jobs, while at the same time raising Kenya's GDP by 1.5 per cent. Railway development goes has been shown to grow special economic zones and growth of industrial parks. Phase 2A of this project was launched officially in October 2016.

Just like the railway project China has collaborated with Kenya in improvement of education especially in technical courses and vocational education training projects. China provides funding and equipment to some of the higher learning institutions in Kenya for example Jomo Kenyatta University of Agriculture and Technology and Egerton university. A case in point is the recent building of Ksh 3 billion modern research centre and botanical garden funded by the Chinese government at Jomo Kenyatta University. The research centre built on a 40-acre piece of land is equipped with a botanical garden, specialist research laboratories, administration offices, a modern agriculture demonstration zone, and accommodation facilities as well as conference hall<sup>72</sup>.

The Kenya National Youth Service, which enhances thousands of young people with engineering skills is also in part, supported by China<sup>73</sup>. Promotion of industrialization via technology transfer from China to Kenya and human resource development enhances Kenya's capability to achieve self-driven, independent development. President Uhuru Kenyatta's "Big Four" agenda has also seen China delve into to aid in their implementation<sup>74</sup>. China has invested \$70 million to construct Twyford; the biggest Ceramics Company in East Africa and \$100 million for establishing the Industrialization Research, Development and Production Base. The Chinese government has also set aside \$480 million for the construction of Global Trade Centre. In

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<sup>72</sup> Musyimi, Caroline M., Joseph Malechwani, and Heng Luo. "The Belt and Road Initiative and Technical and Vocational Education and Training (TVET) in Kenya: The Kenya-China TVET Project." *Frontiers of Education in China* 13.3 (2018): 346-374.

<sup>73</sup> Li, Yiqiong, and Peter Sheldon. "Collaborations between foreign-invested enterprises and China's VET schools: Making the system work amid localised skill shortages." *Journal of Vocational Education & Training* 66.3 (2014): 311-329.

<sup>74</sup> Björnsdotter, Alicia. "African perceptions of China-Africa links: A quantitative content analysis of East African newspapers." (2018).

addition, the Chinese government has also made billions worth in investments in industrial parks in Mombasa and Eldoret.

Economic ties between Kenya and China has opened opportunities for imports from China to enter Kenyan market. Many consumers in the Kenyan market have welcomed this move. They find Chinese products affordable despite their poor quality. The possibility of upgrading local enterprises has been realized in Kariobangi Cottage Industries where manufacturing of similar product to those imported from China has been realized. The export of some items to China for example, scrap metals ensures that the Kenyan manufacturing sector is denied the raw materials to develop products and build skills to their optimum potential. In addition, the demand for scrap metals by Chinese companies has encouraged vandalism to Kenya’s infrastructure with railway lines and power cables bearing the biggest impact<sup>75</sup>.

**Table 3.1-1: Chinas development assistance to Kenya 2001 to 2013, Source Aid data (2014)**

Sector	Number of projects	Value (USD million)
Energy generation and supply	5	285.5
Transport and storage	10	640.3
Health	10	270.8
Trade and tourism	2	4.3
Emergency response	6	33
Government and civil society	5	150.6
Communication	3	94.1
Banking and financial services	1	47.2

<sup>75</sup> Seong-Ho, Sheen, and Rachel Lee. *Comparing United States and China's Foreign Aid in Africa: The Case Study of Kenya*. Diss., 2015.

Sector	Number of projects	Value (USD million)
Unallocated/unspecified	6	67.2
Agriculture, forest and fishing	5	5.1
Action relating to debt	1	22.6
social infrastructures	5	108.9
Education	4	0.546
Population policies	3	0.546

## 3.2. Trade Metrics between Kenya and China

### 3.2.1. Introduction

This section focuses on trade matrices between Kenya and China. A trade relation between Kenya and China is anchored on the exploration of the imports and exports between the two countries. The two nations developed policies that have led to an increase in foreign direct investments even though trade balance between the two countries is yet to be achieved. Historically, trade relation between the two countries dates back to Kenyan independence. Between 1963 and 1978 during President Jomo Kenyatta reign, China established diplomatic relations with the Kenya. This was only one year after attainment of independence.<sup>76, 77</sup>

Between 1978 and 2002 during President Daniel Arap Moi Era, diplomatic relations of the two countries made an impressive progress. Since the establishment of diplomatic relations between Kenya and China, several prominent Kenyans have visited the country, including; Daniel Arap Moi (September-1980, October-1988 and May-1994), David Okiki Amaye, who was the leader of the KANU (September 1986). B. Godana, who was the Kenya's foreign minister, headed an entrustment to attend the Beijing Ministerial Meeting 2000 of the Sino-African Cooperation

<sup>76</sup> Kenya daily nation (<http://www.nation.co.ke>)

<sup>77</sup> Taylor, Ian. "China's oil diplomacy in Africa." *International affairs* 82.5 (2006): 937-959.

Forum. In equal measure, officials and leaders of the Chinese government to visit Kenya included: Vice Premier Ji Pengfei in August-1980; President Jiang Zemin in 1996; the secretary-general of the State Council, Wang Zhongyu, in May-2000); Li Tieying, Political Bureau of the CPC Central Committee, member who visited Kenya in 2001 and Premier Zhu Rongji who visited Kenya in April 2002<sup>78</sup>. The bilateral economic and trade agreements signed between Kenya and China during president Moi's era comprise: Agreement on Economic and Technological Cooperation between China and Kenya, Contract on Trade between the Republic of Kenya and Beijing among many others.<sup>79</sup>

Between 2002 and 2013 during President Mwai Kibaki's government, China-Kenya economic relations began with high-level of political contacts followed by a series of economic and diplomatic agreements<sup>80</sup>. Accompanied by eleven (11) Kenyan investment and trade seeking delegations President Mwai Kibaki officially visited China in August 2005.<sup>81</sup> In this visit President Kibaki held widespread talks with China's President Hu Jintao and other Chinese government officials yielding to a five-part contract covering authorized growth help in grants for substructure and energy, extended air services, procedural support for classification and assessment of standards in industrial products, as well as modernization of training facilities and equipment at the state owned Kenya Broadcasting Corporation.<sup>82</sup>

An obligatory visit to Shanghai was also achieved during this period. During the visit, discussions with Shanghai's Mayor Han Zheng on special export industrial zones were held. Prospects in tourism, joint ventures in machinery and power generation were also explored. This

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<sup>78</sup> Kenya Investment Promotion Center ([www.ipckeny.org](http://www.ipckeny.org)).

<sup>79</sup> Kenya daily nation (<http://www.nation.co.ke>)

<sup>80</sup> Renwick, Neil, and Qing Cao. "China's Cultural Soft Power: An Emerging National Cultural Security Discourse." *American Journal of Chinese Studies* (2008): 69-86

<sup>81</sup> Kenya daily nation (<http://www.nation.co.ke>)

<sup>82</sup> Kenya, Ministry of Foreign Affairs (2006) *A Brief Prepared for Institute for Development Studies*, University of Nairobi, SEPTEMBER 2006

visit led to a successful Chinese trade exhibition in mid-2006 in Nairobi. During President Kibaki's leadership, several Chinese leaders also visited the country. They include Wu Bangguo, the chairman of the NPC Standing Committee who visited Kenya in October 2004 and Vice Premier Zeng Peiyan who visited in February 2005. Both countries expressed the commitment and willingness for the joint development of bilateral cooperation in all areas.

### **3.2.2. China's Foreign Direct Investments**

According to Rotberg, Africa and China greatly need each other for their growth.<sup>83</sup> China with its fast growing population consumes basic commodities from around the world and this puts it above many developed nations. Apart from purchasing unprocessed goods from African, China also trades in diverse sectors of the continents economy.<sup>84</sup> Gadzala puts forward that foreign direct investment is important for growth as it leads to an increase in employment and income which allow developing nations to created room for competition by importing advanced technologies developed elsewhere.

Foreign direct investment is defined as investment in foreign assets, for instance foreign currency, property, credits, or benefit, rights, undertaken by foreign nationals with intention of producing goods and services, which are to be vended in the local market or shipped overseas (Investment Promotion Center Act, Chapter 518).<sup>85</sup> The records of FDI dealings are preserved by the Central Bank of Kenya. According to Kipn'getich, for a country to attract high levels of FDI, certain conditions are key. They include legitimized political leaders influencing policy and decision making, solid and well-organized political economy incomes, professional and efficient

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<sup>83</sup> Rotberg, Robert I., ed. *China into Africa: Trade, aid, and influence*. Brookings Institution Press, 2009.

<sup>84</sup> Gadzala, Aleksandra. "Survival of the fittest? Kenya's jua kali and Chinese businesses." *Journal of Eastern African Studies* 3.2 (2009): 202-220.

<sup>85</sup> Central Bank of Kenya (2007)

institutions, security and diplomatic relations with other nations.<sup>86</sup> Until 1995, all far-off reserves flowing into the Kenya were theme to endorsement by the Central Bank of Kenya. The Investment Promotion Act of 2004 outlines the government pledge to enticing FDI in Kenya since it was comprehended that the FDI in Kenya was deteriorating, whereas it was rising in other countries within the region.<sup>87</sup>

Currently, Chinese investment developments in Kenya total to around 96 with an investment capital of 52.6 million US dollars and a labor force of about 6,700 Kenyans. Most FDI by the Chinese government is completed by her companies. The companies are either solely or state-owned. The FDI by China in Kenya has been increasing over the years. For example, since the year 2000, the FDI has been increasing gradually. Renwick notes that between the years 2001 and 2002, there were only 17 Chinese investments reputable in Kenya.<sup>88</sup> In 2003, 11 Chinese firms which were entirely owned by the Chinese were established. About 82% of this firms ventured mainly in service sector and the rest, manufacturing. Capital investment in these firms averaged to approximately US\$ 1.3 million per firm and they were wholly foreign. In these firms, employment averaged 45 persons, with foreign employment averaging 8 (18%) persons per firm whereas local employment averaged 37 (82%) persons per firm.

In 2004, about 60 Chinese companies of which 12 were firms doing their businesses in Kenya had established their activities with capital costs averaging US\$ 775,000 per firm.<sup>89</sup> Employment was mostly local (97%), with an average of 114 per firm while foreign employees were averaging 4, per firm. Onjalla documents that in 2005, about 12 Chinese firms mostly in the

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<sup>86</sup>Kipnetich, J., (2008). *Kenya's Competitiveness in Business*. Investment Promotion Centre, Nairobi

<sup>87</sup> Central Bank of Kenya (2007).

<sup>88</sup> Renwick, Neil, and Qing Cao. "China's Cultural Soft Power: An Emerging National Cultural Security Discourse." *American Journal of Chinese Studies* (2008): 69-86

<sup>89</sup> Kenya Investment Promotion Center ([www.ipckkenya.org](http://www.ipckkenya.org))

service and manufacturing subsectors commenced their operations in Kenya.<sup>90</sup> In the year 2006, eight Chinese firms were established in the country, again mostly in the manufacturing (37%) and service (63%) sub-sectors. The average capital investment was US\$ 636,000, with the service investments subsector getting the biggest share. Employment averaged at 85 persons per firm for locals and 8 persons per firm for foreigners. Table 3.2-1 shows FDI investment from China to Kenya based on the Kenya Investment Authority Reports

**Table 3.2-1: FDI from China to Kenya**

	Company name	Activity	CAP COST F US\$	CAP COST L US\$	EMP F	EMP L
Service	Ando roofing products (K) ltd	Trade in roofing tiles and paints	954	0	3	56
Service	Datang optical company	Glazing and assembling if spectacles	333	0	3	327
Service	Proparco E. Africa ltd	Grain handling	554	0	10	54
Service	Fast track Kenya ltd	Air transport agencies	519	2	0	10
MANU	Hua long auto repairs co ltd	Motor vehicle body manufactures	385	0	9	23
MANU	Gold lida ltd	Manufacturer of PVC products	154	0	9	90
MANU	Dong fang auto assembly co ltd	Manufacturing and assembling of motor vehicles	385	0	9	23
Service	Zenith rubber roller co ltd	Re-rubberizing of rubber	131	0	1	6
Service	Afri-China international co ltd	Re-cycling plastics	222	0	8	50

Sources from Kenya Investment Authority and Investment promotion Centre show that an

<sup>90</sup> Onjala, Joseph. "A scoping study on China-Africa economic relations: The case of Kenya." (2008).

offshore survey deal was contracted between China and the Kenya Government, permitting Chinese oil firms to conduct exploration activities covering 44 500 sq miles in the south and north of Kenya for a total of six blocks. The availing of the six major oil blocks to the Chinese companies was considered as favoritism against other European competitors including companies like Swedish Lundin International and Cepsa of Spain which wedged grievances.<sup>91</sup> Beijing Holley Cotec Pharmaceuticals, which is a major medicinal companies, opened the East African Logistics Centre and a drug supply center in Nairobi and was intended to provide services to the Central and Eastern regions of Africa. The centre allocates anti-malarial medication to both private and public sectors at prices lower than the prevalent market prices

### **3.2.3. Chinese imports in Kenya –Trends**

Following the trading chances in the growing economy, China imports in Kenya have been on the increase since 1990s. Since 2004, China has become one of the major import sources to Kenya. It ranks second to India in the number of exports to Kenya. The country's low better positioning in the world value chains in addition to its low cost of production may make it turn out to be the top source of imports to Kenya. Reports indicate that Chinese imports grow at an annual rate of 33 percent per year. It is likely that Kenya imports more products from China because UAE serves as a logistics center for manufactured goods such as computer monitors, phones or jewelry, some originating from China (UN Comtrade 2015). In relation to imports there has been a increase where Chinese merchandises have gained inroads into Kenya market. There are large quantities of inexpensive Chinese products available in the country. However,

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<sup>91</sup> Kenya Investment Promotion Center ([www.ipckkenya.org](http://www.ipckkenya.org)).

reports indicate that Chinese imports have resulted in losses to the local textile industries and manufacturers of other products within the Kenyan market.<sup>92</sup>

The imports from China mainly include telecommunication gadgets, motor vehicles, electronics, motorcycles, household electric appliances, civil engineering equipment, and textile goods, building materials, drugs, iron and steel products.<sup>93</sup> The year 2002 saw the trade worth between China and Kenya reach 186.37 million United States dollars, whereby the Chinese export appropriated US\$180.576 million while the importation was US\$5.798 million.<sup>94</sup> There is an excess of 20 Chinese companies doing their businesses in Kenya. Some of the companies include Technological Cooperation Co and Technological Cooperation Co Ltd 68, Jiangsu International Economic, and China Road Bridge Construction (Group) Corporation Sichuan International Economic, China Import and Export (Group) Corporation for Comprehensive Sets of Gear, etcetera. Table 3.2-2 shows Chinese imports in Kenya.

**Table 3.2-2: Chinese imports in Kenya from 2004 to 2006**

Item description	2004		2005		2006	
	Value US \$	% of total	Value US \$	% of total	Value US \$	% of total
<b>Crude materials except fuels</b>	1,12,230	1	1,338,276	n	1,799,632	n
<b>Mineral fuels, lubricants &amp; related materials</b>	1,134,436	1	23,737,922	8	1,798,928	n
<b>Animal &amp; vegetable oils, fats &amp; waxes</b>	199,126	n	25,335	n	58,097	n
<b>Food &amp; live animals</b>	6,946,725	2	4,843,586	2	3,440,786	1
<b>Beverages &amp;</b>	177,481	n	370,303	n	40	n

<sup>92</sup> Onjalla, J., (2008). *A Scoping Study on China – Africa Economic Relations: The Case of Kenya*. African Economic Research Consortium (AERC), Nairobi, Kenya (5th March 2008).

<sup>93</sup> Kenya daily nation (<http://www.nation.co.ke>)

<sup>94</sup> Kenya Investment Promotion Center ([www.ipkenya.org](http://www.ipkenya.org)).

Item description	2004		2005		2006	
	Value US \$	% of total	Value US \$	% of total	Value US \$	% of total
tobacco						
Machinery & transport equipment	54,993,236	28	99,750,706	33	181,558,751	40
Chemicals & related products, n.e.s	25,063,446	13	34,254,279	13	45,161,264	10
Manufactured goods classified chiefly by material	51,197,790	26	87,671,224	29	160,275,765	35
Miscellaneous manufactured articles	58,360,951	29	45,837,353	15	63,156,849	14
Commodities & transactions not classified elsewhere in the s.i.t.c	3,984	n	-	-	60	n
<b>Total imports</b>	<b>199,206,405</b>	<b>100</b>	<b>297,828,983</b>	<b>100</b>	<b>457,250,173</b>	<b>100</b>

**Source: The Kenya Revenue Authority, Customs Department, 2008. n=negligible**

The most significant imports from China to Kenya include; transport equipment and machinery made up of 40% in value of the aggregate Chinese imports, 35% of the manufactured goods that are classified by material, miscellaneous manufactured products at 14 % and chemicals and related products almost 10 %.<sup>95</sup>

### 3.2.4. Kenyan exports to China

According to 2<sup>nd</sup> of November, 2009 news as revealed by the Kenyan government figures, Kenya exported goods amounting to 2 billion shillings to inland China in the year 2008 (Reuters Africa). Comparison between Kenyan exports and imports with China revealed an increase in Kenyan exports to China from Sh1.2 billion in 2005 to Sh2.5 billion in 2009. On the other hand, the China exports to Kenya rose from Sh19.4 billion to Sh74.5 billion in 2005. According to

<sup>95</sup> Kenya daily nation (<http://www.nation.co.ke>)

“Kenya Daily Nation”, 29th 2010 this was so as a majority of the imports are capital goods or goods for industrial use. Observation made from this is that Kenya imports more from China than it exports here. The main Kenyan exports to China include black tea, coffee, fruits and nuts, sisal fibre, scrap metals, raw hides and skins, leather and fish.

Chinese have replicated local goods and are trading with them thus resulting in losses to the local industries. In a BBC interview, Nicholas Makombi said that; “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”.<sup>96</sup> Kenya sends 1% of its exports to China, with a value of US \$63 million in 2012, US \$48 in 2013, and US \$70 million in 2014. With few natural resources, Kenya cannot benefit from the consumer demand in the China market given that the former lack comparative advantage particularly in products such as beef, corn and wheat that China imports.<sup>97</sup>

### **3.2.5. Kenyan students in Chinese universities**

China’s bilateral aid has funded construction rural schools in Kenya. This is in addition to the sponsorship provided for the construction of rural schools by Chinese companies. It includes the completion of St. Francis Sivo, Primary School in 2011 by a Chinese construction firm.<sup>98</sup> In 2012, 4 primary schools were constructed at an estimated cost of \$400,000. This was funded by Kenya Hope Schools Project. This is a semi-private foundation funded by the China Youth Development Foundation, under the Project Hope for Africa. In addition, the Chinese embassy offered \$25,000 to the Kenya National Youth Service in form of educational resources.

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<sup>96</sup> Kenya daily nation (<http://www.nation.co.ke>)

<sup>97</sup> Sanghi, A., & Johnson, D. (2016). *Deal or no deal: strictly business for China in Kenya?*. The World Bank.

<sup>98</sup> AMC. 2011. Project Team’s Construction of a Primary School Held Successfully. 6 July. <http://camce.com.cn/en/news/gsxw/1313479986-1058.html> (Accessed 20 March 2018)

The first important university linkage began in 1994, between Egerton University and Nanjing Agricultural University (NAU). This partnership resulted in the creation of the China-Kenya Horticultural Technology Center at Egerton University in 1995. Three years later, the first Chinese Teaching Center in Kenya was set up at the University to teach Chinese language. To support the initiative, the Chinese embassy supplied the Chinese language learning materials to the center.<sup>99</sup> Between 1983 to 2003, around 63 Kenyans were trained by China. However, due to the establishment of the FOCAC in the year 2003, the number of Kenyans benefiting from China training started to rise tremendously. For instance, more than 680 Kenyans participated in the China training course between 2004 and 2008. In 2008 alone, 134 Kenyans took part in China sponsored trainings; 130 partakers in 2009, and 198 in 2010. The trainings were delivered in 135 different programmes.<sup>100</sup> Trainings focused chiefly in developing agricultural technology. Programmes on formal education included: University presidents in African countries; Vocational education in developing countries; primary school masters, modern distance education and also management for the African Anglophone countries. Most training were implemented in China by Chinese universities.

There are limited entrepreneurial opportunities for Kenyans in China. However, there I a steady rise in the number of Kenya travelling to China for education. In recent years the number of Kenyans studying in China has radically improved due to the various scholarship programmes.<sup>101</sup> . These figures are expected to rise in the coming years. Since 1982, the Chinese government has provided at least ten university scholarships targeting Kenyans. This figure rose to about 40

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<sup>99</sup> NAU. 2011. Xinhua Coverage of our university's aid project in Kenya. 2 November.

<sup>100</sup> Onjalla, J., (2008). *A Scoping Study on China – Africa Economic Relations: The Case of Kenya*. African Economic Research Consortium (AERC), Nairobi, Kenya (5th March 2008)

<sup>101</sup> Olali, Tom. "using idiomatic expressions as rhetoric: a strategy towards acculturation by kenyan students in china." *international journal of education research* 2.3 (2014).

annual scholarships from 2006. This is as a result of the Beijing's 2006 FOCAC pledge that was meant to double the long term training programs offered to Africa nationals.<sup>102</sup> By 2011, CSC scholarships for Kenyans had reached 64 annually.<sup>103</sup> As at 2013, more than 300 Kenyan students recorded to be undergoing different programmes in Chinese universities.<sup>104</sup>

The very first Confucius Institute to be established in Kenya was at University of Nairobi in the year 2005. The institute was established in partnership with a Chinese university, Tianjin Normal University. The initial construction costs of around US\$ 380,000 were seeded by the Chinese government.<sup>105</sup> In the year 2008, the second phase of CI was set up at Kenyatta University, in partnership with another Chinese University, Shandong Normal University. The first and second CI's support on Chinese language training and cultural experience at their host colleges included donation of teaching materials, provision of language teachers from China and training of Kenyans to become Chinese language teachers. They also offer scholarships for Chinese language training in China. Scholarships advanced by the Chinese to Kenyan students provide an opportunity to access inexpensive education in significant thematic areas of science, medicine and engineering.

### **3.2.6. Kenyan employees in China**

Majority of Chinese companies in Kenya offer employment opportunities to Kenyans. Of the surveyed companies, 78% of the employees represent full-time Kenyan employees while part-

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<sup>102</sup>. King, Kenneth. "China's cooperation in education and training with Kenya: A different model?." *International Journal of Educational Development* 30.5 (2010): 488-496.

<sup>103</sup> Yu, Ke. "Educational engagement: China, Africa and South Africa." (2015).

<sup>104</sup> Ochieng, B. Kenya Hails Education Cooperation with China as Booster Of Bilateral Ties. *Xinhua*. (2013)

<sup>105</sup> Chinese embassy in Kenya. 2005. 10 December.

<http://www.fmprc.gov.cn/ce/ceke/chn/xw/t225696.htm> (Accessed 15 February 2018)

time Kenyan employees are 95%. The companies had on average, 360 local employees.<sup>106</sup> Chinese firms in the service sector were found to have hired 71% full-time employees, while construction and manufacturing sectors have been shown to hire only 3% full-time employees. Local employees in the service and manufacturing industries owned by Chinese companies represent 82 and 90% respectively. Survey has revealed that 63 percent of Chinese owned companies operating in the country have a policy of substituting Chinese employees with locals.<sup>107</sup> However, it was noted that larger firms and private enterprises tend to replace Chinese staff as compared to small-scale firms.

### **3.2.7. Tourism**

The Kenya tourism sector does offers foreign visitors a unique travel experience as considering the diverse tourist attractions. The tourist sites consist of white tropical beaches, vibrant bird and wildlife migration patterns abundant wildlife in their natural habitats, world heritage sites, and rich cultural attractions based on the different tribes. Kenya's tourism has been the second foreign exchange earner and one of the top revenue earner over the few last decades.<sup>108</sup> Majority of these tourists are from Europe and United States. Chinese nationals have not been considered as priority by the Kenya Tourist Board (KTB) in the past. This was attributed to the low financial gains by Chinese middle class families. However, in recent days. the board has been forced to reconsider and do a specific strategic plan targeting this rising segment<sup>109</sup>.

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<sup>106</sup> Sanghi, Apurva, and Dylan Johnson. *Deal or no deal: strictly business for China in Kenya?*. The World Bank, 2016.

<sup>107</sup> Wissenbach, Uwe, and Yuan Wang. "African politics meets Chinese engineers: The Chinese-built Standard Gauge Railway Project in Kenya and East Africa." (2017).

<sup>108</sup> Sindiga, Isaac. "Alternative tourism and sustainable development in Kenya." *Journal of Sustainable Tourism* 7.2 (1999): 108-127.

<sup>109</sup> www.eastandard.net 2009

China has risen to become Kenya's fifth largest source of tourists internationally and second source from Asia.<sup>110</sup> The country contributed more than 5.5 per cent Kenya's total international tourist arrivals in 2017. Similarly, the number of tourists from China grew by 11.8% to 53,485 in the same year<sup>111</sup>. China's nationals rising income levels corresponds to a rise in tourism in Africa. Despite the proportion of the Chinese tourists to Africa remaining to low, 1.5 per cent of the total outbound Chinese tourists, the number has risen by 30 per cent annually since the year 2012, the fastest rate globally.<sup>112</sup> One of the key indicators is the increasing of the number of flights between Guangzhou city and Nairobi by the China Southern Airlines. Also, Kenya Reports indicate that out of the Chinese tourists who visits Kenya, 20% are interested in leisure travel, 10% in sceneries like the Fort Jesus, 10% business travel, 20% in coastal beaches and the majority 40% in Safari adventures.<sup>113</sup> Most of the countries are now working to attract the Chinese middle class boom to sour their tourism fortunes.

Asili Travel tours, a Kenyan based private tourist agency established that in 1997 Kenya targeted Europe and the United States as the main markets for tourism. However, since 2000 the country has ventured more and more into the new profitable Chinese market and also intensified its marketing in this Asian region. Asili Adventure Safaris and Travel tours is known to have been participating in the annual China International Tourism Fair, for past decades and has always had a stand where it presents and offers its tour package proposals to the potential Chinese tourists. The agency's first participation was in the Fair organized in 2002. Since this year, interest in the services of the company from China has grown at an annual rate of 10-15 %.

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<sup>110</sup> Horner, S., & Swarbrooke, J. (2016). *Consumer behaviour in tourism*. Routledge

<sup>111</sup> Njiraini, P., Mwongera, N., Kiarie, S. W., & Wang'ombe, H. (2015). Assessment of Kenya's Tourist Source Markets. *Journal of Travel & Tourism Marketing*, 32(8), 971-989.

<sup>112</sup> Alden, C. (2005). China in Africa. *Survival*, 47(3), 147-164.

<sup>113</sup> www.tourism.go.ke 2009

In the same period, the recorded number of Chinese tourists that arranging for their Kenyan holidays through the firm has also increased at the same rate.

Reports by the Kenya Tourist Board, indicate that Kenya has to continue to position itself for the Chinese market fully to remain relevant as a leading tourist destination. More Chinese families are joining the middle and high incomes bracket and thus the possibility of them being able to afford more luxury goods. The improved incomes enable them to travel around the world for leisure.

### **3.3. Chapter summary**

China's economic cooperation with Kenya dates back to independence in 1963. The cooperation has however increased significantly over the last ten years. The increased cooperation stems from Kenya's decision since 1990s to diversify its sources of investment and development assistance and largely due to China's change in economic orientation that resulted in massive economic growth that has necessitated it to seek new sources of raw material and markets in Africa. Although economic activities between Kenya and China are low in comparison with Kenya's traditional investment partners, China is increasingly becoming one of Kenya's top investment and development sources in addition to a rapidly rising trading partner portfolio.

Based on literature reviewed, China's economic ties with Kenya have been rising rapidly because of China's unique model of cooperating with African economies. The government of China packages economies' development strategies in a manner that is attractive for Kenya. China's concessional loans and grants for capital investment programmes are used to fund projects often awarded to Chinese companies who often complete these projects on time and at relatively lower costs. Private Chinese investors invest in Kenya because of financial and insurance support from government. Between 2000 and 2010 about 100 Chinese companies have

been established in the country based on the findings of this chapter. A large of these companies are involved in manufacturing but there are others in motor vehicle assembly, import and export, tourism, real estate, restaurants, agriculture, mining, minerals exploration, telecommunications, textile and construction and civil engineering. Statistical data however indicates that road construction and civil engineering have had the largest investment outlays.

Therefore, the increased presence of firms from China is of importance to the China's economic activities through capital investment. Although the government has in the recent past sought to be more economically self-supporting with less dependence on foreign capital development support, it has identified foreign investments and capital and aid for budgetary and concessional finance as being key to attaining the objectives of the Kenya Vision 2030.

## **4. CHAPTER FOUR**

### **EFFECTS OF CHINESE ECONOMIC ACTIVITIES ON KENYA**

#### **4.1. Introduction**

The economic relationship between China and Kenya is anchored on many activities that include but are not limited to extraction of natural resources, textile industry, manufacturing firms, telecommunication sector and importation of goods. This chapter describes the effects Chinese economic activities on Kenya. The focus is on how the activities manifest themselves in terms of trade and investments.

#### **4.2. Positive Effects**

##### **4.2.1. Expansion of Kenya export market**

China is a fast growing middle income country meaning that it can increase the volume of products it export to Kenya in several sectors. Meanwhile, Kenya is still a developing economy that is heavily reliant on rain-fed agricultural products. Nonetheless, export products from Kenya are deemed to be diverse and include: raw leather and hide skins; vegetable and textile fibers plastics and metals.<sup>114</sup> On the other hand, China is known to exports plastic and rubber products to Kenya. This relationship suggests overspecialization in manufacturing on the part of China. The focus on China's manufacturing segment has come at the expense to Kenya's domestic consumption and services. To bridge this gap, Kenya needs to expand its exports in sectors such as finance, tourism, and business services.<sup>115</sup> Exporting more services to China has helped strengthen the service industry in the country and general upgrade of balance of trade.

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<sup>114</sup> Sanghi, Apurva, and Dylan Johnson. *Deal or no deal: strictly business for China in Kenya?*. The World Bank, 2016.

<sup>115</sup> Goswami, Arti Grover, Aaditya Mattoo, and Sebastián Sáez. *Exporting services: A developing country perspective*. The World Bank, 2011.

#### 4.2.2. Infrastructural Development

The section seeks to determine the positive impacts of Chinese infrastructural development in Kenya. Kenya is among the countries that have received noticeable assistance and significant bilateral support from China as a result of the Chinese economic foreign policy. Through economic activities, Kenya has been offered concessional loans and also preferential export buyer's credit geared towards supporting turnkey infrastructural projects.<sup>116</sup> Some of the projects include Kenyatta University Teaching and Referral Hospital, Nairobi Southern Bypass, Kenya Power Distribution Upgrading and Strengthening Project, Nairobi Eastern and Northern Bypass, Technical Industrial Vocational Entrepreneurship Training Project, Nairobi Thika Highway , airports, ports, Kenya E-government Project, and Olkaria Geothermal Field Production Well Drilling.<sup>117</sup>

The first Chinese investment to improve Kenya roads was initiated in 2006. This has subsequently led to construction or rehabilitation of more than 905.4 KMs of road to date at an estimated investment of € 316 million.<sup>118</sup> Similarly, the Chinese government through its state owned subsidiary supported the development of the Standard Gauge Railway (SGR). The first phase of the SGR started the passenger train operation on May 1, 2017 with the operation having hit more than 2,000, 000 passengers as at August, 2018. The SGR has not only boosted the GDP but also facilitated internal trade as people and goods can be moved using train. It is evident in literature that Chinas investment into infrastructure release untapped growth potentials which in return contributes to poverty

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<sup>116</sup> Bräutigam, Deborah. *China, Africa and the international aid architecture*. African development bank, 2010.

<sup>117</sup> *ibid*

<sup>118</sup> Fiott, Daniel. "The EU and China in Africa: the case of Kenya." *Madariaga Paper* 3, no. 5 (2010): 1-12.

alleviation. The new transport infrastructure, expanded port facilities and reliable power generation are geared towards setting a foundation for Kenya 's economic take off.<sup>119</sup>

#### **4.2.3. Increased competitiveness in local industries**

Cheaper Chinese goods are considered to have some benefits to the economy. The competitiveness of the Chinese goods has forced some of the inefficient firms out of the market and thus eliminating deadweight loss in Kenya's economy.<sup>120</sup> The surviving firms thus are forced to their improve efficiency while at the same time upgrading their standards to compete with or supply inputs to Chinese entities. For instance, in the construction of the SGR, Kenyan cement producers were forced to upgrade their cement production processes to meet international standards to be able to supply cement to the railway works. Similarly, companies that take Chinese goods as their intermediate inputs also have their efficiency enhanced. Similarly, the informal sector firms importing raw materials from China increase their margins and may lead to more employment creation.

#### **4.2.4. Consumers and retailers gain**

Due to the Chinese imports, Kenyan consumers benefit from a rich variety of low cost consumer plastics and electronics and rubber products. Textile and clothing, affordable medicine, office supplies and, footwear have become available in the Kenyan market at reduced prices. This has created side businesses for reselling consumer products that enter the market. From 2013 to 2014 alone, the Kenya's wholesale and retail trade sector recorded a growth of 6.9 percent. For instance, distributors in the Western Region of Kenya recorded an annualized return of around 33 percent.<sup>121</sup> However, goods imported from seem to boost only the small retailers. For instance, studies have

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<sup>119</sup> Alden, Chris. "China and Africa's natural resources: The challenges and implications for development and governance." (2009).

<sup>120</sup> Broadman, Harry G. *Africa's silk road: China and India's new economic frontier*. The World Bank, 2006.

<sup>121</sup> Njenga, Sylvia. "Role of Electronic Point of Sale on Supply Chain Performance in Retail Sector in Kenya among selected Supermarket Chains in Nairobi County."

shown that small retailers operating in the United States are found to be unaffected by currency appreciation.<sup>122</sup> However, the same is not witnessed by Kenyan retailers as currency fluctuations has an anecdotal effect to the retails. This is explained the overdependence on China imports. Chinese goods create small shops and kiosks that earn greater profits considering the reach of the shopping market.

#### **4.2.5. Increased Foreign Direct Investment**

China is one of the main DFI investors in Kenya. Others are United States, UK, India and Belgium. Kenyans economic growth may partially be attributed to Chinese foreign direct investment. Their investment mainly flows in retail and consumer products, construction, telecommunications, hospitality, tourism and real estate, (EY, 2014). The China's FDI have become crucial for Kenya in the last two decades.

There has been increased presence of Chinese enterprises as result of FDI. The most important aspect of Chinas FDI in Kenyan is in terms of capital investment.<sup>123</sup> China has become a key trade partner, investment and national development co-operation for Africa and Kenya in specific. These investments that take the form of large state-owned and private small to medium-sized enterprises. The Chinese companies have hawked for beneficial investment opportunities while at the same time contributing to Kenya's infrastructural revolution. The investments target retail ventures, tourism, and manufacturing and construction sectors. Some of the manufacturing segments include apparel and services and motorcycle assembly. On the other hand, the construction sector includes development of railways, roads, telecommunication infrastructure and schools. In addition, the FDI China has led to training of thousands of Kenyan students and workforce through scholarships to Chinese technical training centers and universities. in their universities and training centers.

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<sup>122</sup> Feldstein, Martin. "Refocusing the IMF." *FOREIGN AFFAIRS-NEW YORK*- 77 (1998): 20-3

<sup>123</sup> Onjala, Joseph. "The Impact of China-Africa Trade Relations: The Case of Kenya." (2010).

### 4.3. Negative Effects

#### 4.3.1. Threat to Textile and Clothing Industry in Kenya

Due to liberation and rising strength of China economically, the Kenyan clothing and textile industry has for years not been able to compete with greater important into the country and adjust sufficiently. Kenyan textile industry was formerly dependent on African Growth and Opportunity Act (AGOA), the US programme that gave Kenya and other Sub-Saharan African countries the preferential access to markets in USA. This significantly led to a boost in the Kenyan exports in the late 1990s and early 2000s. Consequently, because of economic activities between Kenya and China, Chinese companies established subsidiary companies in Kenya to take advantage of the duty free access to USA market. This move resulted into increased exports in textile and clothing industry during this period. However, the inflow of Chinese companies put a lot of local Kenyan companies out of business because of the inability to compete with them. The Chinese domination in textile industry frustrates local manufacturers and thus it discourages the development of local entrepreneurship creating economic growth.<sup>124</sup>

Since Chinese venture into Kenyan textile industry, there have been complaints from workers citing threats to their business by cheap textile products from China that suppress their high quality product. The high import of Chinese textiles partly contributes to the cessation of local print cloth production.<sup>125</sup> China has been exporting to Kenya various types of textile materials that include knitted and crocheted textile thus posing a real threat to Kenya's cotton production.

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<sup>124</sup>Rotunno, Lorenzo, Pierre-Louis Vézina, and Zheng Wang. "The rise and fall of (Chinese) African apparel exports." *Journal of development Economics* 105 (2013): 152-163.

<sup>125</sup>Mangieri, Tina. "African cloth, export production, and secondhand clothing in Kenya." *The Moving Frontier: The Changing Geography of Production in Labour Intensive Industries* (2006): 301-18.

**Table 4.3-1: China's Textile Exports to Kenya in USD thousands**

<b>Product Label</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Woven fab of cotton, less than 85%,mxd with man- made fibre, weight >200	252	1 385	945	2 420	1 560	6 216	10 153
Textile fabrics impregnated, coated, covered/laminated w plastics,	392	616	588	1 701	1 330	1 661	1 725
Woven pile & chenille fabrics	175	3 673	2 103	1 156	1 232	986	921
Woven fabrics of cotton	1 543	1 400	8 419	8 064	1 604	5 786	4 659
Woven cotton fabrics, 85% or more cotton, weight over 200 g/m2	7 121	7 614	7 052	9 198	3 423	2 789	9 188
Woven cotton fabrics, less than 85% cotton, mixed with manmade fibres	1 806	677	495	430	730	2 046	1 629
Textile fabrics impregnated, coated, covered/laminated w plastics	613	429	695	410	438	1 177	1 743
Woven cotton fabrics, 85% or more cotton, weight less than 200 g/m2	9 630	8 924	4 182	2 549	6 318	8 603	6 166
Knitted or crocheted fabrics, of a width <= 30 cm (excl. those containing by weight >= 5%	778	1 488	1 048	939	30	276	31
Knitted or crocheted fabrics	1 025	2 278	2 919	2 253	6 762	14 483	643
Nonwovens, w/n impregnated, coated, covered or laminated	866	619	950	622	772	1 082	1 439
Cotton sewing thread	109	230	232	206	304	503	440
Fabrics, knitted or crocheted, of a width of > 30 cm (excl. warp knit fabrics)	12 088	15 589	10 932	16 708	6 831	26 247	55 481

Knitted or crocheted fabrics, of a width <= 30 cm (excl. those containing by weight >= 5%)	778	1 488	1 048	939	30	276	31
Knitted or crocheted fabrics	1 025	2 278	2 919	2 253	6 762	14 483	643
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Cotton sewing thread	109	230	232	206	304	503	440
Fabrics, knitted or crocheted, of a width of > 30 cm (excl. warp knit fabrics)	12 088	15 589	10 932	16 708	6 831	26 247	55 481
Woven fabrics of silk or of silk waste	0	13	6	0	2	11	8
Woven fabrics of combed wool or of combed fine animal hair	0	0	1 716	25	0	126	246
Woven fabrics of synth. filam yarn	377	803	1 555	2 155	895	2 274	4 318
Sewing thread of man-made filaments	195	356	328	496	83	140	176
Synthetic filam yarn, not put up	111	105	481	1 018	705	622	1 051
Vegetable textile fibres, paper yarn, woven fabric	3 917	3 088	2 992	4 337	4 175	4 041	5 224

Source: International Trade Centre, Trade Map, 2014

#### 4.3.2. Chinese Goods Flooding the Kenyan market

There is a large amount of cheap Chinese goods imported in Kenya. There has been a lot of controversy about these cheap imports. The negative effect of these imports is that while Kenyan consumers can afford to increase purchase of these good because they are cheap, the local industries suffer most as they are forced out of trade.<sup>126</sup> It presents a real threat to the domestic business in cases where foreign companies avail products at a lower price compared to goods produced in the local market.<sup>127</sup> This has worked perfectly in Kenya. Most of Kenyan consumers are price sensitive and price dictates their ability to buy a product or not. In regard to flooding goods, China has been viewed by some scholars as “dumping” in Kenya the excess goods of an exporting market which sells the products for very low price.

<sup>126</sup> Onjala, Joseph. "The Impact of China-Africa Trade Relations: The Case of Kenya." (2010)

<sup>127</sup> Idun-Arkurst, Isaac, and James Laing. "The impact of the Chinese presence in Africa." *An Africa practice report prepared for JETRO London, David and Associates* (2007).

**Table 4.3-2: 2005-2011 Chinese Exports to Kenya in (USD thousands)**

Product	2005	2006	2007	2008	2009	2010	2011
Mineral fuels, oils, distillation products	20 428	1 623	1 879	1 895	5 018	6 228	5 260
Inorganic chemicals, precious metal compound, isotopes	8 573	11 126	12 486	25 242	18 370	21 278	23 022
Organic chemicals	6 804	9 532	12 660	13 963	14 856	23 733	22 749
Pharmaceutical products	6 279	6 382	11 909	11 225	11 356	11 963	13 719
Miscellaneous chemical products	1 574	2 688	4 249	5 261	6 749	9 230	12 971
Plastics	8 153	12 363	21 336	31 148	24 560	41 515	56 393
Rubber and articles thereof	7 595	11 599	23 770	26 593	33 000	39 988	54 840
Cotton	20 490	20 248	21 355	22 894	13 992	25 996	32 245
Manmade staple fibres	13 073	15 524	19 773	12 589	11 376	18 723	15 032
Articles of apparel, accessories, not knit or crochet	2 226	7 284	18 065	15 618	12 481	21 688	15 548
Ceramic products	7 122	9 707	13 447	17 810	15 486	25 806	32 252
Iron and Steel	4 639	10 519	27 029	51 028	27 280	29 398	36 993
Articles of iron or steel	7 043	8 827	21 510	25 458	38 350	57 103	62 280
Machinery, nuclear reactors, boilers	48 057	42 344	86 782	153 687	200 427	329 900	420 361
Electrical, electronic equipment	36 904	65 587	110 939	163 529	215 271	409 198	332 622
Vehicles other than railway, tramway	7 429	56 126	84 444	97 532	83 167	98 222	118 109
Optical, photo, technical, medical	4 964	6 667	21 224	16 568	12 888	18 957	30 582

Source: International Trade Centre, Trade Map, 2014

### 4.3.3. Counterfeit Goods in Kenyan markets

China has been accused of dealing in counterfeit goods which led to the loss in trade amounting to about 368 million USD.<sup>128</sup> Different scholars and organizations have defined counterfeit goods.

International Anti-Counterfeiting Coalition (2014) defines counterfeiting as a federal and state crime,

<sup>128</sup>Gastrow, Peter. *Termites at work: Transnational organized crime and state erosion in Kenya*. New York: International Peace Institute, 2011.

which involves distribution or manufacturing of merchandise under someone else's name, and without their authorization. In this process, low quality components are normally sourced and used to make the merchandise. Because of low cost of production incurred, the products of counterfeiting are released to the market at low prices.

The bulk of prohibited merchandise comes largely from China and there have been experienced in Kenya markets just like the other parts of the world. In Kenya, the merchandise are focused consumers with low-income. Citizens, according to TNS Research for International and Consumer Federation of Kenya report of 2011, buy Chinese products because they are affordable. It is reported that consumers suspect the merchandise to be not of good quality. However, they prefer them because of low prices.<sup>129</sup>

The Kenyans manufacturers have been greatly affected by the penetration of counterfeit products in markets. According to literature, the manufacturers feel the impact of these products through brand erosion, great loss of market shares and sales, lack of competing powers due to unfair competition from Chinese factories, closing down of factories. The Kenyan government loses about US\$ 84-490 million annually on counterfeit merchandises.

It is projected that the flooding of markets with counterfeit merchandise is likely to discourage innovation in new goods following that Kenyan manufacturers are fearful of unfair competition. Counterfeit merchandise is also likely to cause reduction in entry of genuine products in Kenyan markets.<sup>130</sup> The main effects of counterfeit goods coming from Chinese market has been felt in area like foreign direct investment, innovation and growth, employment, foreign direct investment criminal activities and trade as illustrated in Table 4.3-3.

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<sup>129</sup> Patroba, Hilary. "China in Kenya: Addressing Counterfeit Goods and Construction Sector Imbalances." (2012)

<sup>130</sup> Bamossy, Gary, and Debra L. Scammon. "Product counterfeiting: consumers and manufacturers beware." *ACR North American Advances* (1985).

**Table 4.3-3: Effects of counterfeit goods coming from Chinese market**

<b>IMPACT AREA</b>	<b>POTENTIAL EFFECT</b>
<b>FDI</b>	Small negative effects on levels of FDI investment flows and possible effects on structure of FDI
<b>Trade</b>	Negative effects of products where health and safety concerns are high. A sick nation is not economically productive
<b>Innovation and growth</b>	Reduction in incentives to innovate , Negative effects on medium and long-term growth rates
<b>Employment</b>	Employment shifts from rights holders to infringed firms where working conditions are often poorer
<b>Criminal activities environment</b>	Increase in flow of financial resources to criminal networks, thereby increasing their influence in economies.

Source: Gastrow P., Transnational Organised Crime and State Erosion in Kenya, September 2011 (relief web)

**Table 4.3-4: Counterfeit goods imported into Kenya from China**

<b>CATEGORY</b>	<b>BRAND</b>
<b>Batteries</b>	Tiger Head and Bells
<b>Paints</b>	Crown and Duracoat
<b>Cement</b>	Bamburi, Nyumba and Blue Triangle
<b>Drinks</b>	Quencher rtd, Afiar and Afia squash
<b>Mineral water</b>	Pacific, Royal, Springs and Aquamist
<b>Bleaches</b>	Jik and Topex
<b>Deodorants</b>	Gift of Zanzibar
<b>Spreads</b>	Croma, Prestige and Blueband
<b>Electronics</b>	Watches, mobile phones, radios and other electronic gadget
<b>Body care</b>	Vaseline, Ladygay, Petroleum Jellies, Body creams and facial creams
<b>Washing detergents</b>	Omo, Toss, Jamaa bar and Panga bar
<b>Toothpaste</b>	Colgate
<b>Tea leaves</b>	Ketepa and Brookebond
<b>Cooking fats</b>	Kasuku, Kimbo and Elianto
<b>Maize meals</b>	Jogoo, Pembe

Source: SALLA, 2012

#### **4.3.4. Trade imbalance**

Trade, in Kenya is majorly impacted in two ways.<sup>131</sup> One aspect is the rivalry in external markets from export-oriented industry and competition from internal markets for domestically-oriented manufacturers. Currently, one of the leading rivalry partners in external markets is China.

China has been applauded for their efficient ideas and completing of projects. However, the quality of their products has always been questioned. For instance, in Kenya, based on the available literature, it is believed that the quality of Chinese products sold on Kenya's market is comparatively low. In addition Chinese have been accused for using unfair market practices when transacting business here in Kenya. Low quality products from China and unfair markets prices leads to trade imbalance between the two actors which is dangerous for Kenyan economy since this always happens in favour of China.

Balance of trade mainly influenced by exports and imports between Kenya and China. Kenya exports largely unfinished products to China and imports back the finished value-added commodities from. Unfortunately, a large percentage of the imported products are counterfeited. China imports most of the raw materials available for local industries. This leaves the local industries with no or little raw materials which they use to manufacture their products. Some of the most affected sectors from Chinese heavy importation of raw materials include particularly ceramic products and textiles.<sup>132</sup> Chinese trade with Kenya is largely anchored on better access to natural resources. Critics have argued that Chinese firms' construction of infrastructure in Kenya is not for mutual benefit between the two players but it is for deeper purposes reminiscent of having better access to natural resources. They further state that infrastructure development by the Asian could be related to connecting Kenya with its neighboring countries so as to achieve easier access to the countries.

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<sup>131</sup> Kaplinsky, Raphael, Dorothy McCormick, and Mike Morris. "The impact of China on sub-Saharan Africa." (2007).

<sup>132</sup> Onjala, Joseph. "The Impact of China-Africa Trade Relations: The Case of Kenya." (2010).

Export of raw materials for example scrap metals (copper, aluminum) to China denies local industries opportunity to develop capabilities in manufacturing sector. Apart from causing imbalance of trade, the high demand for scrap in China has for caused vandalism in Kenya for some time including local infrastructures like power cables and the railway lines. According to critics, Kenya should enforce weighty taxes on export of aluminum and copper scrap since it contributes to trade imbalance, shortages of raw materials for local industries and vandalism of infrastructures.<sup>133</sup>

Based on the discussed literature, the trade between Kenya and China is considerably balanced in favour the latter.<sup>134</sup>

**Table 4.3-5: Natural resources exported from Kenya to China in USD thousands**

Product Label	2005	2006	2007	2008	2009	2010	2011
Zinc and articles thereof	11	76	0	0	0	66	123
Copper and articles thereof	3 892	6 152	6 119	8 988	6 971	6 452	9 924
Lead and articles thereof	27	45	520	55	124	134	0
Copper waste and scrap	3 503	5 606	4 392	6 458	4 468	2 742	7 017
Stone plaster, cement, asbestos, mica	0	4	1	1	3	67	20
Refined copper and copper alloys, unwrought	388	546	1 705	2 063	2 503	3 710	2 907
Aluminium and articles thereof	65	869	786	543	923	503	529
Aluminium waste and scrap	65	867	779	530	920	503	509
Ores, slag and ash	0	0	54	81	337	1 514	948
Wood and articles of wood, wood charcoal	65	25	22	31	46	86	158

Source: International Trade Centre, Trade Map, 2014

#### 4.3.5. Unemployment

The current unidirectional flow of products to Africa from China results in conflicts over sound labor practices and changes in the Kenya's market strategies by local companies.<sup>135</sup> In particular, the

<sup>133</sup> Onjala, Joseph.

<sup>134</sup> Alden, Chris. "China in Africa." *Survival* 47, no. 3 (2005): 147-164.

preference by either sides to hire Chinese nationals that work for extended hours of work conflicts with existing local labor laws and African cultures. In addition, these company practices are known to have led to discontent in communities that perceive that Chinese companies to not contributing towards increasing employment opportunities for the locals. This therefore does not the economic wellbeing of the Kenyan nationals. Lastly, there is a conflict arising from the perception of Chinese goods being of poor quality compared to locally produced ones. The conflicts are compounded by the fact that most Chinese economic activities in Kenya do not embrace transparency with some Chinese companies known to violate labour standards in the country. In the mining subsector specifically, this has brought about, practices like illegal use of children for labour and failure to abide by standard health and safety requirements.

#### **4.3.6. Fear of deindustrialization due to Chinese Imports**

Considering that Kenya, like most African states, exports in few intermediate products, most researchers fear that the economy may experience de-industrialization in the short-term. In fact, some have concluded that the slowing down of growth in manufacturing, at 3.4 percent in 2014 as opposed to 5.6 percent in 2015 is due to this problem. The manufacturing sector contributes ten percent of GDP. However, the government, through the Vision 2030 blueprint expects the sector to play a significant role by contributing 20 percent of GDP. To realize this the country needs to promote more FDI into infrastructure, manufacturing while at the same time improving the labor productivity. This is in addition to providing a robust regulatory framework on trade and investment, and reducing the cost of movement of goods and services.<sup>136</sup>

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<sup>135</sup> Adisu, Kinfu, Thomas Sharkey, and Sam C. Okoroafo. "The impact of Chinese investment in Africa." *International Journal of Business and Management* 5, no. 9 (2010): 3.

<sup>136</sup> Farole, Thomas, and Gokhan Akinci. *Special economic zones: progress, emerging challenges, and future directions*. The World Bank, 2011.

In broad terms, concerns have been raised on the structural impacts of Chinese increased investments on African economies. This includes the general trends in trade that have reduced the proportion contributed by Africa 's traditional allies from the West. The record reduction in commodity prices brings to the fore dangers of overdependence on a limited scope of products. This calls for diversification of Kenya's economic prospects through growth in both the service industry and value addition activities through manufacturing.<sup>137</sup>

#### **4.4. Chapter summary**

Based on the analysis in this chapter, there are positive as well as negative effects of Chinese economic activities on Kenya. As for benefits it is evident, from the discussion that China has helped build and improve infrastructure in Kenya. This according to literature has stimulated economic growth and better living standards. Apart from infrastructure, Chinese economic activities on Kenya have also let to increase China FDI on Kenya, competitive local industries, employment opportunities and expansion of export market among others.

If we have a look at the negative impacts of Chinese economic activities in Kenya, it can be said that Kenya faces competitive price pressure from China in the regional market in manufacturing, especially textiles, clothing and footwear. Kenya's cotton industry is threatened a lot by Chinese products. Another main challenge is substandard and counterfeit goods in Kenyan market. Chinese manufacturers represent a threat for local manufacturers and moreover, their flooding reduces the entry of high quality and genuine products. Such a rapid penetration of Chinese goods in Kenyan market has let to poor performance of local industries.

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<sup>137</sup> McNamee, Terence, Mark Pearson, and Wiebe Boer, eds. *Africans investing in Africa: Understanding business and trade, sector by sector*. Springer, 2015.

## 5. CHAPTER FIVE

### DATA ANALYSIS AND INTERPRETATION

#### 5.1. Introduction

This chapter presents the interpretation of the results obtained from the respondents as per every research question of the study. The chapter gives a breakdown on the background details of the respondents and an analysis to meet the objectives of the study. Inferential and descriptive statistics have been employed to present the study findings. A sample size of 100 respondents was targeted in the study. Out of the targeted respondents, 90 filled in and returned complete questionnaires making a response rate of 90%. According to Mugenda Mugenda, (1999) such a response rate is acceptable to support conclusions for the study.

#### 5.2. Demographic Information

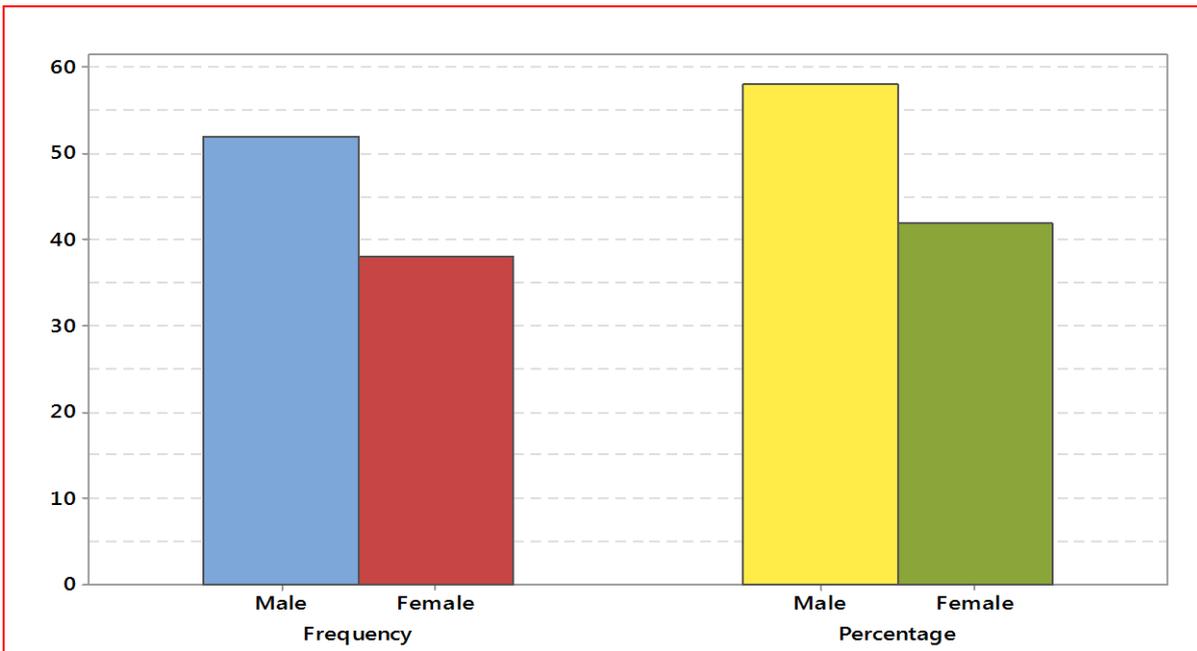
As shown in Table 5.2-1, respondents were well spread age wise. Majority of the respondents were between age 30 and 39 years. This was represented by 36% of all the interviewed persons. The least number of respondents were above 50 years of age which was represented by only 11% of the respondents.

**Table 5.2-1: Age distribution of the respondents**

Age bracket (Years)	Frequency	Percentage
20 to 29	20	22
30 to 39	32	36
40 to 49	28	31
50 and above	10	11
<b>Total</b>	<b>90</b>	<b>100</b>

Source: Author, 2018

This study, during data collection, required to capture gender of the participants. The respondents were therefore asked provide details of their gender. The results revealed that majority of the respondents were male, represented by 58% of the total sample population as shown in Figure 5.2-1. The remaining 42% of the total sample size were female. This information on gender clearly shows that male and female took part in this study and therefore, the study’s findings are not subject to gender biasness.



**Figure 5.2-1: Gender of the respondent. Source: author, 2018**

The study sought to understand for how long the respondents have been serving in their place of work (Table 5.2-2). The findings designated that majority of interviewed persons have served for six to ten years. This was represented by 40% of the total population interviewed. Only 2% of the respondent had served in their place of work for more than twenty years. With over 50% of the interviewed persons having served at their place of work for more than six years, this implies that a bulk of the respondents were well acquainted with the institutions and could be relied upon by this study.

**Table 5.2-2: Respondents period of service at their place of work**

<b>Years of service (years)</b>	<b>Frequency</b>	<b>Percentage</b>
<b>1 - 5</b>	<b>18</b>	<b>20</b>
<b>6 - 10</b>	<b>36</b>	<b>40</b>
<b>11 - 15</b>	<b>20</b>	<b>22</b>
<b>15 - 20</b>	<b>14</b>	<b>16</b>
<b>Above 20</b>	<b>2</b>	<b>2</b>
<b>Total</b>	<b>90</b>	<b>100</b>

Source: author 2018

### **5.3. Effect of China Foreign Direct Investment**

The study findings on whether Chinese foreign direct investments have any impact on economic development of Kenya indicated that most of the respondents were in agreement with the statement. Those who agreed were 60% of the total sample (Table 5.3-1). On the other hand, 40% of the respondents were of the opinion that Chinas FDI had not impacted on the Kenyan economic growth. This implies that foreign direct investment by Chinese government has to some extent changed the economic welfare of the Kenyan citizens.

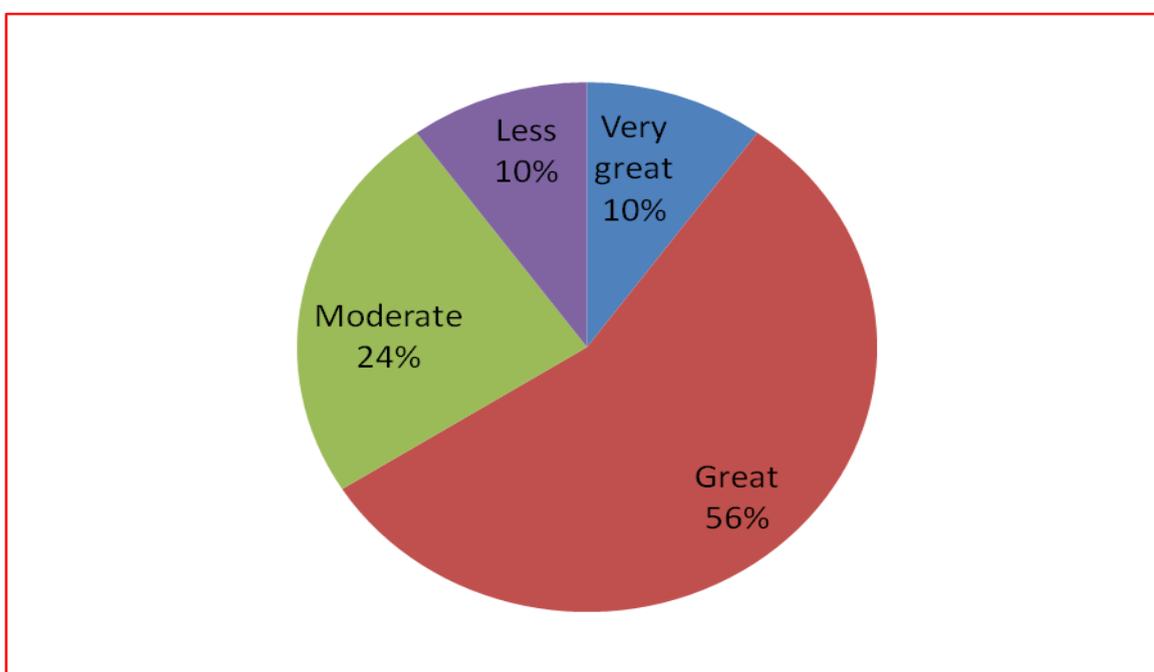
**Table 5.3-1: Effects of China FDI on Kenya's economic development**

<b>Policies and practices</b>	<b>Frequency</b>	<b>Percentage</b>
<b>Yes</b>	<b>54</b>	<b>60</b>
<b>No</b>	<b>36</b>	<b>40</b>
<b>Total</b>	<b>90</b>	<b>100</b>

Source: author, 2018

As shown in Figure 5.3-1, higher percentage of the respondents (56%) supported the statement that Chinese FDI in Kenya had greatly impacted on the economic development of the country. Equal

number of individuals interviewed supported the argument that Chinese FDI had very great as well as less impact on our economic development. Each of these groups was represented by 10% of the respondents. These statistics show that majority of the sampled population support the fact that FDI by Chinese government has positively impacted on the socio-economic development of Kenya. One respondent interviewed said FDI is good for Kenyan economic growth, however, the respondent emphasized that poor infrastructure, poor governance, corruption, and poor investment climate can easily reduce FDI flows. “In the year 2007, US\$729 million was received by Kenya as FDI, other than in 2008, during the post-election, cut down flows to only US\$ 96 million”, added the respondent.



**Figure 5.3-1:Extent to which China foreign direct investment affects Kenyan economically**

**Source: author, 2018**

This study sought to ascertain the level at which the study participants agreed with the statement in Table 5.3-2 about effect of China foreign direct investment on the Kenyan economic development. Based on the outcome of this question, majority of the respondents strongly agreed that, imported textile form China greatly affects local manufacturers as shown by a mean of 1.52. Respondents

support the argument that there has been increased competition for domestically-oriented manufacturers in Kenya from cheap imports from China as shown by a mean of 1.71.

At a mean of 2.2, respondents believe that Chinese companies are perceived by the local communities not to be doing enough to ensure local employment and to strengthen their social economical welfare.

It also found, at a mean of 1.13, that foreign direct investment is excellent for development as it leads to increase in employment and income, hence creating room for competition. Respondents were of the opinion that long working hours at China sponsored projects lead to conflict with local labour laws. This was strongly supported at a mean of 1.32. All statements were supported by low standard deviation an indication that respondents were of comparable opinions in all cases. One of the respondent said that even though China Kenya investment has impacted positively on economic development of Kenya, there were underlying issue which needs to be settled. For instance, potential local producers in Kenya are put out of place by Chinese imports. The respondent believed that Chinese imports have a negative impact on textile and clothing industry, a sector that is 20 percent of all formal manufacturing employment in Kenya.

**Table 5.3-2: Effects of China’s FDI on Kenya’s Development**

<b>Statement</b>	<b>Mean</b>	<b>Standard deviation</b>
The trade imbalance witnessed between Kenya and China favors China as opposed to the local industries. Kenyan merchants have therefore been hit hard by the uncontrolled flood of cheap wholesale and retail commodities from China	1.18	0.44
There is a conflict with Kenyan culture and labor laws arising from the long working hours in the China sponsored projects	1.32	0.48
FDIs are considered to be necessary a Kenya’s growth as they provide employment opportunities thus increase in incomes of the populace	1.13	0.41
Local communities have a feeling that Chinese companies are not Making sufficient contribution to grow local employment and economy	2.20	0.56
Local manufacturers are affected by imported textiles from China	1.52	0.59

Cheap China imports have increased competition for domestically-oriented Kenyan manufacturers	1.70	1.70
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**Source: author, 2018**

#### **5.4. Effect of China Aid to Kenya**

The study sought to determine whether China Aid affects the economic development in Kenya. These findings are indicated in Table 5.4-1. Based on the findings, 68% of the respondents were in agreement that the aid granted by the Chinese government has an impact on the socio-economic development in Kenya whereas 32% of the respondents expressed contrary opinion. This is an indication that to some extent, the aid granted by the Chinese government to Kenya influences the economic development of Kenyans

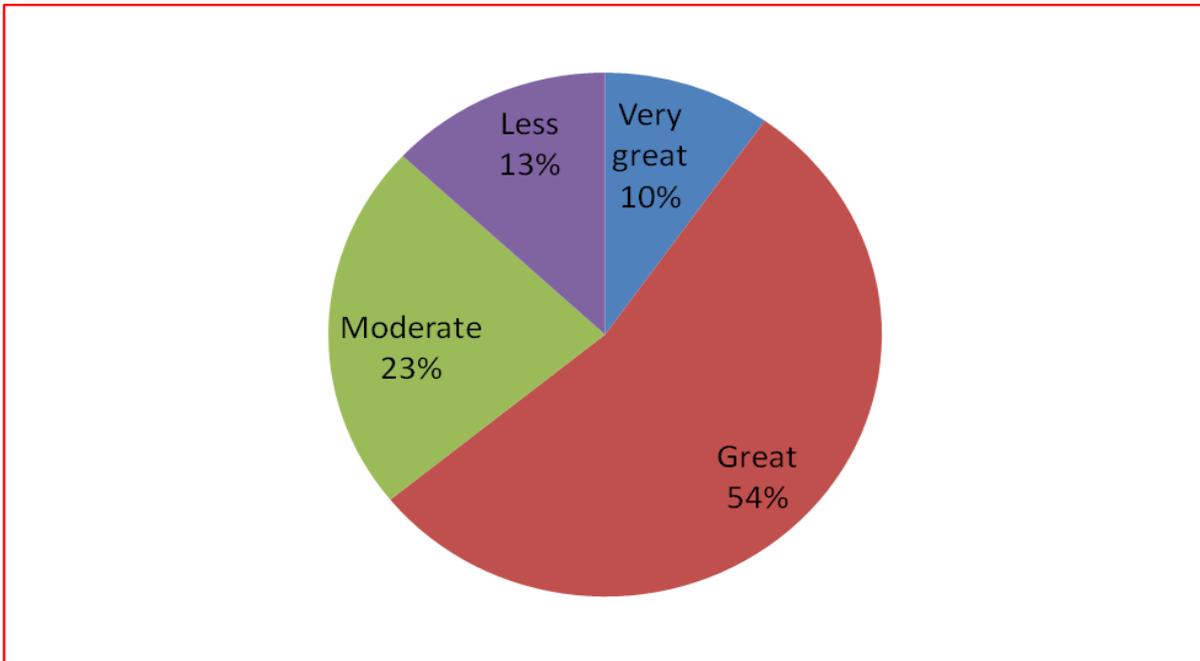
**Table 5.4-1: Effects of Chinese Aid on Kenyan economic development**

	<b>Frequency</b>	<b>Percentage</b>
<b>Yes</b>	<b>61</b>	<b>68</b>
<b>No</b>	<b>29</b>	<b>32</b>
<b>Total</b>	<b>90</b>	<b>100</b>

**Source: author, 2018**

The study required to investigate the extent by which China Aid to Kenya impacts on the economic development. From the findings, the respondents were divided concerning to what extent Chinese aid has impacted on the economic growth of Kenya. However, majority of the respondents, represented by 50%, had the view that Chinese aid to Kenya has done great contribution to economic growth. Some respondents were of the opinion that Chinese aid has contributed to very great extent on economic development of the country. This group of respondents was represented 9% of the sample size. 29% and 12% of the sample population were of the opinion that China aid had moderately and to a less extent impacted on the economic growth respectively. One respondent when asked how else China Aid affects the economic development in Kenya, the respondent answered, “The aid contribute to economic development as well as facilitate economic stabilization especially in the aftermath of macroeconomic

shocks”. The respondent further stated that Chinese aid to Kenya plays a vital role in supporting the commanding quarters of the economy such as agriculture and manufacturing, infrastructure development, health care provision, education, the development of the political system as well as environment protection and improvement.



**Figure 5.4-1: Extent to which China Aid affects the economic development in Kenya**

**Source: author, 2018**

The study sought to establish on respondents the level of accord with the statements in Table 5.4-2. From the findings respondents agreed that China aid to Kenya has not reduced poverty as represented by a mean of 1.34. At a mean of 1.44 respondents supported the statement that Chinese aid to Kenya has no strings attached especially on issues of democracy and human rights which makes them more attractive. Other respondents agreed that China Aid is considered flexible as compared to Western Aid in accommodating domestic constraint as shown by 163. On Chinese aid levels with other financial flow, respondents showed that this has a noteworthy impact on the growth fortunes of Kenya as revealed by a mean of 1.63. All cases were supported by low standard deviation. This is attributed to respondents’ similar opinions.

**Table 5.4-2: Effects of Chinese Aid on the economic development in Kenya**

<b>Statement</b>	<b>Mean</b>	<b>Standard deviation</b>
China aid to Kenya has no strings attached especially on issues of democracy and human rights which makes them more attractive	1.44	0.55
Intertwining Chinese aid levels with other financial flow, this has noticeable development fortunes of Kenya	1.56	0.67
China Aid is relatively flexible compared to Western Aid in accommodating domestic constrains	1.63	0.73
China aid to Kenya has not reduced poverty	1.34	0.58

**Source: author, 2018**

### **5.5. Effect of China Kenya Economic Cooperation**

The study sought to determine whether China- Kenya economic cooperation affect economic development of Kenya. Based on the results of this study, majority of the respondents agreed that Kenya-China economic cooperation affects the social and economic development of Kenya (Table 5.5-1). This was represented by 57 % of the total population sampled. In contrast, 43% of the sampled population were of the opinion that there is no economic growth as a result of China-Kenya economic cooperation.

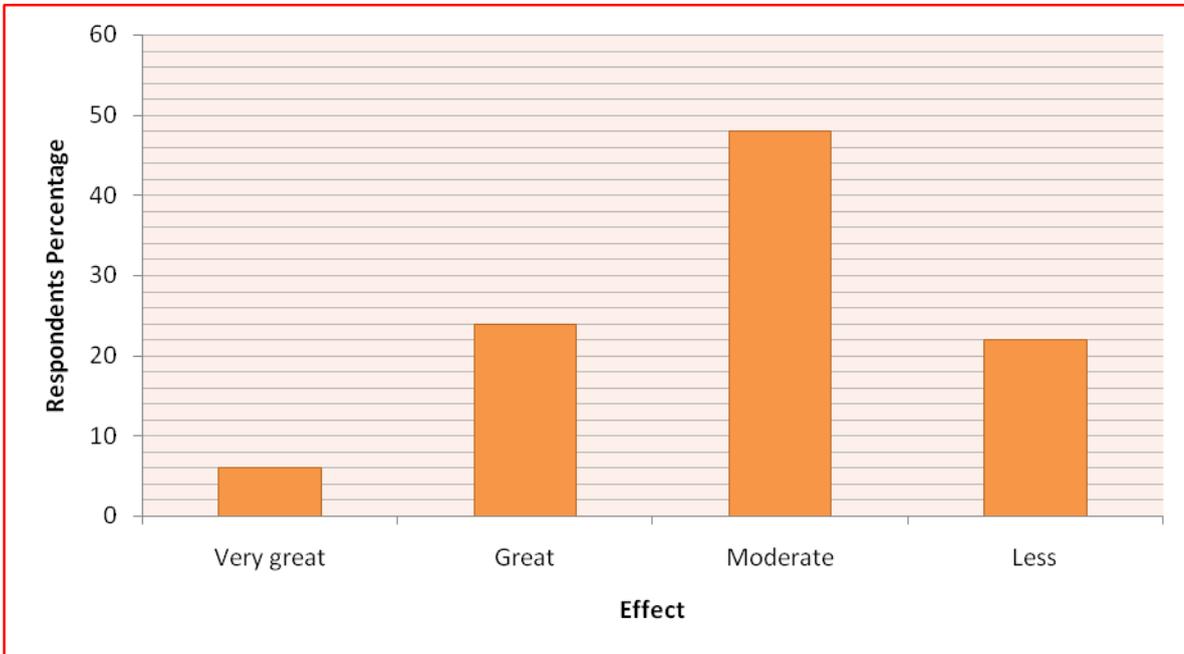
**Table 5.5-1: China-Kenya economic cooperation effect on Kenyan economic development**

	<b>Percentage</b>	<b>Frequency</b>
<b>Yes</b>	<b>51</b>	<b>57</b>
<b>No</b>	<b>39</b>	<b>43</b>
<b>Total</b>	<b>90</b>	<b>100</b>

**Source: author, 2018**

When a question was asked to determine effect of Kenya-China economic growth and cooperation, 48% of the sample population was of the opinion that the cooperation had moderately impacted on

the growth. Only a small number of the respondent representing 6% said the cooperation has impacted very great extent on the economic development of the country. 24% of the respondents pointed out to great extent, whereas 22 % of the respondents pointed out to minimal extent as illustrated in Figure 5.5-1.



**Figure 5.5-1: China- Kenya economic cooperation affects economic development of Kenya**

The study wanted to establish from respondents the level of conformity with the statements in Table 5.5-2 which relate on effects of China- Kenya economic cooperation on economic development of Kenya. Majority of the respondents agreed that there are academic exchange programs between Kenya and China in that is achieved through scholarships and grants. This was represented by a mean of 2.56. At a mean of 2.76, respondents agree that China been awarding scholarships to Kenyan students to study in China. On investigating whether these scholarships offer Kenyan students the opportunity to attain an affordable education in significant fields for instance medicine, engineering and science, respondents supported this fact<sup>6</sup> at a mean of 2.94. Finally, it was approved that China import more coffee from Kenya and simultaneously offered Kenya the most sophisticated coffee processing apparatus as shown by a mean of 3.13.

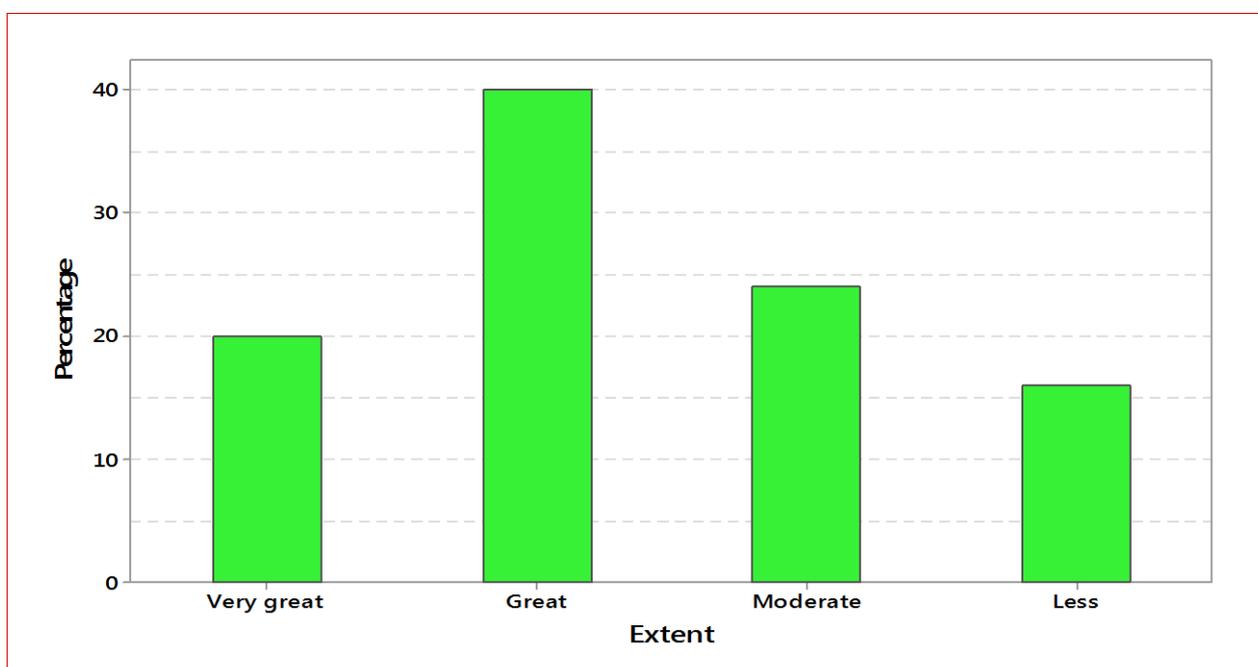
**Table 5.5-2: Effects of China-Kenya economic cooperation on economic development of Kenya**

Statement	Mean	Standard deviation
China import more coffee from Kenya and at the same time offered Kenya the most advanced coffee processing equipment	3.13	1.23
China has for a long time awarded scholarships to Kenyan students wishing to undertake their studies in China in diverse fields	2.76	1.23
China grants various scholarships to Kenya every year in the scientific field and in turn two Chinese postgraduate students are admitted annually to Kenyan university	2.56	1.28
Chinese scholarships give Kenyan students the opportunity to obtain an affordable education in important fields such as science, engineering, and medicine	2.94	1.20

Source: author, 2018

### 5.6. Effect of China Kenya Investment

The sought to examine the extent to which China Kenya investment affects the economic development of Kenya, from the findings, most of the respondents were of the opinion that China Kenya investment impacts on economic development of Kenya to a great extent as indicated by 40%. Only 20 % of the sample populations were of the opinion that investment has very great impact on country’s economic growth. 24 % and 16 % agreed that the investment has impacted moderately and less extent on economic growth. This information is illustrated in Figure 5.6-1.



**Figure 5.6-1: Extent to which China Kenya investment affects the economic development of Kenya**

**Source: author, 2018**

The study sought to find out the intensity at which respondents disagreed or agreed with the statements in Table 5.6-1 which relate on effects of China-Kenya investment on the economic development of Kenya. This study found out that majority of the respondents strongly supported the statement that Chinese Multi National Corporation have been setting up diverse construction fields in Kenya in addition to construction which negatively affect local construction firms as shown by a mean of 2.14. Kenyan producers are concern that low-priced Chinese merchandise prevents Kenyan corporations from developing the capacity to create competitive finished manufactured products locally, thus maximizing on value addition profits as shown by a mean of 2.19.

Finally, at a mean of 2.37 respondents agreed that Chinese manufactured merchandise have been damaging various aspects of the Kenyan economy. Contrary to these observations by majority of the respondents, one official from the ministry of foreign affairs stated that “Superior rivalry from imports reduces consumer prices as well as gives a number of producers admission to cheaper inputs and capital goods” The respondent further emphasized that Chinese imports do not essentially shift local production, as they may reinstate imports from other countries, lowering import costs. This, according to the respondent, is believed to increase employment in certain sectors and boost labor productivity within certain services.

**Table 5.6-1: Effects of China Kenya investment on economic development of Kenya**

<b>Statement</b>	<b>Mean</b>	<b>Standard deviation</b>
Chinese manufactured goods have been detrimental to many aspects of the Kenyan economy	2.19	1.45
Kenyan producers worry that cheap Chinese goods prevent Kenyan corporations from developing the ability to create competitive finished manufactured products domestically, thus gaining profit in value addition of raw materials	2.31	1.47

Chinese Multi National Corporation have been bringing up various construction fields in Kenya , in addition to construction which negatively affect local construction firms	2.14	1.42
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**Source: author, 2018**

## **5.7. Chapter summary**

This chapter presents results obtained from respondents based on all the theoretical perspectives that were built in the previous chapters concerning impact of Chinas' economic foreign policy on Africa economic development. By adopting a sole case study of Kenya, the research sought to identify economic impact emanating from the evolution of China's foreign policy on Africa. The overall effect of China's economic foreign policy on Kenyan economy is mixed. There are both gains and challenges. However, based on the respondents' views, the gains outweigh the challenges.

According to the results, there is a considerable growth in the economic relationship between Kenya and China. There is general feeling that Chinese economic foreign policy is important to Kenyan economy and can be beneficial to the countries development. The policy and economic cooperation between the two countries is working for Kenya economically in various ways. Some of the areas include investment, foreign aid, FDI and economic cooperation, education and health sectors. Chinese FDI provides a platform for technology transfer and prospect of upgrading domestic enterprises. This is possibly to make domestic firms competitive for the global markets. Arising from cheaper imports of both producer and consumer goods, there are gains from the low price products. Similarly, producers of goods locally are the losers due to unfair competitive pressure although they could also benefit from producer goods or cheaper supply. This is a challenge as it has negative impacts on local trade and commerce. Some of the challenges are associated with loss of regional markets or alternatively loss of an opportunity to contribute towards international trade. It is evident in this chapter finding that the Chinese economic foreign policy has great impact on economic

development of Kenya and it will be interesting to see if there will be any changes in this economic relationship.

## **6. CHAPTER SIX**

### **SYNOPSIS OF FINDINGS, CONCLUSION AND RECOMENDATION**

#### **6.1. Introduction**

This chapter provides a recap of the study by highlighting the key findings of the study as per the identified research objectives. The chapter also presents the concluding remarks drawing from the study findings and major postulations made in the study. The conclusion is followed by the provision of recommendations both for improvement and areas of further research.

#### **6.2. Synopsis of Study Findings**

The study was meant to evaluate the effects of Chinese economic foreign policy on Africa by considering the Kenyan case study. The research questions included; What is the current Chinese economic foreign policy on Africa? What are some of the economic activities between China and Kenya as influenced by the existing Chinese economic foreign policy on Africa? What are the economic effects of Chinese economic foreign policy on Kenya? Some of the key findings of the study based on the above research questions are highlighted in the subsequent section.

##### **6.2.1. Chinese economic foreign policy on Africa**

Scholars have attributed Chinas relationship with Africa to many factors<sup>138</sup>. These factors, according to the scholars, have made the relationship between China and Africa unique. Apart from migration and aid policies, the current “Chinese model” of investment and infrastructure loans which is referred as the “Beijing Consensus” is a substantial amount and defines the current relationship between

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<sup>138</sup> Sautman, B., Hairong, Y. (2008) The Forest for the Trees: Trade, Investment and the China-in-Africa Discourse, Pacific Affairs, vol. 81, no. 1 (Spring 2008)

China and most Africa. According to Ramos, the current relations consists of a new attitude that is focused towards global balance of power, development, and politics.<sup>139</sup>

The above Chinese model focused on investment is thought to bring about economic growth and guides key trade and investment decisions made in Africa. These is happening with “no strings attached” , to the technical and financial assistance.<sup>140</sup> The Chinese owned companies are known to bid competitively for identified construction projects and provide the necessary resources using investment loans provided by the Chinese Government. The loans advanced for the projects are at zero or very low interest rates. Alternatively the loans are attached to some of the natural resources prevalent in the benefiting state.<sup>141</sup> Most of the African policy drivers and citizens view Chinese investment as significantly different from the western investment. The Chinese loans are not perceived to be imposing the neo-liberal package structural reforms tied to World Bank financing.<sup>142</sup> Financing by the Chinese therefore is considered to support initiatives by African states in addressing key development needs that have not been solved by Western assistance.<sup>143</sup>

In the recent years, the China and Africa relations have grown to a great extent. The strategy adopted by Beijing is seen to be working for either parties, especially in investment, debt forgiveness and investment. This is commendable considering the varying cultures and agendas of China and African states countries. Chinese investment is yet to rival western investment. However, this does not undermine the significant strides realized through current commitments to push this momentum forward.

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<sup>139</sup> Ramo, J. C. (2004). *The Beijing Consensus* (p. 3). London: Foreign Policy Centre.

<sup>140</sup> Zafar, A. (2007). The growing relationship between China and Sub-Saharan Africa: Macroeconomic, trade, investment, and aid links. *The World Bank Research Observer*, 22(1), 103-130.

<sup>141</sup> Dadvar, B. (2016). China’s role in African infrastructure development—Cooperation or Exploitation?.

<sup>142</sup> This Day Live, “GNPC, CNOOC Bid \$5bn to Buy Kosmos Stake” November 8, 2010,

<sup>143</sup> Sautman, B., & Hairong, Y. (2008). The forest for the trees: Trade, investment and the China-in-Africa discourse. *Pacific Affairs*, 9-29.

### **6.2.2. Economic activities between China and Kenya as influenced by the Chinese economic foreign policy on Africa**

The Chinese foreign policy on Africa has stirred a number of economic activities between the Asian country and many African nations. Kenya, just like most African countries has committed to a number of agreements with China that have resulted in the growth of economic relationship between the two countries. Some of the economic activities between China and Kenya include but not limited to, China foreign aid to Kenya, Foreign direct investment, tourism, education health and trade. These economic activities between Kenya and China highlight significant lessons for Chinese foreign policy on Africa.

A review of existing literature shows there is proliferation in China's FDI through both manufacturing and also service sector in Kenya. Initially, the interest of Chinese investors was limited to the manufacturing sector. However, at the moment, there is a paradigm shift towards investment in the services sub-sector too. A significant amount of capital has been provided to the services sub-sector by Chinese investors. In addition, the current structure of employment is changing, with a bias to foreign employees being absorbed in the Chinese enterprises. The Chinese interest in Kenya like in other African states has also expanded to mining and mineral exploration. Just like Nigeria, Ethiopia, Angola and Zimbabwe, Kenya has become an ideal regional base for Chinese investors to expand their trading business in Africa. The sustained activity is associated with a stable political atmosphere in Kenya. The Chinese government is considered to be offering more friendly financing to Kenya. The loans have been used in building schools and hospitals in areas that have been underserved for long, development of malaria prevention and control centers as well as sponsoring volunteers to train the locals on sanitation.

Chinese government is motivated to enter Africa markets to benefit from assets that are considered key in high levels of international trade competition and necessary for rapid technological

advancement.<sup>144</sup> The tide of economic development in Africa is taking a new direction through Chinese commercial engagement.<sup>145</sup> Africa as a continent is limited in resources to realize the 21<sup>st</sup> century infrastructural requirements required to boost trade and economy. China provides an enviable world-class expertise in construction, with its companies considered competitive at the global stage. This has made China a major suitor in the development of the Africa's infrastructure in exchange for natural resources.<sup>146</sup> Despite these developments, it is still a challenge to track the effectiveness of the China operations in the transformative agenda of Africa. What is notable however is that China is "taking over Africa" through significant economic activities expansion. This is as a result of the current Chinese foreign policy on Africa and the need by African states to woo other partners who provide financing with minimal conditionality.

The overall impact of China's economic activities with Kenya as a country is mixed. The country has recorded both noticeable gains and also losses. For instance, the low price of imported producer and consumer goods from China makes them affordable to low income earners. This, however comes at a cost, for example quality reservations have been raised on some of these Chinese products. Similarly, local producers of the same goods are at a loss due to unfair competitive pressure from China. Employees of the industries that are collapsing due to competition may also be rendered redundant. Clearly, the China-Kenya economic relations will result in negative direct and indirect consequences. The indirect impacts include loss of significant regional markets. This trend is likely to render local firms irrelevant in the international markets.

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<sup>144</sup> Brautigam, Deborah. *The Dragon's Gift: The Real Story of China in Africa*. Oxford University Press, Oxford, United Kingdom: 2009. Pg. 142

<sup>145</sup> Corkin, L. (2011). Uneasy allies: China's evolving relations with Angola. *Journal of Contemporary African Studies*, 29(2), 169-180

<sup>146</sup> Davies, M., Edinger, H., Tay, N., & Naidu, S. (2008). How China delivers development assistance to Africa. *Research paper by the Centre for Chinese Studies, University of Stellenbosch, South Africa*.

### **6.2.3. Social and economic impacts of Chinese economic foreign policy on Kenya**

The contributions of Chinese foreign policy on Africa to socio-economic development in Kenya can be realized through the economic activities between China and Kenya. China has been a critical development partner to Kenya extending financial assistance through foreign aid program to facilitate Kenya's socio-economic welfare. Besides the US and the countries of the European Union, China has emerged as a leading and an important bilateral development partner in Kenya's development agenda especially since 2002.<sup>147</sup> Nonetheless, Chinese assistance to Kenya has obvious implications for Kenya's economic development. Even though highly debated Chinese foreign aid to Kenya has also helped facilitate economic development at the micro-level. Micro-level implies the contributions of the aid at the individual and business levels and involves the impact of this aid on the behavior and well-being of individuals and small and medium level enterprises (SMEs).

In terms of socio-economic development, the study has found that Chinese aid has been an important source of development finance. The study has found that Chinese aid has been crucial facilitator of development by supporting the commanding sectors of the economy including agriculture and manufacturing, telecommunications, education, health sectors, civil society empowerment, infrastructure development and defence. The study found that funds from development partners in bilateral and multilateral partners have been crucial in facilitating economic development in Kenya. However, the study has found that Chinese aid is volatile and vulnerable to political machinations. It has found that the aid resources are often extended with underlying and political or economic interests. China has been found to extend aid to Kenya with a motive of realizing economic, political or security interests. Based on the findings of this study, there is contention that the bulk of Chinese foreign aid to Kenya is given to enhance security rather than to facilitate economic development in Kenya.

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<sup>147</sup> Ardovino, M. (2010). The Chinese Development Presence in Kenya. KSC Research Series.

### **6.3. Conclusion**

China's foreign policy has the potential to contribute positively to socio-economic growth in Kenya. In terms of quantity, the economic resources available as a result of China's foreign policy in Africa are able to propel real economic growth in the country. Foreign aid, foreign direct investment, China-Kenya economic cooperation and China Kenya investment contribute directly to economic growth by facilitating development in the various sectors of the economy and peoples' welfare. Such crucial areas where these economic matrices play significant role include but are not limited to agriculture industry, service industry, trade and tourism, communication, energy generation and supply infrastructure, manufacturing, education and health. As such, Chinese foreign policies in Kenya make possible social welfare development as well as real economic growth.

Nonetheless, the effectiveness of Chinese foreign policy to Africa on economic growth in Kenya and the entire Africa continent is contingent on several aspects, which work against it. For instance, in Kenya, like most African countries, economic growth as a result of Chinese foreign policy is volatile and vulnerable to political manipulation by donors, who may direct it to sectors that have no economic growth value with covert political, security and economic interests. In Kenya for example, a lot of aid resources have been allocated to the training of Kenyan military personnel and the strengthening of the police force, areas which have limited significance to economic.

Trade matrices are also vulnerable to international financial crises and that foreign revenues inflow declines with the global financial instability. Furthermore, financial assistance efficacy is also determined by the domestic factors such as the integrity of public officials put in charge of it, strength of the relevant institutions including the law enforcement, judiciary and the executive; it is vulnerable to domestic politics and prevailing domestic financial and climatic conditions. Therefore, it can be argued that while being potentially effective in term of its ability to facilitate economic development both at the household and the national level, Chinese foreign policy effectiveness is dependent on a

array of factors including, the level of corruption, stability of the global economy, allocation for intended purposes and the recipient government's financial discipline.

#### **6.4. Recommendation**

China's space as a Kenyan partner is expanding rapidly, but Kenya should continue to pursue economic ties with other partners too to avoid overdependence on China. The country also needs to reposition its manufacturing sector to raise its GDP. This is through a skills upgrade and specialization of the growing workforce. Similarly, Kenya has to negotiate for continued duty free access to some of the traditional export markets. The developer of trade policies need to focus on expanding the export market and also improving industries that have the potential to contribute towards growth in employment opportunities.

There is need for the Kenyan Government and private sectors strengthen public institutions that deal with foreign policy related matters. The government together with the donors should curb secondary use of funds for purposes not originally intended. The public through their representatives to the National Assembly and the media should follow up and challenge the government and national authorities on issues regarding the progress and completion of donor funded projects.

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# APPENDIX I: RESEARCH QUESTIONNAIRE

## UNIVERSITY OF NAIROBI INSTITUTE OF DIPLOMACY AND INTERNATIONAL STUDIES

### Questionnaire for the Ministry of Foreign Affairs and Ministry of Trade and Industry

This research is to find your opinion on the economic impact of Chinese economic foreign policy on Kenya. I would be very pleased if you could spare some time and complete this questionnaire for me. The information provided will be used for academic purpose and as such going to be confidential. Thank you.

In all questions, please tick [] only unless otherwise indicated.

#### Part A: Demographic Information

1. Kindly indicate your institution?

.....

2. Sex of the respondent?

Male                    [ ]  
Female                [ ]

3. Age of the respondent?

20 to 29 years            [ ]  
30 to 39 years            [ ]  
40 to 49 years            [ ]  
Above 50 years            [ ]

4. For how long have you been working with your present institution?

1 to 5 years                [ ]  
6 to 10 years              [ ]  
11 to 15 years             [ ]  
15 to 20 years             [ ]  
Above 20 years            [ ]

#### Part B: Effects of China foreign direct investment on Kenya economic development

5. Does China foreign direct investment have an effect on economic development of Kenya?

Yes [ ] No [ ]

6. If yes, how would you rate the impact of Chinas foreign direct investment on economic development of Kenya?

Very great extent [ ]

Great extent [ ]

Moderate extent [ ]

Little extent [ ]

No extent [ ]

7. To what extent do you agree with the following statement relating to the effects of China foreign direct investment impact on the Kenyan economic development?

Statement	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
There has been increased competition. For domestically-oriented manufacturers in kenya from cheap imports from China					
The trade imbalance between China and Kenya favors China as local industries and merchants have been hit hard by the flood of cheap Chinese wholesale and retail shops					
Imported textile form China greatly affects local manufacturers					
Long working hours in china sponsored projects is causes conflict with local labor laws					
Local communities perceive that Chinese companies are not contributing enough to increase in local employment and to strengthen the Kenyan economy					

Foreign direct investment is good for growth as it leads to increase in income and employment , thus allowing developing countries to import advanced technologies developed elsewhere hence creating room for competition					
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**Part C: effects of China Aid on economic development of Kenya**

9. In your own opinion, is there economic impact on Kenya as a result of China Aid to Kenya?

Yes [ ]                      No [ ]

10. If yes, how would you rate the extent by which China Aid affect the economic development in Kenya?

- Very great extent [ ]
- Great extent [ ]
- Moderate extent [ ]
- Little extent [ ]
- No extent [ ]

11. What is your level of agreement on the following statement relating to effects of Chinese aid on the economic development in Kenya?

Statement	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
China aid to Kenya has no strings attached especially on issues of democracy and human rights which makes them more attractive					
China Aid is considered more flexible than Western Aid in accommodating domestic constrains					
Enter twining Chinese aid levels with other financial flow, this has a significant impact on the development fortunes of Kenya					
China aid to Kenya has not reduced poverty					

12. How else does China Aid affect the economic development in Kenya?

.....

.....

**Part D: Effects of china Kenya economic cooperation on economic development of Kenya**

13. Does China- Kenya economic cooperation affects the economic development of Kenya?

Yes [ ] No [ ]

14. If Yes, to what extent does China- Kenya economic cooperation affect the economic development of Kenya?

- Very great extent [ ]
- Great extent [ ]
- Moderate extent [ ]
- Less extent [ ]

15. To what extent do you agree with the following statement relating to effects of China-Kenya economic cooperation on economic development of Kenya?

Statement	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
China import more coffee from Kenya and at the same time offered Kenya the most advanced coffee processing equipment					
China has for a long time awarded scholarships to Kenyan students wishing to undertake their studies in China in diverse fields					
China grants various scholarships to Kenya every year in the scientific field and in turn two Chinese postgraduate students are admitted annually to Kenyan university					
Chinese scholarships give Kenyan students the opportunity to obtain an affordable education in important fields such as science, engineering, and medicine					

16. How else does China- Kenya economic cooperation affect economic development of Kenya?

.....

.....

**Part E: effects of China Kenya investment on economic development of Kenya**

17. To what extent does China Kenya investment affect economic development of Kenya?

- Very great extent [ ]
- Great extent [ ]
- Moderate extent [ ]
- Less extent [ ]
- No extent [ ]

18. To what extent do you agree with following statement relating to effects of China Kenya investment on economic development of Kenya?

Statement	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Kenyan producers worry that cheap Chinese goods prevent Kenyan corporations from developing the ability to create competitive finished manufactured products domestically, thus gaining profit in value addition of raw materials					
Chinese manufactured goods have been detrimental to many aspects of the Kenyan economy					
Chinese Multi National Corporation have been broaching various construction fields in Kenya , in addition to construction which negatively affect local construction firms					

19. How else does China-Kenya investment affect economic development of Kenya?

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