

**UNIVERSITY OF NAIROBI**

**INSTITUTE OF DIPLOMACY AND INTERNATIONAL STUDIES**

**THE ECONOMIC IMPACT OF CHINA'S RELATIONS WITH AFRICA: CASE STUDY OF KENYA**

**BY**

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**2020**

**DECLARATION**

This research project is my original work and has not been submitted for any degree to any other university

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## **DEDICATON**

This project will be dedicated with lot of love and gratitude to my family and friends who have always supported me and stood by my side.

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## **ABSTRACT**

The research project is designed to study the economic impact of China's relations with Africa with particular focus on Kenya. China's emergence as an economic power globally presents new chances and obstacles to developing states. The large economy of China has continued to have influence on Africa both economically and diplomatically. This study has set out two hypotheses namely; Kenya-China bilateral ties have prompted in an improved economy for Kenya and secondly, China's influence on the economy of Africa seeks to achieve developmental results and the conditionality (aid and investments) are appropriate for Kenya. The diplomatic relation between Kenya and China dates back to 1963. Since the start of this relation, China has offered project aid, development and assistance to Kenya. Kenya has been viewed by China as a gateway to African states due to her political stability and strong strategic location. China-Africa relation has been positive in several ways as both have benefitted from this relation at some point. China provides African states with developmental model while China gets resources and markets for its products from Africa.

The manufacturing sector of Kenya has greatly benefitted from Sino-Kenya relations as foreign aid to this sector has greatly increased. This conforms to the hypothesis that China's influence on the economy of Africa seeks to achieve developmental results and the conditionality (aid and investments) are appropriate for Kenya. This study depended on the data that was obtained from the primary and secondary sources. Primary data was obtained through questionnaires and interviews whereas the secondary data was acquired from internet, academic journals, books, reports and other relevant sources that were applicable. In addition, a thematic approach was also used to present the information. The main theory of focus was the Realism Theory. This theory helped in discovering that Sino-Africa relation is basically driven by the need to fulfill their national interest by both China and Africa. China is interested in resources and African markets for its product while African states are interested in the aid, investments and loans they receive from China for their developmental purposes.

## LIST OF ABBREVIATIONS

ADB	-	African Development Bank
CCP	-	China Communist Party
CDB	-	China Development Bank
DRC	-	Democratic Republic Of Congo
EITI	-	Extractive Industries Transparency Initiative
EPZ	-	Export Processing Zones
EU	-	European Union
FDI	-	Foreign Direct Investment
FOCAC	-	Forum on China-Africa Cooperation
ICT	-	Information and Communication Technology
IMF	-	International Monetary Fund
IR	-	International Relations
KCCI	-	Kenya Chamber of Commerce and Industries
KNBS	-	Kenya National Bureau of Statistics
MoU	-	Memorandum of Understanding



ODA	-	Official Development Assistance
PRC	-	Peoples' Republic of China
SOEs	-	State-owned Enterprises
UK	-	United Kingdom
UNGA	-	United Nation General Assembly
UNSC	-	United Nation Security Council
US	-	United States
USAID	-	United States Agency of International Development
WTO	-	World Trade Organization



## CHAPTER ONE

### INTRODUCTION AND BACKGROUND TO THE STUDY

#### 1.0 Introduction

The social, historical, military, political, cultural and economic relations between African countries and China can be termed as Sino-African relations. The relationship between Africa and China dates back to the olden days but the start of the 21st century is the period when China built increasingly strong economic ties with African countries<sup>1</sup>. Since the start of the 21<sup>st</sup> century, there has been a greater improvement due to globalization in both the economic and political ties between Africa and China compared to the 20<sup>th</sup> century as both have worked towards establishing great and sustainable partnerships. China and Africa have been working to set up their partnership as a genuine South-South cooperation that will be beneficial to their interests as opposed to North-South cooperation. China's interests are the resources available in Africa which could satisfy its growing consumption whereas African nations are interested in the funds provided to them by China to advance their infrastructure<sup>2</sup>.

#### 1.1 Background to the Study

The United States, Russia and the United Kingdom have recorded a decline in their dominance in the world as the dominant actors due to the rise of new powers for example China. China has risen to become a global power due to expansion of its economy. This rapid economic growth

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<sup>1</sup>“ Kenya, China Mark 40 year Diplomatic Ties”. Xinhua News Agency.2003-12-11. Retrieved 2007-11-06

<sup>2</sup> Alden C, (2007) China in Africa. Zed books Ltd, London/New York.

of China has intensified an extraordinary need for resources over the past few decades. In the bid to acquire the energy supplies such as crude petroleum that were required to support its industrialization, Africa became the primary source for raw materials and oil supplies for China while China provides aid to Africa, loans and grants for the development of infrastructure such as Dams, Rail, Roads and Power. Africa has benefited from the large investments by the Chinese government which has boosted the economic sectors like oil and mining sector in exchange for advantageous trade deals whereby Chinese companies both private (The Yuemei Group and Fintech) and public such as Huawei, StarTimes, Twyford, Tecno and Sunshine Group further expand their transactional pursuits in Africa through sectors like manufacturing, agriculture, infrastructure and telecommunications sectors. The United States has realized that it has lost its position as the largest trading partner of Africa to Chinese government as currently China is the largest trading partner of Africa<sup>3</sup>. However, United States, United Kingdom, France, Russia and India are competitors of China. Despite the fact that western nations support Africa through trade and aid programs of development, China has greatly invested in Africa and further played a productive part in aiding the growth of Africa<sup>4</sup>.

Trade relation between Africa and China has developed since 1990s and presently Africa's largest trading partner is China. In an effort to reinforce the interrelation between Africa and China, the Forum of China- Africa Cooperation was founded in October 2000. This era saw a quick growth in both political and economic relations between the two parties. China-Africa economic relations have intensified as the economy of China has prospered. China imports 15%

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<sup>3</sup>Coons C. (2011). Opening statement: Chairing Senate Foreign Relations African Affairs Subcommittee hearing entitled, "China's role in Africa: Implication for U.S. policy

<sup>4</sup> Ibid

to 16% of Sub-Saharan Africa exports and exports 14% to 21 % of its products to Sub-Saharan Africa<sup>5</sup>.

China has bilateral relations with Kenya. China's relation with Kenya commenced soon after independence in 1963. Since this diplomatic relation was established, aid projects, development and assistance have been offered to Kenya by China mostly encompassing of Moi International Sport Center Kasarani and the Thika Super-Highway<sup>6</sup>. Since 2002, the bilateral trade value has greatly increased<sup>7</sup>.

## **1.2 Statement of the Problem**

Economic relations between China and Kenya have greatly increased as China considers Kenya as an entry point to Africa because it is a war-free country and has a politically stable government. China as a rising economic power has immense need to be dominant economically, culturally and diplomatically through energy and mineral resources and the export markets. Therefore, in order to satisfy the demands of its domestic economy, China needs resources. Africa is home to most of these resources that are needed by China, which is why its interest in Africa is growing.

The need for the available resource in Africa by China has made it to invest in Africa increasing its economic ties with Africa. African leaders for example Uhuru Kenyatta (Kenya), Paul Kagame (Rwanda), Nana Akufo-Addo (Ghana) and Cyril Ramaphosa (South Africa), and have praised this move by the Chinese government as they view it as means of bringing positive developmental

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<sup>5</sup> <https://wits.worldbank.org/countrysnapshot/en/SSF>, accessed on March 29<sup>th</sup>, 2020

<sup>6</sup> Kenya National Bureau of Statistics 2009

<sup>7</sup> <http://ke.china-embassy.org/eng/sbgx/t169682.htm>, accessed on March 29<sup>th</sup>, 2020

outcome to both Africa and China<sup>8</sup>. They claim that the strategies adopted by China in Africa are those of mutual benefit and that its ties with Africa are more balanced than that of African's relation with the West.

A closer look at these relations proves that these economic relations are two faced. China is prospering due to its dependence on the natural resources of Africa and has managed to secure more contracts for Chinese firms in building of infrastructure projects. On the other hand, manufacturing sectors in Africa are weakening due to cheap and substandard products. In addition, Kenya has benefited from the infrastructural projects such as Thika Super Highway as it has helped ease traffic in Nairobi, Link Kenya to Ethiopia which is a major regional economy. Also, it links Kenya to Tanzania via Namanga. In addition, it has attracted businesses from car dealerships, real estate developers and supermarkets. However, the balance of trade between China and Kenya is biased towards China as Kenya tends to import from China more than it exports to China.

Unemployment in Kenya can also be associated with China because in the construction of infrastructure such as roads, Chinese contractors carrying out these projects allocate the jobs to its citizens. In the end, the labor force is also from China and thus benefiting itself instead of the Kenyan citizens. In addition, Kenya has lost its power to sell in the textile industry due to the influx of Chinese products and also Chinese citizens that are ready to engage in small businesses that are generally preserved for the middle class and the poor Kenyans. Kenya's

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<sup>8</sup> <https://qz.com/africa/1379457/china-africa-summit-african-leaders-praise-relations-with-beijing/> accessed on April 17<sup>th</sup>, 2020

debt to China has grown pushing the total debt level of the country to past Sh2 trillion. Many other African nations like Malawi, Angola, Sudan, DRC, Ethiopia and Zambia are also in debt to China.

### **1.3 Research Questions**

- i. What is the Impact of foreign aid on the economy of Kenya?
- ii. Which country benefits more from this economic relation?
- iii. What is the outcome of this economic relation?

### **1.4 Research Objectives**

The broad objective of the study is to identify the economic impact of china's relation with Africa. The specific objectives are;

- i. To examine the nature and economic impact of China-Kenya relations.
- ii. To investigate the interventions applied to resolve and manage the economic impact of China's involvement in Kenya.
- iii. To explore the challenges and opportunities in resolving economic impacts of China-Kenya relation.

### **1.5 Literature Review**

This section reviews literature that is related to the key variables of the study. The section presents analysis of the form and nature of foreign aid and economic advancement from Africa, the intended use of this aid and to what nations as well as the extend of usage of this aid in different sectors.

The Official Development Assistance (ODA) granted to the transitional and developing economies which are concessional in nature can be defined as foreign aid<sup>9</sup>. It has three primary elements: grants, that should not be reimbursed; concessional loans, that definitely requires to be reimbursed but at a lower interest rates and for a longer period of time than the commercial bank loans; also contributions to multilateral organizations for promotion of development, like the World Bank, the International Monetary Fund, the United Nations and the regional development banks like the Inter-American Development Bank and African Development Bank<sup>10</sup>. However, most aid takes the type of tied aid which obliges the recipient states to buy goods and services from the donor states or from specific group of countries<sup>11</sup>.

Foreign aid can be traced back to the Bretton Woods institutions in mid-1940s that saw the foundation of institutions like the International Monetary Fund<sup>12</sup>. Propelled as a large-scale assistance program by the US in 1948, Recovery Program of the European or the Marshall Plan was interested in reinforcing the connection to the West European states to curb the USSR influence during the cold war period<sup>13</sup>. The Marshall Plan as well expanded its reconstruction fund to key parts of Asia and Middle East as a means of suppressing communist expansionism<sup>14</sup>. At the time, foreign aid was advocated as rich nation's moral responsibility to the poor. During the period of the Cold War, the ideology and focus of the donor changed often from one goal to

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<sup>9</sup> Brautigam, D. A., and S. Knack. 2004. Foreign Aid, Institutions, and Governance in Sub-Saharan Africa. *Economic Development and Cultural Change*. V.52, n.2 University of Chicago Press (January 2004), Pp.255-286

<sup>10</sup> Ibid

<sup>11</sup> Roger C. Riddell. 1999. The End of Foreign Aid to Africa? Concerns about Donor Policies. *African Affairs* 98, no. 392 (1999): Pp 309-335

<sup>12</sup> Todaro, M., 1989, *Economic Development in the Third World*, Logman.

<sup>13</sup> Papenek, G.F. 1972, "The Effects of Aid and Other Resource Transfer on Savings and Growth in Less Developed Countries" *Economic Journal*, Vol: 82: Pp.934-950

<sup>14</sup> Abbott, G.C., 1973, -Two Concepts of Foreign Aid, *World Development*, Vol: 1, Sep. Arellano, C., A. Buliř, T. D. Lane, and L. Lipschitz. 2009. The Dynamic Implications of Foreign Aid and Its Variability. *Journal of Development Economics* 88 (1): Pp 87-102.



another like supporting productive sectors, macroeconomic reforms, increasing access to health care and basic education, opening of markets and poverty alleviation and population growth<sup>15</sup>.

After WW II and up to the early 1990s, the desire to expand markets for their exports, help their political partners, trading partners in reducing poverty and reduce military dispute menacing international security inspired donor countries<sup>16</sup>. In 2000, the Millennium Development Goals were introduced partially in response to the apparent failure of development-focused aid in reducing poverty. Governments teamed up to create a universal action plan to augment the volume of foreign aid to 0.7% of GNI and aim alleviation of poverty by 2015<sup>17</sup>.

The Paris Declaration of 2005 saw 91 states make a mutual agreement on effectiveness of aid. The Declaration ignored growth as the foundation for aid effectiveness and rather enthralled on the integrity of recipient ownership, good governance, harmonization, mutual accountability, alignment and managing for results<sup>18</sup>. Previous studies such as Boone (1996) and Collier and Dollar (2001) divulge that from 1990s, donors have linked foreign aid directly or indirectly to poverty mitigation, reduction and eradication<sup>19</sup>. Most aid given to developing nations aimed at meeting one or more of comprehensive economic and development goals: a) to encourage

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<sup>15</sup> Chenery, H.B. and Strout, A.M. 1966, "Foreign Assistance and Economic Development" American Economic Review, NO:56. (4). Pp 679-733

<sup>16</sup> Burnside, C. and Dollar, D. 2000, "Aid, Policies and Growth", American Economic Review, September, Vol: 90, No:4. Pp 847-868.

<sup>17</sup> Michal Edwards. 2004. Future Positive: International Cooperation in the 21<sup>st</sup> Century. Earthscan. London. p.111.

<sup>18</sup> OECD 2005b. Paris Declaration on Aid Effectiveness: Ownership, Harmonisation, Alignment, Results and Mutual Accountability. Paris: Organisation for Economic Cooperation and Development. Available at [www.oecd.org](http://www.oecd.org).

<sup>19</sup> Roger C. Riddell. 1999. The End of Foreign Aid to Africa? Concerns about Donor Policies. African Affairs. 98:335. Pp309-335. Accessed January 2018

economic development through building of infrastructures, helping production sectors like agriculture or creating fresh ideas and technologies. b) To bolster health, political systems, education and environment. c) To support abundance consumption of food as well as other products, mainly during operations of aid or humanitarian disaster. d) To aid stabilization of the economy after economic crisis<sup>20</sup>.

Over the past five decades, the transfer of foreign aid to Sub-Saharan African governments has been a staggering \$1 trillion<sup>21</sup>. The purpose of these generous donations driven by self-interest, altruism and colonialism aimed to strengthen economic and political relations, improve the standards of living and lifting people out of poverty that is known to describe several developing countries in Latin America, Africa and several countries in Asian continent<sup>22</sup>. However, while the world's aid flows rapidly into developing countries, most economies of the continent are known to struggle with deepened and extensive poverty levels. Today, about 15 per cent of world's population represents less than 3% of the world's Gross Domestic Product and criticisms of foreign aid are increasingly becoming vocal, that aid has not been successful improving people's lives but rather lowered their standards of living<sup>23</sup>.

For a long time, the relationship between governance and foreign aid has been the central point of poverty debates regarding Sub-Saharan Africa. Countries that have demonstrated

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<sup>20</sup> Arellano, C., A. Buliř, T. D. Lane, and L. Lipschitz. 2009. 'The Dynamic Implications of Foreign Aid and Its Variability.' *Journal of Development Economics* 88 (1): Pp87–102.

<sup>21</sup> Hadjimichael, M. T., D. Ghura, M. Muhleisen, R. Nord, and E. M. Ucer. 1995. 'Sub-Saharan Africa: Growth, Savings, and Investment 1986–93.' *International Monetary Fund Occasional Paper 118*, Washington, Dc.

<sup>22</sup> Easterly, W., 2003, 'Can Foreign Aid Buy Growth', *The Journal of Economic Perspectives*, Vol: 17, No:3, Summer. Pp.23-48

<sup>23</sup> William Easterly & Tobias Pfutze. 2008. 'Where does the Money Go? Best and Worst Practices in Foreign Aid.' *The Journal of Economic Perspectives*. 22(2): Pp 29- 52.

better governance have been receiving foreign aid for more years than those that do not<sup>24</sup>. World Bank assistance has also been tied to so. World Bank assistance is also associated with improving and strengthening global governance institutions. While the positive impact of aid on poverty reduction should be overestimated, in many countries aid has not achieved its purpose of helping purpose of promoting economic growth and helping the least advantaged in reduction of poverty<sup>25</sup>.

Several developing states have frequently been characterized by corrupt and unqualified personnel in government institutions who have misused and misappropriated aid given for development. This is further exacerbated by weak institutions' incapacity to address such related issues that repeatedly constrain development<sup>26</sup>. For example, the president of Gambia (Sir Dawda Jawara), soon after independence collected a considerable fortune through obscure channels and foreign aid which was used to strengthen power<sup>27</sup>. It is alleged that foreign aid weakens Africa and encourages reliance on the western nations. Various studies (Walter Rodney 1973 and Deborah Brautigam 2000) have revealed that most Sub-Saharan governments do not care about building their countries and a dynamic economy using the local tax base due to the revenues that can be obtained very easily from overseas in form of foreign aid<sup>28</sup>. However, despite devoting time and resources to development assistance, these states are still

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<sup>24</sup> Masud, N., and B. Yontcheva. 2005. Does Foreign Aid Reduce Poverty? Empirical Evidence from Nongovernmental and Bilateral Aid.' Imf Working Paper, International Monetary Fund Institute, Washington, Dc.

<sup>25</sup> Alesina, A., and D. Dollar. 1998. Who Gives Foreign Aid to Whom and Why. Working Paper 6612, National Bureau of Economic Research, Cambridge, MA. P.33-63

<sup>26</sup> Thirwall, A.P. 1989, Growth and Development: with Special reference to Developing Economies, McMillan Press, London.

<sup>27</sup> Areskoug, K., 1976, "Private Foreign Investment and Capital Formation in Developing Countries", Economic development and cultural Change, Vol:24, No:3. Pp 539-547

<sup>28</sup> Chenery, H.B. and Strout, A.M. 1966, "Foreign Assistance and Economic Development" American Economic Review, N0:56.p.679-733

underdeveloped. From a public interest standpoint, foreign aid is needed to close a funding or the investment gap and as a result lift nations out of poverty trap. However, it has not achieved any key positive impact in these states<sup>29</sup>.

According to Mosley et al, aid has no effect on economic growth<sup>30</sup>. Moyo shares this point of view and contends that foreign aid has failed to enhance the economic and social conditions in Africa for various reasons namely; sectors which are vital and paramount to the growth of the country have rarely received any resources and not more than 6.5% of growth assistance or aid given to the developing countries in recent years have been apportioned to sectors which are vital to economic development and rapid growth such as technology, education, infrastructure, healthcare, agriculture, energy and environment. Furthermore, government officials steal debt and aid resources for them, their families and friends to become richer than directing these resources to the useful sectors of the national economy.

Furthermore, at the time of the Cold War, developed nations policies favoured affable African state. Consequently, ODA became generally uncertain and could not be relied upon to develop long term development plans. Furthermore, some Western donors (US) frequently imposed conditions on foreign aid which made it difficult to use effectively for development. In addition, in some cases, foreign aid was motivated by the lobby groups of developed nations to sell their

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<sup>29</sup> Papenek, G.F.1973b. "The Effect of Aid and Other Resource Transfers on Savings and Growth in Less Developed Countries". *Economic Journal* 82 (September) Pp 934-980

<sup>30</sup> Mosley, P. 1980. Aid, savings and growth revisited. *Oxford Bulletin of Economics and Statistics*, 42(2): Pp79-95.

goods, services, and technologies which were not appropriate for growth of Africa as they were frequently outdated and unsuitable for the conditions of Africa<sup>31</sup>.

The relationship between foreign aid and economic growth could be determined by the standards of the receiving nation's organizations and economic policies, like monetary, fiscal, integrated and trade policies. As reported by Mbaku, African states have not been able to use aid effectively since they lack the right laws and organizations to use the aid they receive properly and effectively. Nevertheless, it must be taken into consideration that regional disagreements on foreign aid impacts amongst the receiving states are unavoidable<sup>32</sup>. The income levels of the Recipients or levels of social and economic growth may be affected.

After analyzing eighty three recipient countries in Caribbean, Africa, Latin America and Asia, Ekanayake and Charrna concluded that aid has various implications on the economic development of the receiving states. Caribbean and Latin America countries mainly experienced negative impact on economic development, whereas African states experienced positive impacts<sup>33</sup>. Several reports present different proof: negative impacts in short term but positive impacts in the long term. For instance, Moreira examined the effect of economic development at macro-level and investigated both the short and the long term impacts<sup>34</sup>. The long term

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<sup>31</sup> Moyo, D. 2009. *Dead aid: Why aid is not working and how there is a better way for Africa*. New York: Farrar, Straus, and Giroux.

<sup>32</sup> Mbaku, J. 2004. *Institutions and development in Africa*. N.J: Africa World Press, Inc.

<sup>33</sup> Ekanayake, E. & Chartna, D. 2010. The effect of foreign aid on economic growth in developing countries. *Journal of International Business and Cultural Studies*, 3: p.140-155.

<sup>34</sup> Moreira, S. 2005. Evaluating the impact of foreign aid on economic growth: A cross-country study. *Journal of Economic Development*, 30(2): p.25-49.

impacts have been discovered to be way better than short term ones. In addition, Juselius, Framroze and Tarp (2011) discovered that aid had a positive effect in the long run<sup>35</sup>.

Currently, Sino-African relations have developed considerably thus leading to China increasing its ODA to African states. China's continued development assistance to Africa over the last three decades has been one of the region's most controversial developments. Burdened by the vigorous economic growth aimed at strengthening the self-reliance of African states, the aid provide to Africa by China has caught the world's attention and attracted the attention of both friends and foes. While the friends see these numerous aid as a fruitful opportunity for both parties, opponents of this partnership are concerned about the possible impact of China's development assistance on enhancing self-reliance capabilities in recipient countries. They (US and UK) see China's interest in Africa as purely resource-based and this has helped to question the authenticity of China's good intensions to achieve mutual interest and increase the self-sustenance of these recipient countries<sup>36</sup>.

China's aid to Africa includes grants, concessional loans, zero-interest loans, and debt relief (which qualify as ODA) also commercial lending from banks of China, market-rate export buyers' credits, and preferential export credits (do not qualify as ODA). It also offers investments funds which help Chinese firms to invest in Africa through the development fund

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<sup>35</sup> Juselius, K., Framrzone, M. & TARP, F. 2011. The long-run impact of foreign aid in 36 African countries: Insights from multivariate time series analysis. Working Paper No. 2011/51, UNU-WIDER. KOSACK, S. 2003. Effective aid: How democracy allows development aid to improve the quality of life, *World Development*, 31(1): p.1-22.

<sup>36</sup> Berthélemy, J.C. 2009, Impact of China's Engagement on the Sectoral Allocation of Resources and Aid Effectiveness in Africa, Paper prepared for African Economic Conference 2009:

of China and Africa. China also lends up to \$1billion to Africa's small and medium enterprises (SMEs) through indigenous African banks<sup>37</sup>.

### **1.5.1 Gaps in Literature**

China's interest in Africa encompasses its need for natural resources of Africa and necessity to sustain its economy. The policy "no strings attached" that China has appertained to Africans States since their independence yet plays out today. It has been impossible to prove Beijing's real intentions for the continent of Africa including its relations with Kenya. Although there is no considerable literature specifically on the economic relations between China and Kenya, the little that is there mostly shows aspects of Kenya and China's economic relations without showing the impacts of this relationship.

### **1.6 Research Hypotheses**

This study is going to be guided by two hypotheses

- 1) Kenya-China bilateral ties have prompted an improved economy for Kenya.
- 2) China's influence on the economy of Africa seeks to achieve substantial developmental results and the available conditions (aid and investments) are appropriate for Kenya.

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<sup>37</sup> Brautigam, D. 2010, China, Africa, and the international aid architecture, Working Paper No. 107 (April), African Development Bank, Tunis.2010

## **1.7 Justification of the Study**

### **1.7.1 Policy Justification**

China's main and immediate significance of Kenya to her is not only resources that are available in Kenya but it should be viewed more decisively thanks to the profitable deals and political muscles. The study will help present a ground for bolstering option and method of economic policies and strategies in respect to Kenya's growth and strengthen the bilateral relations between China and Kenya. In view of policy making, this highlights the significance of boosting the investment environment and strengthening the regulatory framework, especially in Africa to realize win-win results.

The study further will make contributions to finding solutions to issues related to the ever increasing external debts. Matters of debt sustainability, environmental protection and governance reform are related to the new financing and investments in Africa. These matters should be tended to depending on information shared, coordination and collaboration between the host state government and their development partners. It is hoped that the study will make recommendations around such best-interest concepts for the betterment of Chinese investment in Africa. This study will contribute to and enlarge debates about the internationalization and recapitalization of the state through empirical investigation.

### **1.7.2 Academic Justification**

Messer et al has carried out studies on the economic impacts of the China-Africa relations. China-Kenya relations have also been studied and documented through research. However, these studies have not been conclusive and by noting the fact that with each passing day, new



dynamics emerge in the China-Africa and the China-Kenya relations. This therefore calls for continued research. Hopefully the findings of the study will contribute to the body of knowledge that already exists on China in Africa by availing current and updated information regarding the economic impacts of the China-Africa and the China-Kenya relations<sup>38</sup>. The study findings shall also be used as a reference for future research in this field.

### **1.8 Theoretical Framework**

This study will be founded on the Realism theory of International Relations as this theory suitably explains the political viewpoint of China towards Africa and the perspective of African states towards the China-Africa relations. Realism theory asserts that, the nature of international system is anarchical and there is no world government that presides over the sovereign states. According to scholar Hans Morgenthau, states in the international system aim to promote their national interest. This national interest is determined in terms of power<sup>39</sup>. Therefore states tend to be selfish entities with a major goal of building power in order to achieve and maintain superiority in respect of balance of power.

States are reasonable actors and adopt a political and economic approach based on national interests. Based on this, we can contend that China, as an emerging global political and economic power, is acting to secure its survival in Africa thereby gain power and influence.

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<sup>38</sup> Deborah Brautigam (2010) *The Dragon's Gift: The Real Story of China in Africa*. Oxford University Press

<sup>39</sup> Hans Morgenthau, (1973). *Politics Among Nations. The Struggle for Power and Peace*. 5<sup>th</sup> ed. New York. Alfred. A. Knopf

The pursuit of China's policy in Africa is to serve its main national interests. That is; economic, security, political and ideological<sup>40</sup>.

Morgenthau contends that the definition of national interest is in the context of cultural and political formulation of foreign policies. Consequently, the definition and use of power depends on both cultural and political environment. In this regard, the foreign policy of China and external behavior are considered to be reactive to the international systems' wavering dynamics. For instance, the conception of "energy security" is highly gaining popularity securing importance as a tactical aim of powerful countries. In this circumstance, the countries whose behaviors could be described in terms of realism are, for example, China aims to "secure trade routes and assure ties with export countries favorable to continue energy trade while African countries aims at obtaining foreign aid from China to boost their economies"<sup>41</sup>. Therefore, Realism theory is useful in explaining China's economic relation with Africa.

China seeks the support of African countries for one-China policy with the aim of eliminating the diplomatic presence of Taiwan in the continent. African states played a major part in assisting the PRC regain its seat at the UN as a legitimate government, representing the people of China in 1971<sup>42</sup>. In addition, African states helped China block a press release from UN human rights panel which criticized China over Tibet problem in 2008, before the start of Beijing Summer Olympics. Also, China seeks the support of Africa in multilateral institutions and forums to attain its global agenda, bearing in mind those African states represent the

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<sup>40</sup> Ibid

<sup>41</sup> Helleiner, E. and Pickel, A. 2005. *Economic Nationalism in Globalizing World*, Ithaca NY: Cornell University Press.

<sup>42</sup> Brautigam, D. (2009). *The Dragon's Gift: The Real Story of China in Africa*. Oxford: Oxford University Press.

largest voting capacity of 54 African countries, equivalent to more than a quarter of UN members.

Although friendship and brotherhood are good qualities of human relationships, states, in essence, are not passionate. China is not only in Africa just because it enjoys long-standing, friendly relationship with Africa, but also due to raw material which are beneficial to Chinese industries and markets for the products of China. China is much more focused on obtaining raw materials for its manufacturing and industrial sectors while at the same time, seeking economic growth through offering loans and also contracting for their companies to carry out infrastructure projects. Africa has become a testing place for internationalization of China's firms in areas such as transportation, information telecommunications and renewable energy. In addition, Chinese firms are taking advantage of the capabilities of the African markets as well as its cheap labour force with the intention of relocating their operations to Africa and produce more cheaply. Moreover, Africa is a central part of belt and road initiative of China<sup>43</sup>.

In the beginning of 1950s and 1960s throughout the Mao Zedong period, ideology represented a key factor in China's policy in relation to African states. China wanted to be the developing world's leader, where African states constituted a fundamental component. China desired to form a partnership with African nations to oppose colonialism and hegemony, especially as both China and African states know that they share an experience of resisting western colonialism. This strategy has greatly helped African nations in spite of China's

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<sup>43</sup> Ibid

economic struggles at that period<sup>44</sup>. This help consisted of foreign aid and assistance through the United Nations Security Council (UNSC) for conflict-ridden countries such as Chad and Liberia. After 1979, China gradually decided its policy on Africa. It formed relations with every African state that supported one-China policy.

However, China has started to apply ideology in a different way. The CCP endeavours to achieve legality by shifting its model of development to Africa. This model, which combines economic growth with autarchy, has demonstrated to be effective in China. As a result, the Chinese government is trying to persuade African states that economic development and political stability ought to be prioritized over democracy. This model has appealed to many African states<sup>45</sup>.

### **1.9 Research Methodology**

This is a study that is employed by a researcher in investigating a specific case so as to acquire significant answers to research questions. It is a summary of the research which comprises what will be executed by the researcher from noting down the hypotheses and the arising operational inferences and eventually analyzing the research data. Therefore, the research methodology tends to answer the research questions and problems more objectively, accurately and validly. Therefore it groups the conditions for collection and analyzation of data in a manner that depicts the significance of research process. It tends to explain the

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<sup>44</sup> Mao, "On People's Democratic Dictatorship," Mao Zedong xuanji (Selected Works of Mao Zedong) (Beijing:Renim,1965) vol. 4, P 1477

<sup>45</sup> Deborah Brautigam & Xiaoyang Tang, "Going Global in Groups": Structural Transformation and China's Special Economic Zones Overseas", World Development (in press)

methodology of study such as the research design, target population, selection procedures, site of study, data collection techniques, study sample, and data analysis method.

### **1.9.1 Research Design**

It is a methodological process that is applied in a research study and it entails several perspectives from collection of data collection to its analysis. Mixed method research design will be employed by this study which includes qualitative and quantitative method. The qualitative research is important in discovering the comprehension, perspective, standpoint and motivation of the citizens of Kenya. Through this approach (qualitative) it is possible to understand the reactions of the citizens of Kenya on the issue of the Chinese in Kenya by producing quantitative information for use in producing practical statistics and measure various statistics and believes.

### **1.9.2 Research Site**

This study will use the case study of Kenya due to the increased involvement of the China in Kenya. This was the preferred case because China has invested in Kenya a lot and greatly increased its economic and diplomatic ties with the country.

### **1.9.3 Target population**

Those involved in this study will be the residents of Nairobi County. The study will be interested in national and county government officials in different ministries that are concerned with economic relations between China and Kenya. The officials targeted include those from the roads and infrastructure department, manufacturing and construction, telecommunication and ICT, foreign affairs and agricultural departments. The study will also target Chinese

representatives in Kenya including the representative heading the Economic and Commerce office of China in Kenya. The study will also target local residents within Nairobi County and specifically those in entrepreneurship.

#### **1.9.4 Sample Size**

This study will employ two different techniques of sampling in view of the target population. The study shall use non-probability sampling that is purposive sampling to obtain respondents from national and county government departments. This is in view of the fact that purposive sampling will enable the researcher to obtain respondents who possess the information the researcher is interested in. The study shall also use simple random sampling in obtaining respondents from the business community within Nairobi County. This technique will be used in view of the fact that the business community is diverse in terms of the products and services they deal in, the source of their products, industry as well as their view point on the China-Africa relations.

#### **1.9.5 Data Collection Method**

The mixed method of data collection which includes both qualitative and quantitative research design will be used by the researcher in analyzing the economic impact of China-Kenya relation. The qualitative research design is applied to a case that can be measured concerning quantity since it is focused on measuring quantity. This research design allows measuring and analyzing the data to study the relation between dependent and independent variables in details. It allows the researcher to be objective in the research due to the possibility of testing hypotheses by measuring data through statistics. Qualitative research design focuses on issue

related to type or standard. This research design is important at the early stages of the research study. During this stage, the researcher is unconfident of what to prioritize or study in the research study. Therefore, it is paramount for the researcher to let the research study to develop naturally.

Qualitative data will be acquired via literature review and through conducting of interviews. The obtained literature review will be verified through the interview process. The interviews will be relevant in getting data and information concerning the experience of the interviewees. The appropriate type of interview that will be by the researcher is the open-ended interview design where it will offer lengthy and descriptive answers. The use of this interview design will help the researcher to clarify and uncover rich descriptive data on the personal experiences of the participants.

#### **1.9.6 Data Analysis**

This involves processing of the data that has been collected in a way to ease the presentation and draw the findings. In this sense, the data that will be collected will be sorted, edited and analyzed for better presentation of the data. In order to determine where independent variables affect dependent variables, the correlation analysis will be used descriptive primary data reflecting the respondent's opinions and secondary data obtained from interviews will be scrutinized in relation to thematic analysis. The thematic analysis is one of the most common types of analysis in the qualitative research. This form of analysis puts a lot of emphasis on discovering, surveying and reporting patterns in the data. In this topic, it will classify and reports the main data in detail. The thematic analysis will help in further interpretation of some

facet of the research problem. After collecting the secondary and primary data, the researcher will correct and expunge data to minimize mistakes and exclusions. The information will be the objectives and hypothesis advanced the qualitative data will be strengthened by the quantitative data.

### **1.9.7 Data Presentation**

Graphical methods such as pie charts and tables will be used to present the data. This type of presentation will be efficient in that it will be easy to depict data more accurately

### **1.9.8 Ethical Consideration**

To ensure ethical compliance, the researcher will adhere to all standards, norms and rules of carrying out a research. The researcher will inform the necessary authority before collection and compilation of data. The researcher will also comply with the voluntary informed consent where the contributors of the research will be allowed to take part in the process of research voluntarily. The participants will be assured that the data that will be compiled will not be shared with any other party before their requesting for their approval. Most important of all, anonymity will be assured for the purpose of security. In addition the individual partakers will be assured of accessibility to the final study result when it will be completed.

## **1.10 Chapter Outline**

### **1.11 Chapter One: Introduction and background of the study**

This chapter covers the introductory part of the study and background to the study which provides the foundation of the project. It covers the statement of the problem, the objectives



of the study, the research questions, the hypotheses of the study, study justifications, research methodology, theoretical framework supporting the study and a comprehensive literature review. This chapter gives an overview of what the study is about.

### **1.12 Chapter Two: Extension of the Literature Review using Theory of the Study**

This chapter will extend on literature review using the relevant theory of the study as a guideline.

### **1.13 Chapter Three: Nature and Economic Impact of China-Kenya relations**

This chapter will present the nature and economic impact of relation between China and Kenya. It will provide a more descriptive overview of the case study of the research problem.

### **1.14 Chapter Four: Interventions used, Challenges and Opportunities in resolution to manage the Economic Impact of these relations**

This section of the study discusses the interventions used to resolve and manage the economic impact of China-Kenya relations on Kenya. It further looks at the challenges and opportunities faced by the Kenyan government in resolution of these economic impacts that occurs due to the economic relation with China. This section will further look at the factors which hinder resolution and those that support these resolutions.

### **1.15 Chapter five: Summary of Findings**

This chapter will present summary of findings, conclusion and recommendations and suggestion for further research.

## CHAPTER TWO

### Extension of the Literature Review using Theory of the Study

The Realist claims that conflict is because of states procuring their crucial interests. They see this conflict as unavoidable. Therefore, power tools like foreign aid are becoming an alternative for countries to advance their interests. It is viewed as political tool created at the time of the Cold War so as to realize 'foreign policy goals' of the donor countries<sup>46</sup>. In the Cold War period, aid was seen as a foreign policy tool used by each party to gain influence with Third World governments<sup>47</sup>. An example is the Nicaraguan dispute, between the Sandinistas and Contras, each of which were backed by their particular supporter (Soviet Union and US<sup>48</sup>).

The invasion of Afghanistan by the Soviet and support for Mujahedeen by the US, are instances of how Cold War powers fostered their interests of foreign policy, resulting in both states being accused of using puppet wars against one another. During their post colonial history, most African countries became battlefield for ideological war between the Soviet and United States. Aid was also regularly linked to military help as noted in the foreign aid discourse that fostered the national security of US and countered the threats of the communists used by both opponents and proponents of the bills amid the US House of Representatives debates of 1963

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<sup>46</sup> Wall, David 1973. *The Charity of Nations*, London: Macmillan.

<sup>47</sup> McKinlay, R. D., and Mughan, A. 1984. *Aid and Arms to the Third World: An Analysis of the Distribution and Import of us Official Transfer*, New York: St. Martin's

<sup>48</sup> Morgenthau, Hans Joachim 1962. 'A political theory of foreign aid', *American Political Science Review* 56, 2: 301-09.

and 1964<sup>49</sup>. Huntington supports this point of view by analyzing the situation from a perspective of a donor<sup>50</sup>. He deduced that aid is mostly used as a foreign policy tool to realize donor's objectives. In his assessment of the foreign aid of US, he claims that aid is designed to serve the foreign policy interest of US.

For instance, foreign aid as relationship between states is a function donor country's interests. A country tends to offer foreign aid to the recipient wherever it sees economic or security interest, or for ideational purpose like improving its international status. There is general agreement amongst scholars such Taylor( 2004:83), Muekalia et al( 2004: 11) and van der Wath( 2004: 75) that diplomatic support is the other agenda behind the engagement of China with Africa especially in regard to the position of China in global politics mostly in multilateral forums Like the UN. The policies of China appeal mostly to the elites of Africa .In order to increase its soft power globally; China has tried to buy the minds and hearts of African leaders so as to obtain allies in developing nations<sup>51</sup>. Subsequently, activities of China in Africa have been about diplomacy and economics, and the primary targets have been the elites and governments of Africa<sup>52</sup>.

For instance, China offers foreign aid without interference in the domestic matters of a country. However, this has been condemned by states like the US because of human right matters and governance in those countries that China offers foreign aid to. This hand-off policy

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<sup>49</sup> Vorys, Karl Von 1967 *The Political Dimensions of Foreign Aid*, Philadelphia: University of Pennsylvania.

<sup>50</sup> Huntington, Samuel P (1970-1) 'Foreign aid for what and for whom', *Foreign Policy* 2,1:161-89.

<sup>51</sup> Cornelissen, S. and Taylor, I. 2000. "The political economy of China and Japan's relationship with Africa: a comparative perspective" in *The Pacific Review*, 13 (4):P 615-633.

<sup>52</sup> Alden, C. 2005(b). "China-Africa Relations: the end of the beginning" in Draper, P. and le Pere, G (eds.). 2005. *Enter the Dragon: Towards a free trade agreement between China and the Southern African Customs Union*. Institute for Global Dialogue and the South African Institute for International Affairs: Johannesburg.

of China has effectuated assisting of nations with poor governance which cannot be assisted financially by the international financial institutions. This has been merely for purpose of increasing allies in Africa .For example, Angola refused to abide by the coercion from International Monetary Fund (IMF) for transparency in the oil sector. This was because Chinese Export-Import Bank acted as a second choice source of funding<sup>53</sup>. As a result, China has been viewed as a rogue donor that is not concerned with the general affair of the citizens of the country it offers aid to<sup>54</sup>.

Morgenthau contends that aid generates interests that cannot be obtained through military ways. In his six forms of foreign aid (Prestige, humanitarian, economic, military, development and bribery); he mentions two means of influence: 'bribe and propaganda. 'Propaganda' entails the effort to build 'psychological' relations for prestige and worldwide recognition, while 'bribes' involves a greater direct trade for allegiance through seeking the price for political rewards. Propaganda, which Morgenthau contends is an important element of foreign aid which was essentially ideological at the time of Cold War. For instance, in Soviet Union, a propaganda campaign that was ideological was upheld via its superintendence in the Comintern within the Soviet's influence that reflected its dedication to global revolution<sup>55</sup>.

As a result of this, Soviet-styled socialist insurrections were inspired throughout the world. European powers were devastated by the WWII thus weakening their control over their colonial states as each colony gained its independence leading to a vacuum being created. The

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<sup>53</sup> Lombard, L. (2006). Africa's China card. Foreign Policy web exclusive at [http://www.foreignpolicy.com/articles/2006/04/10/africas\\_china\\_card](http://www.foreignpolicy.com/articles/2006/04/10/africas_china_card)

<sup>54</sup> Naim, M. (2007) Rogue and Foreign policy, March/April/2007 Number 159:95-96

<sup>55</sup> Morgenthau, Hans Joachim 1962. 'A political theory of foreign aid', American Political Science Review 56, 2:pp 301-09.

US and Soviet Union started to occupy the void created by these departure. Economic assistance of superpowers in the liberated areas has allowed the superpowers to fight in favour of these new independent states support. Bribery, another foreign aid tool that highlights the foreign policies backed by the realists. Several states accept involvement in bribery as foreign policy tool but there are many diplomatic reproach and rebates. As aid was regarded a tool to buy influence or support, non-transparent or limited has been similarly eyed with suspicion particularly by the American Government. The Iran-Contra Case which involves several top leaders of the US Government is a proof of the impact of 'bribes and 'propaganda' by the Traditional aid donors<sup>56</sup>.

With this understanding, Maizels and Nissanke further state that self-interest is a variable for various donors. Their examination of donor-interest models presents a solid understanding of how bilateral aid was allocated between 1978 and 1980. For example, In the US, strategic matters were of most significance while in Britain and France, links with previous colonies were their inspirations. As for Japan, important markets were a priority for Japanese exporters were the priority and hence their policies were focused on<sup>57</sup>. These views are supported in the cross-national analysis of Schraeder et al. They showed that donor countries such as Sweden, United States, France and Japan share democratic values and contribute to the economic development of recipient states although realist's strategic interest influences their aid policies<sup>58</sup>.

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<sup>56</sup>Jepperson, Ronald L., Wendt, Alexander E. and Katzenstein, Peter 1. (1996) 'Norms, identity and culture in national security', in Peter J. Katzenstein (ed.) *The Culture of National Security: Norms and Identity in World Politics*, New York: Columbia University Press, p 33-75

<sup>57</sup> Maizels, Alfred and Nissanke, Machiko K. (1984) 'Motivations for aid to developing countries', *World Development* 12,9: Pp 879-900.

<sup>58</sup> Schraeder, Peter J., Hook, Steven W. and Taylor, Bruce (1998) 'Clarifying the foreign aid puzzle: a comparison of American, Japanese, French and Swedish aid flows', *World Politics* 50, 2:Pp 294-323.

According to Arellano et al, Bilateral donor aid and distribution patterns have been more strongly decided by donors' political and strategic interests than apprehensions about good governance recipient countries<sup>59</sup>. Factors such as the voting pattern of UN and colonial history try to explain aid distribution more than recipient government's economy or political institutions. It is believed that the indiscriminate distribution of foreign aid will have a direct effect on governance through its propensity to end corruption existing in recipient states<sup>60</sup>. Given that the largest recipients of ODA in Sub-Saharan Africa are among the low-rated nations within the universe in several areas of governance, especially in relation to corruption. Foreign aid only increases the amount of money already available to corrupt officials and kleptocratic elites.

Foreign aid indirectly undermines governance through increasing the public sector's size thus increasing the potential for corruption<sup>61</sup>. Studies show that in a corrupt environment, ODA transfers ultimately fund wasteful government spending mistakenly called development<sup>62</sup>. According to Boone, government consumption will increase with aid. However, this does not generally benefit the poor since money is squandered on fraudulent procurement, military equipment, white elephant projects and other spending that provide plentiful opportunities for corruption. It shows that it does not benefit the poor. In general, they do not produce significant income to bolster growth or service loans<sup>63</sup>. Foreign aid also proved to be a practical instrument for leaders with a short-term prospect to adopt guidelines that yield rapid outcome

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<sup>59</sup> Arellano, A. Bulir, T. Lane, and L. Lipschitz .2005. Dynamic Implications of Foreign Aid and its Variabilit. IMF Working paper.

<sup>60</sup> Burnside, C., and D. Dollar 2000: Aid Policies and Growth, *American Economic Review*, 59(4), Pp847–868.

<sup>61</sup> Easterly W. 2003. Can Foreign Aid Buy Growth?. *Journal of Economic Perspectives*, 7(3), P 23-48

<sup>62</sup> Bandow, D. 2002. ' Foreign Aid: Help or Hindrance.' *Foreign Service Journal*.

<sup>63</sup> Boone, P. 1996. Politics and the Effectiveness of Foreign Aid. *European Economic Review* 40 (2):P 289– 330

but not ultimately in favour of development. One such popular policy is increasing the number of civil servants so as to lower unemployment rate and basically make aid useless to pay unnecessarily huge numbers of civil servants without doing anything<sup>64</sup>. This leads to a chronic tendency states to overextend them.

Another possible distortion arises from foreign aid's fungible nature. This is related to the viewpoint that donors frequently allocate funds for projects tailored for particular needs in the country for which funds have already been provided by the recipient government from its own budget<sup>65</sup>. The inflow of foreign funds allows the recipient government to reduce its own allocation in sectors receiving ODA and to reallocate these resources elsewhere<sup>66</sup>. The fungibility concept itself is certainly not harmful especially when the additional funds are used for productive purposes in the economy. Fungibility is a problem because it widens the scope of corruption and pensions seeking<sup>67</sup>.

The state in which International relations take place is Hobbesian in nature where survival and national security are the main goals. Therefore, foreign aid is seen as partly linked to recipient states' economic growth and the recipient country's humanitarian needs are minimized.

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<sup>64</sup> Brautigam, D. A., and S. Knack. 2004. Foreign Aid, Institutions, and Governance in Sub-Saharan Africa. *Economic Development and Cultural Change* 52 (2): Pp 255–85.

<sup>65</sup> Easterly, William and Tobias Pfütze. 2008. "Where Does the Money Go?. Best and Worst Practices in Foreign Aid". *Journal of Economics Perspectives*, 22 (2) P 29-52

<sup>66</sup> Moyo, D. 2009a. *Dead Aid: Why Aid Is Not Working and How There Is a Better Way for Africa*. New York: Farrar, Straus and Giroux

<sup>67</sup> KIPPRA and ODI 2005. *External Aid Policy in Kenya. A Background Paper Prepared to Support Development of a National External Aid Policy for Kenya*. Nairobi: Kenya Institute for Public Policy Research and Analysis (Nairobi) and Overseas Development Institute (London).

Tied aid, technical assistance and food aid are regarded inherently less effective<sup>68</sup>. Tied aid requires that part of it be spent on donor country's goods which raises the possibility of receiving more from the recipient and make the recipients to be surcharged because it increases the donor country's market power and frequently sums to little more than export promotions that are poorly-disguised. Similar argument was made against food aid. This is mainly the in-kind food supply by the donor state that can always be purchased locally at a very affordable price.<sup>69</sup> Food aid basically is a means for richer states to discard their surplus agricultural goods into the poor country's markets. Technical assistance is defined by OECD as an activity aimed primarily at enhancing knowledge, technical experience, skills or production capabilities of the developing country's population. It is also frequently associated and often condemned as reflecting the priorities of donors rather than recipients<sup>70</sup>.

Within the realist scope, policy of foreign aid aims to address the main problems of state security as well as power maintenance and satisfaction of provision. Certain needs such as Humanitarian are always addressed in response to compulsion from the civil society groups that deal with fights against corruption and abusing of people in the receiving state. As previously mentioned, foreign aid is made possible by realism when it is linked to the pursuit of donor's political goals. In the matter of China, the realists are looking for explanations of the economic aid of China for its foreign policy objectives because it is a giver and receiver of aid<sup>71</sup>.

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<sup>68</sup> McCormick D., Winnie Mitullah and Erick Manga. 2007. Extent and Forms of Donor Proliferation and Coordination in Kenya

<sup>69</sup> OECD 2003a. Harmonising Donor Practices for Effective Aid Delivery: Good Practice Papers, Volume 1, Paris: OECD Publishing.

<sup>70</sup> Gunning , 2001. Rethinking Aid In Pleskovic and Nicholas Stern, eds. Annual World Bank Conference on Development Economics 2000. World Bank.

<sup>71</sup> Ibid



Three goals of foreign aid of China that suggested a realistic Chinese foreign policy were highlighted by Zha Daojiong. These include: firstly, a tool for serving the diplomatic agenda of the country; secondly, to meet the needs of the economic growth of the country and thirdly, to promote national partnerships, that is; how China sees aid as a means to convince and stop many states from acknowledging the state sovereignty of Taiwan<sup>72</sup>.

The first goal of China's foreign aid policy was seen by realists as a competition and struggle between Soviet Union and Peoples' Republic of China (PRC) for influence in the Third World countries during Cold War period<sup>73</sup>. This is evident on the grounds that China maintains partnerships with developing countries in order to create its own sphere that is free from the Soviet's sphere of socialism and the rising Non-Aligned Movement through promotion wars of national emancipation as its political purpose tool<sup>74</sup>. According to Vang Pobzeb, the project of Tan-Zam railway was China's political gesture to help restore diplomatic relations that were interrupted amid the Great Proletarian Cultural Revolution and also make new approaches in international relations domain by showing how China's aid was more able to achieve the goals that have not been achieved by other donors<sup>75</sup>.

The technical assistance programmes and economic relations of China acted as a tool for its foreign relations<sup>76</sup>. This was a way to enable country-to-country relations and people-to-people

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<sup>72</sup> Zha Daojiong 2005. 'China and foreign aid', foreign aid workshop, 29 November, Beijing.

<sup>73</sup> Eckstein, Alexander 1966. Communist China's Economic Growth and Foreign Trade: Implications for US Policy, New York: McGraw Hill.

<sup>74</sup> Van Ness, Peter 1971. Revolution and Chinese Foreign Policy, Berkeley: University of California Press.

<sup>75</sup> Yu, George T. 1970. China and Tanzania: A Study in Cooperative Interaction, Berkeley: Center for Chinese Studies, University of California

<sup>76</sup> Copper, John Franklin 1976. Chinas Foreign Aid, Lexington, Massachusetts: D.C. Heath and Company.

exchanges<sup>77</sup>. The donations of China's foreign aid were found on 'proletarian internationalism' principle, which was the core principle that guided the foreign policy and foreign aid of China at that time<sup>78</sup>. Post their colonial history until 1980s; many developing countries mainly the newly independent African states became a battlefield for mainly the US-Soviet ideological wars that sometimes included China as the third option.

The involvement of China in sub-Saharan Africa at the time of Cold War paid reward for political relations of PRC in Africa as Africa's support enabled China gateway to the United Nations General Assembly (UNGA). As shown by the assistance received by China from the less developed nation that were members of UN, the government of China saw largesse of aid as an effectual way of realizing its political objectives such as its' permanent position at United Nations Security Council (UNSC).

In the second goal, realists' claim that, with expansion of its economy, China will likely become more determined to use its newly discovered capability to increase its power and protect its economic interests thus disturbing the hegemony of the world major powers<sup>79</sup>.

The economic growth of China further enhanced its broader political and strategic purpose such that, after the economic reforms by Deng Xiaoping; the leaders of China have developed China's vast national power to challenge the other major powers<sup>80</sup>.

Laliberte suggests that China's rise as one of world leading economic power with

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<sup>77</sup> Vang, Pobzeb 2008. *Five Principles of Chinese Foreign Policies*, Bloomington, IN: Author House.

<sup>78</sup> Peking Review 1974b. 'China's Economic and Technical Cooperation with friendly Countries' 25 October, 16.

<sup>79</sup> Harris, Stuart 2003. 'Does China matter? The global economic issues', working paper200311, Canberra, Department of International Relations, Australian National University, September. Available online at:<http://rspas.anu.edu.au/ir/pubs/workyapers/03-l.pdf>, visited on 30 October 2009.

<sup>80</sup> Chan, Gerald 1999. *Chinese Perspectives on International Relations*, London: Macmillan.

universal reach can only arouse the fear of hegemonic alteration and its political collapse. As a result, foreign policy and aid of China are aimed towards countries that provide natural resources for growth of the economy of China.

China's aid has heavily faced criticism. As opposed to Western development finance organizations which impose political stipulations on the government of the recipient states, China has provided formal development aid and other types of government funding to developing states hardly asking any questions. Today, its main growth initiative is the Belt and Road infrastructure plan worth \$575 billion that the World Bank approximate can impact as many as 70 states and, when implemented effectively, lift 7.6 million people out of severe poverty<sup>81</sup>. However, the generosity of China has triggered alarm bells in establishment of foreign policy of the West. A frequent condemnation is, China has great drive and is mostly concerned with buying the allegiance of global leaders instead of advancing the wellbeing and wealth of the least developed nations. John Bolton, Former National Security Advisor of US inculpated Chinese government of "corrupt" and "greedy actions" which "hinder economic development" and bolstered "the final objective of promoting the global dominance of China"<sup>82</sup>.

China makes it clear that it prioritizes economic development due to the five peaceful co-existence principles that were built on mutual benefit which were outlined between

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<sup>81</sup> Freund, C, and M Ruta 2018. "[Belt and Road Initiative](#)", World Bank Brief, March 29.

<sup>82</sup> Bolton, J (2018), "Remarks by National Security Advisor Ambassador John R. Bolton on the Trump Administration's New Africa Strategy", Heritage Foundation Lecture, May 13.

China and the recipients of its aid<sup>83</sup>. Jiang Zemin proposed the 'go out' (zou chuqu) policy of China following the China's rise to World Trade Organization (WTO) in 2002. The aim of this policy was to help Chinese companies access a variety of joint ventures, startup incentives and aid-to-profit projects in form concessional loans export credit for businesses globally which are backed by the government<sup>84</sup>. Recent activities by Chinese Governments in foreign aid are seen as an effort to secure raw materials to satisfy the domestic needs of China. Such motives are backed by realist view as shown during the dispatch of Chinese troops to help Sudan, its main aid recipient, to continue exercising control over its key oil fields against insurgent attacks in 2000<sup>85</sup>. Thomas and Zhu assert that sending of armed forces to Sudan was not only because China's drive for raw materials but also due to the political, military and diplomatic goals of China<sup>86</sup>.

In addition, considering its third goal, China's Communist Party (CCP) Government struggled for international recognition from 1949 to early 1970s. Economic assistance was used by the PRC as a way of attracting global support and acknowledgement from Taiwan to PRC. Realists argue that China maintains state sovereignty in accordance with the theory of IR and that states act in a selfish way where security and sovereignty can only be achieved through power. While conflicts and trouble spots may be viewed as international crises by the international community, China has repeatedly proved that

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<sup>83</sup> Xu Jianpin 1996. *Lun duiwaijingjiyuanzhu yu huli hezuo xiangjiehe* (On foreign economic assistance and a combination of mutually beneficial cooperation), *Guoji Jingji Hezuo* (International Economic Cooperation) 3: 14-7.

<sup>84</sup> MFA 2002e. 'Jiang Zemin tongzhi zai dang de shiliu da shang suo zuo baogao quanwen- quanmian jianshe xiaokang shehui, kaichung Zhongguo tese shehuizhuyi shiye xinjumian' (The report of Comrade Jiang Zemin at the 16th China Communist Party National People's Congress- the establishment of a prosperous society and creating of potential using socialism with Chinese characteristics), 8 November.

<sup>85</sup> Economy, Elizabeth and Monaghan, Karen 2006 'The perils of Beijing's Africa strategy', *International Herald Tribune*, 1 November. October 2008.

<sup>86</sup> Zhu Feng 2004 'New national strategy provides insight into China's rise', *China Brief* 4, 17, 1 September

what is considered an international concern by the international community, it deem as domestic according to Tibet and Xinjiang; a viewpoint which includes its policy towards Taiwan.

For example, 'one-China' policy shows how China uses power to draw accords from International community. The active participation of China in persuading states that recognize the sovereignty of Taiwan to shift their support and recognition to China is a case consistent with realism theory that the aim of foreign policy is to promote the objectives of states. The real ultimatum of force by China against declaring of independence from Taiwan considering the American discouragement proves again the extent to which China will go to protect its key interests as shown in 1995-6 when missiles tests and several large-scale military exercises were held by Beijing in Taiwan Straits<sup>87</sup>. Although the Chinese Government claims that the crisis between China and Taiwan was an 'internal issue', realists claim that the willingness of China to realize its national objectives militarily demonstrated that balance of Asia-Pacific region continues to be threatened. China has sent an irrefutable sign that it's currently powerful enough to challenge and win the power game Asia on its own terms (Ross 2000)<sup>88</sup>

Foreign aid's optimistic viewpoint sees aid as having the potential to change dictatorships into democracies. There exist several means through which aid can do this<sup>89</sup>. The first is to provide developing countries with technical and other assistance to strengthen their judicial and

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<sup>87</sup> Woods, Ngaire 2008 'Whose aid? Whose influence? China, emerging donors and the silent revolution in development assistance', *International Affairs* 84: 6: 1205-21.

<sup>88</sup> Ross, Robert S. 2000. 'The 1995-96 Taiwan Strait confrontation: coercion, credibility, and the use of force', *International Security* 25,2: 87-123.

<sup>89</sup> Onjala, Joseph. 2008. A scooping Study of China-Africa Economic Relations: The Case of Kenya, paper prepared for the African Economic Research Consortium (AERC), Nairobi

legislative systems. The government's conflicting branches in a politically centralized developing nations can be strengthened through targeted aid and govern administrative powers that reduce autocratic control. Technical assistance specializing in supporting democratic election organizations and election infrastructures like polling place security, monitoring the activities of the voting day and provision of external observers that can be accredited can be improved. Likewise, if institutions like rule of law which support democracy can be boosted by targeted aid through enhancing the criminal justice system and making it fairer, more transparent and more efficient, the political regimes of the recipients could also be improved.

Second, foreign aid can strengthen the recipient country's democracy by improving income and education. Robinson et al (2006) advocate that richer and more educated nations are more democratic. If aid has the power to increase education and income for the recipients, subsequently democracy can be promoted in a currently dictatorial regime<sup>90</sup>.

Third, democracy can be promoted through conditions in recipient countries. Increasing democratization may be needed as a condition for continued support and forcing recipient states to decentralize their political organizations. At least, the actions of a few members of the donor group shows that they believe that dictatorship can be a significant democratization element in developing states through aid<sup>91</sup>. For example, more than \$700 million is offered by the United States Agency for International Development (USAID) annually for recipient's

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<sup>90</sup> Robinson, James A, and Daron Acemoglu. 2006. *Economic Origins of Dictatorship and Democracy*. Cambridge, UK: Cambridge University Press.

<sup>91</sup> Burnside, C., and D. Dollar. 2000. Aid, Policies, and Growth. *American Economic Review*, Vol 90 (4).pp847-868

democracy strengthening programs<sup>92</sup>. Some empirical work (Jeffery Sachs (2005) supports the optimistic perspective aid. For instance, for a subgroup of African states, more aid is related to greater civil liberties and political and economic freedom<sup>93</sup>. Similarly, aid enhanced democracy in recipient countries after the Cold War<sup>94</sup>. Aid can clearly be useful in advancing economic development further and improvement of standard of living in several nations. Therefore, aid is intended to offer financial assistance temporarily so as to promote some long-term behaviors such as collection of revenue, investing in human and physical capital and institution building in a developing country<sup>95</sup>. Some cases are clear where aid played this role. For instance, in Botswana and South Korea, foreign aid supported domestic efforts to implement these measures and the country was gradually weaned off aid<sup>96</sup>.

Aid has effectively helped reduce poverty and promote development in some states thus resulting to an average positive impact even though flows of aid have not encouraged growth under all situations.<sup>97</sup>. The study by Burnside and Dollar is the most influential of this movement because it concentrated on the impact of policy on effectiveness of aid. According to Burnside and Dollar, aid encourages development only in states that have strong economic

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<sup>92</sup> Blaauw, L., N. Oranje, and K. Schade. 1998. Report on the Namibian Economy.' Nepru Working Paper 19, The Namibia Economic Policy Research Unit, Windhoek.

<sup>93</sup> Inocencio A., M. Kikuchi, D. Merry, M. Tonosaki, A. Maruyama, I. de Jong, H. Sally and F. Penning de Vries (2005). Lessons from Irrigation Investment Experiences: Cost-reduction and Performance-enhancing Options for sub-Saharan Africa paper submitted by the International Water Management Institute to the African Development Bank.

<sup>94</sup> Mwega, Francis M. 2008. Aid Effectiveness to Infrastructure: A Comparative Study of East Asia and Sub-Saharan Africa: Kenya Case Study, paper prepared for the Development Research Group, Japanese Bank for International Cooperation (JBIC) Institute.

<sup>95</sup> Mayer, W., and P. Raimondos-Moller. 1999. The Politics of Foreign Aid.' epru Working Paper 99-07, Economic Policy Research Unit, University of Copenhagen Copenhagen  
<http://www.econ.ku.dk/epru/files/wp/wp9907.pdf>

<sup>96</sup> Boone, P. 1996. Politics and the Effectiveness of Foreign Aid. 'European Economic Review 40 (2): pp289– 330.

<sup>97</sup> UN Issue Paper 2007. Economic trends and impacts: Foreign aid and development in the Arab region. Economic and Social Commission for Western Asia (ESCWA), No.-/ESCWA/EAD/2007/1, Issue no. 4.

policy regimes. According to them, policy and aid combined are successful because, when there is good policy environment, fraction of aid invested increases the amount produced.

However, foreign aid is considered to be negatively related to development. There are several underlying causes like aid dependency, corruption, poor coordination and cooperation between agencies of aid and poor economic management of recipient states. Some researchers such as Easterly (2006) and Moyo (2009) discovered that foreign aid negatively affects growth. “Knack asserts that increased aid destroys the quality of institutions, intensifies corruption and rent-seeking; consequently affecting growth negatively. Easterly, Roodman and Levine used a larger sample size and re-examined the study of Burnside and Dollar and discovered that outcome was not that the results are not as great as previous. Gong and Zou present a negative correlation between aid and development”<sup>98</sup>.

Firstly, because of the fickle nature of aid, recipient country’s government sometimes fails to organize the amount of aid on time thus failing to convince the donor that the remaining money will be used effectively therefore delaying the disbursement of aid; hampering the spending ability of the government. Another problem with foreign aid is conditionality which hinders the economic growth of the recipient states. World Bank’s former consultant, Moss, declares that aid that is tied is “extremely ineffectively because it limits the market therefore costing the donor more funds for the same benefit”<sup>99</sup>.

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<sup>98</sup> Minh, V. D. 2006. ‘Foreign aid and economic growth in the developing countries - a cross-country empirical analysis’ [an edited e-article]. Available at <<http://cnx.org/content/m13519/latest/>>, Accessed on February 10, 2014.

<sup>99</sup> Djankov, S., Montalvo, J. G. & Querol, M. R. 2006. ‘Does foreign aid help?’. *Cato Journal*, vol.-26, no.1, pp. 1-28.



Secondly, another major constraint has been capacity. Traditionally, the relation between the giver and receiver has been an asymmetrical one which involves a powerful and weak side where economic and political structures of exploitation and domination offered very small room for the weak to choose. When it is tied aid, the donors tend to negotiate with their high capacity at the time of negotiation. At times foreign aid compels a country to be aid dependent instead of making it independent economically. Food aid introduced in Somalia promotes shortage of food in the country. As a result, Somalia has become disturbingly reliant on imported food<sup>100</sup>.

Foreign aid is mostly from government to government. The distribution of these funds is the discretion of the rulers, regardless of unproductive or productive sectors. According Dollar and Burnside, effectiveness of foreign aid is dependent on the amount of aid that is disbursed<sup>101</sup>. If foreign aid promotes any effective consumption like improving education, protecting private property, constructing infrastructures in rural and urban areas and lowering business risks, it generates a net profit to economic achievements. In addition nations that acquire more aid ought to anticipate improvement in their welfare. However rulers are reluctant to spend the aid funds in the aforementioned sectors since they will not be able to take advantage of the loan funds thus becoming the dupe of loan trap. In the long run, it cannot realize the actual economic growth of the country.

Actually, foreign aid mostly benefits the ruling class and senior NGOs leaders. Therefore, foreign aid's primary goal cannot be achieved. Moyo divulges that instead of wealth creation,

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<sup>100</sup> Mathew, K. J. 2009. 'Foreign aid & underdevelopment in Africa', The Gambia Echo (online daily)

<sup>101</sup> Burnside, C. and Dollar, D. (2004). Aid, Policies and Growth: Revisiting the evidence. Washington DC. World Bank. Working Paper 3251.

economic growth and prosperity, several Africans have experienced a net decline in their standards of living over the past several years. Contrariwise, the ruling class became richer<sup>102</sup>. Mathew (2009) reveals that, during the time when aid was been injected into Africa, GDP per capita decreased by 0.59% yearly between 1975 and 2000. It proves that Foreign aid does more damage to Africa creating a circumstance where Africa has been unsuccessful in setting its own pace and management of growth without foreign interference<sup>103</sup>.

Lack of dedication and responsibility in the receiving state is also one of the reasons for why economic development is being hindered. Strong rulers have volition over the use and distribution foreign aid. They sometimes use their power to acquire aid resources because they do not have to be answerable to anyone. At times, they give prominence time preferences for resources of foreign aid and political interests that are temporary. Ali, and Isse (2006) state that: in such a situation, leaders tend to embrace policies which might benefit them temporarily but harm the country in the long run Since no one anticipates to procure the future benefit of aid<sup>104</sup>.

The relationship between aid and development differs from one region to another. Sub-Saharan Africa is the region that receives enormous amount of aid offered by donors. However their economic achievements remain rather weak. This can be as a result of lack of programs that are well-designed, sufficient and timely allocation of funds, corruption of the senior

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<sup>102</sup> Moyo, D. 2009. *Dead aid: Why aid is not working and how there is a better way for Africa*. New York: Farrar, Straus, and Giroux

<sup>103</sup> Ibid

<sup>104</sup> Ali, A. & Isse, H. S. (2006). 'An empirical analysis of the determinants of foreign aid: a panel approach'. *International Advances in Economic Research*, vol.-12, no.1, pp.-241-250.

officials and severe penalties upon violation or rejection. Foreign aid has helped ease the government's budgetary constraints and therefore increasing government consumption<sup>105</sup>.

### CHAPTER THREE

#### THE NATURE AND ECONOMIC IMPACT OF CHINA-KENYA RELATIONS

The PRC was established in 1949. Since its founding, the government of China has been faced with the dilemma of the need to reinstate the country back to its historical status as the major power at odds with the background of its own developmental problems. Previously, China faced lots of isolation because of its socialist-planned economy but this changed after its economic reform in 1978. Since this period, China's economic performance has been very amazing<sup>106</sup>. The fast development and openness of Chinese economy has made it to be progressively significant in the international economy especially Africa<sup>107</sup>. Lately, the rise of China has attracted a lot of universal interest due to its importance in the international system as well as strengthening the South-South co-operation<sup>108</sup>.

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<sup>105</sup> Abdow Bashir Ismail. 2015. "Why Foreign aid failed in Sub-Saharan Africa." EY International Congress on Economics II (EYC2015), November 5-6, 2015, Ankara, Turkey 263, Ekonomik Yaklasim Association

<sup>106</sup> Tisdell, C. 1993. Economic Development in the Context of China. Macmillan, London and St. Martin's Press, New York

<sup>107</sup> Brookes, P, & Shin, J.H 2007 China's influence in Africa: Implications for the United States. Available at <http://www.heritage.org/research/reports/2006/02/china-s-influence-in-africa-implications-for-the-united-states>.

<sup>108</sup> China –Africa Relation. Ministry of Foreign Affairs of the people's Republic of China April 25 2002.

From 1990, the economy of China has developed at a 10% rate annually<sup>109</sup>. Between 1992 and 2002, China experienced a growth in trade in terms of GDP grew by more than two-thirds. China's increasing importance in the global system has raised a concern in developed (US) and developing countries (India and Brazil). Lately, there has been a major political and economic rebalancing in the international system which has resulted in a growing multipolar international order<sup>110</sup>. The most affected by these geographical changes is Africa. The African continent has turned to East Asia from its traditional donors (US and UK). China –Africa economic relations have greatly increased and currently, African continent's major trading partner is China. However, these increasing ties have not gone without controversy.

These relations have resulted to a substantial amount of debate as to what this relation has in store for Africa. Different arguments and opinions on China-Africa economic relations exist. For instance, Kaplinsky, Mc Cormick and Moris have condemned this relation and accused China of only wanting to exploit the natural resources of Africa<sup>111</sup>. According to Kolstad and Wiig, economic relation between China and Africa has resulted to weakening of the manufacturing sector of Africa due to the inexpensive and low quality goods of China. Therefore, China is regarded as the contributor to industrial decline, poverty and underdevelopment in Africa<sup>112</sup>. Contrastingly, some scholars for example Thompson and Jefferies have a different opinion. For

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<sup>109</sup> Jerkin, A & Edwards, C. 2006. "The Economic Impact of China and India on Sub-Saharan Africa". *Journal of Asian Economics*, 17 Pp 207-225

<sup>110</sup> Aziz, J & Dunway, S. 2007 'China's Rebalancing Act.' *Finance & Development*, 44(5):P 27-31.

<sup>111</sup> Kaplinsky, R. Mc Cormick D. and Moris, M. 2006 *Dangling by a thread. How Sharp are the Chinese Scissors?* Brighton: Institute of Development Studies

<sup>112</sup> Kolstad, I and Wiig, A. 2011. Better the devil you know? Chinese Foreign Direct Investment in Africa. *Journal of African Business*, 12 (1), 31-50. doi10.1080/1536710x.2011.555259

instance, Jefferies contends that the economic presence of China in Africa should be considered as an economic relation that benefits both China and Africa<sup>113</sup>.

China has greatly been involved in infrastructural projects in Africa. Infrastructure is crucial in the future sustainable economic growth of a country. It is regarded positive for efficient resource allocation, considerable productivity enhancement and acceleration of economic growth<sup>114</sup>. Nations with poor infrastructure have often faced difficulty in development and this has been the case of Africa. The president of China (Xi Jinping) at one time pointed out, “poor infrastructures are considered the biggest obstacle to Africa’s development”<sup>115</sup>. Together, African countries require spending around \$130-170 billion per year to their satisfy infrastructure needs. However, as per African Development Bank, African states are \$68-\$108 billion low. Many waves of colonists have been obsessed with diminishing the infrastructural gap of Africa and China is next on the list to reach into African county’s heart with highways, railroads and airports<sup>116</sup>. They are main players in several of Africa’s largest infrastructural projects comprising of Nigeria’s \$12 billion Coastal Railway, Addis Ababa–Djibouti Railway worth \$4.5 billion, the mega port worth \$11 billion and Bagamoyo’s economic zone is being developed through China’s partnerships.

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<sup>113</sup> Jefferie, K. 2012. Africa needs China’s Positive Investment. Available at [http://www.chinadaily.com.cn/business/2012-10/08/content\\_5800666.html](http://www.chinadaily.com.cn/business/2012-10/08/content_5800666.html)

<sup>114</sup>Mlambo, C. 2012. Towards a cost effective delivery of essential infrastructure for South African economic regulators. Available at <http://www.nersa.org.za/SAERC/Documents/Abstracts/Towards%20cost%20effective%20delivery%20of%20essential%20infrastructure%20for%20SA%20economic%20regulators%20-%20courage%20Mlambo.Pdf>

<sup>115</sup>African Development Bank, 2011 “African Development Report 2011”.

<sup>116</sup>Shepherd W. 2019. “Why China’s Development Model Won’t Work In Africa”. FORBES.

Currently, the largest trading partner of Africa is China and these ties have been rising rapidly over the last ten years. For example, more than 10,000 companies owned by Chinese are currently operating across African. Since 2005, China's business is worth more than \$2 trillion and currently China is investing \$300 billion in the continent. Africa also views Asia as the biggest market for construction contracts of China overseas. To maintain this motivation ongoing, Beijing not long ago announced a \$1 billion Belt and Road development fund for Africa's infrastructural growth and a massive \$60 billion aid packages to African countries in 2018. Therefore Africa is expected to continue reaching to the east as its economic relations with China becomes more numerous and strong<sup>117</sup>.

For example, in spite of being an exporter of agricultural products, Ethiopia has attracted a significant volume of China's official financial flows and foreign direct investment (FDI). China's official financial flows are mainly aimed at building essential infrastructure in Ethiopia, while China's FDI targets the manufacturing sector. Given the strategic importance of Ethiopia, Chinese investment and aid to Ethiopia are also intended to serve as a role model for other African states. The primary beneficiaries are traders who bring industrial consumer goods from China to sale in Ethiopia, local consumers and also entrepreneurs who set up small factories and service centers to buy machinery from China<sup>118</sup>.

The Chinese investments in Africa have been developmental. Most of Chinese investments were in non-primary industries. In addition, Chinese firms have helped in the significant part through technological transformation and accomplished more than the companies in regional

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<sup>117</sup> Ibid

<sup>118</sup> Malanča C, 2016. "Growth of Chinese trade and investment flows in DR Congo - blessing or curse?," *Review of African Political Economy*, Taylor & Francis Journals, vol. 43(147), pages 116-130.

trade sectors. Chinese firms have invested majorly in sectors like retail, food processing and finance. The FDI of China in Africa has quickly increased to about 53% a year since 2001<sup>119</sup>.

The exports of Africa have increased in recent years but are not enough to create an export-led growth. This is as a result of the trade relation between the two been biased; the scale is tilted in favour of China. The former president of South Africa, Jacob Zuma and former deputy minister of Zimbabwe, Professor Arthur Mutambara claim that the extraction of natural resources from Africa is harmful to its sustainable development<sup>120</sup>. These extractions without significant investments can further affect the future generations of Africa.

China also has economic ties with Kenya just like other African countries. This economic relation has increased greatly over the years because of investments, loans and aid from China to Kenya. The influx of FDI from China has become significant in since 2009. This stand can be described by the following factors; Kenya's competitiveness failure in attracting FDI has signified that FDI flows from China have accounted for a significant amount of the Net FDI flux in Kenya. Secondly, the adoption of new policy by China aiming for closer relations in economic cooperation with Kenya. As a result, Chinese enterprises have greatly increased in Kenya<sup>121</sup>. In addition, there has been greater diversification of FDI into areas like power plants, transport, tourism, telecommunications and retail. For instance, China's telecommunication firm

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<sup>119</sup> Xiaotian,W.201) Trade between china Africa strengthening.  
[http://www.europe.chinadaily.com.cn/business/2012-07/19/content\\_15599662.htm](http://www.europe.chinadaily.com.cn/business/2012-07/19/content_15599662.htm).

<sup>120</sup>Mutambara, A. (2013b). China must come to Africa on African terms.

<sup>121</sup>Broadman H, G.ISIK, S. Plaza,Y. Ye and Y.Yoshino 2006. Africa Silk Road: china and Indians new economic frontier, Pp 292. The World Bank Washington D.C.

(Huawei), has secured an enormous contract to supply mobile phone services in Kenya. Therefore, China is seeking trading strategy with Kenya which transcends resources<sup>122</sup>.

Globally, the presence of foreign firms normally has an intense impact on the participation of the host country in global trade as FDI is frequently related to growth in imports and exports<sup>123</sup>.

A significant possible by-product of this process in the economic relation between China and Kenya is that Kenyan companies may be open to transfer of progress in technology or increased skills. This form of openness could result to positive spillover impacts on the competitiveness and efficiency of local companies.

Kenya has also received foreign aid from China. Until mid 1990s most of China's development aid went to the freedom movements in Africa<sup>124</sup>. For example; Kenya also benefited from this aid given by China in 1964 during its early period of independence. In addition, military aid was provided to Kenya by china to counter the Somalian invasion. However, monetary aid was declined by Chinese government. The need for this monetary aid was for purchasing former colonial farms<sup>125</sup>. However in 1990s, aid policy of china was changed from liberation to debts reduction, assistance in development of human resources and promotion of investment. Kenya benefits from the Chinese government's project based aid. Since the foundation of diplomatic relations between the two states various aid and assistance projects have been offered by

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<sup>122</sup>Broadman H, G.ISIK, S. Plaza,Y. Ye and Y.Yoshino 2006. Africa Silk Road: china and Indians new economic frontier, Pp 324. The World Bank Washington D.C.

<sup>123</sup> Ibid

<sup>124</sup>MC Cormick, D. Winnie Mitullah and Eric Manga.2007. "Extent and form of Donor Proliferation and Coordination in Kenya ; The case of inclusive industrialization and governance reform.2000-2005" institute of development studies, university of Nairobi.

<sup>125</sup>Daily Nation 2006. when Kenya viewed Beijing suspiciously, Sunday Nation. April 30.2006 Nairobi



Chinese to Kenya. These projects have been part of larger package of agreements which is inclusive of other parts of cooperation with Kenya<sup>126</sup>.

Currently, China's development aid supports investments in equipment, plant and infrastructure. China also offers non monetary aid such as tariff exemptions. Loans and Grants for infrastructure, equipments and plants have been offered by china to Kenya. These were mostly road construction (Thika super highway), modernizing of power distribution, renovating of international sport centers, (Moi International Sport centre in Kasarani) and rural electrifications. China has recently given tariff exemptions to several goods of Kenya to china in a bid to foster trade relations between China and Kenya. Chinese Loans and grants have significantly increases in size since 2002. Afterwards, China has emerged in the national statistics of Kenya's bilateral unlike earlier when it was restricted to the "other donor category"<sup>127</sup>.

Bilateral ties have easily developed with traditional friendships consistently increasing and friendly collaboration in all areas progressively expanding. Bilateral trade and economic ties have achieved new advancement and both parties have made a quick progress in cooperation in the fields of communication, electricity; investments, project contract and realized new outcome in exchanges of humanities and continued consultations closely and collaboration in international matters. China and Kenya signed trade agreements and bilateral economy. In the initial stages, the following agreements were signed: Agreement on Economic and Technological Cooperation between PRC and Kenya, "Trade Agreement between the PRC and

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<sup>126</sup> Mwega Francis. 2004. Foreign Aid, Monetary Policy and Economic Growth in Kenya, "Paper Prepared by Kenya Institute for Public Policy Research and Analysis (KIPPRA)

<sup>127</sup> Ibid

Kenya" (1978), also Agreement on Protection and Promotion of Investments in 2001. Both nations have signed many bilateral agreements which have covered multiple fields including technology, Archeology, Education, the press, economy, Tourism, Aviation, Energy and Health.<sup>128</sup>.

Consequential Chinese investments have been made in tourism, construction, retail trade, power plants and transport and telecommunication sectors in Kenya amongst others.<sup>129</sup>. Hence China is currently providing financial and non-financial support to Kenya. China's development aid supports investment in technical training, equipment, vocational training, infrastructure, human relief, academic, tariff exemption and power plants. Over the past five years, loans and grants have been given to Kenya by China for development of infrastructure as well as social and economic development. They were mostly in construction of road projects, rural electrification, renovating sports facilities, modernizing of distribution of power, Malaria fighting drugs, water and constructing malaria research centre. Over a very long time, local students who wish to pursue their studies in China in various fields have been offered scholarships by Chinese government<sup>130</sup>.

The Forum of China-Kenya Investment held in March 2006, offered Chinese investors a starting point to explore possibilities of investment in Kenya and meet capable Kenyan partners. The Kenya Airways for instance has been given the rights to land in some Chinese cities and now

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<sup>128</sup> Onjala J. 2008. A Scoping Study on China- Africa Economic Relations: The Case of Kenya. African Economic Research Consortium (AERC) Nairobi.

<sup>129</sup> Warui G. M. 2014. The Effect Of China-Kenya Economic Ties On Social And Economic Development In Kenya. Unpublished Master Thesis submitted to the University of Nairobi)

<sup>130</sup> Ibid

operates direct flights from Nairobi to Hong Kong as well as Nairobi to Guangzhou<sup>131</sup>. In 2004, Kenya was accorded a designated tourist destination. As a result, the arrivals of Chinese in Kenya have greatly increased and are anticipated to increase further<sup>132</sup>. These actions are expected to improve Kenya's economy by increasing not only the airline revenues but also the revenues of the tourism sector that has become Kenya's major foreign exchange earner. In addition, these operations are expected to ease the migration of China's businesspersons to Kenya resulting to augmented FDI from China to Kenya<sup>133</sup>.

The first visit of president Moi to China resulted to the signing of two agreements between the two countries. First was Agreement on economic and technological cooperation, pertaining a broad category of projects: cultural and military exchanges, technical assistance to new universities, a new sports stadium and scholarships. The second agreement was a trade agreement between China and Kenya<sup>134</sup>. The most significant element of the accord on was Moi International Sports Center Kasarani, which was the largest sporting complex in both Central and Eastern Africa. It includes a 60,000 seats sports stadium, a present-day gymnasium and an Olympic-sized swimming pool. It was expected to host the Pan-African games in 1987 and reveal the new Sino-African cooperation throughout Africa. This put an end to the Chinese commodity funded projects in 1960s and 1970s, like the rescinded textile mill of Kenya in

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<sup>131</sup>Mulati L.T 2019. China-Kenya Relations: An Analysis of Its Nature since Independence. International Journal of Research and Innovation in Social Science (IJRISS), Volume III, Issue X.

<sup>132</sup>Kaplinsky, R., D. McCormick and M. Morris 2007. The Impact of China on Sub Saharan Africa, Working Paper 291, Institute of Development Studies, University of Sussex, Brighton.

<sup>133</sup> Mulati L.T (2019) China-Kenya Relations: An Analysis of Its Nature since Independence. International Journal of Research and Innovation in Social Science (IJRISS), Volume III, Issue X

<sup>134</sup> Ibid

1964<sup>135</sup>. As part of its economic cooperation grant, a new teaching hospital was built by China in Moi University (Eldoret), teaching equipments were provided at Egerton University and Gambogi-Serem highway.

In August 2010, president Kibaki visited China. During his visit, he signed an agreement that permitted Shenzhen's Technology Company Huawei to offer wireless communication connection to all divisional offices of the government. The Chinese aid in infrastructure, education, health and energy was at that time more than Ksh 8 billion (\$109 million)<sup>136</sup>. Under the watch of president Kibaki, barriers to China-Kenya relation reduced greatly. One obstacle was that the major airlines of South African and Ethiopian were the only ones that had direct flights to Beijing from their respective cities. To overcome this obstacle, Dr.Wario, the then ambassador of Kenya to China brokered the Bilateral Air Service Accord that would grant a green-light to Kenya Airways to fly to China. Kenya Airways started flights to Hong Kong through Bangkok<sup>137</sup>. Later a new route from Nairobi to Guangzhou through Dubai instead of Beijing was negotiated<sup>138</sup>.

The Prime Minister of China Li Keqiang paid a visit to Kenya on May 10<sup>th</sup> 2014<sup>139</sup>. As a result of this visit, 17 agreements were signed between Li Keqiang and President Uhuru Kenyatta. These agreements were anticipated to release billions of money to improve the economy of Kenya

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<sup>135</sup> Ibid

<sup>136</sup> Ibid

<sup>137</sup> Ibid

<sup>138</sup>Wanjiku S., Maingi J. and Maina S. K. 2018. Effect of Kenya's Bilateral Relations with China on Economic Growth of Kenya (2000-2015). IOSR Journal of Economics and Finance (IOSR-JEF) Volume 9, Issue 5 Ver. III, PP 13-21

<sup>139</sup> Ibid

with health, Security sectors, railway and wildlife getting major improvement. Key among them was the SGR that was anticipated to cost Ksh 327 billion for Mombasa-Nairobi phase.

During President Uhuru's visit to China in April 2019, a trade agreement was signed to export frozen avocados to China from Kenya following the signing of a Memorandum of Understanding (MoU) on Sanitary and Phytosanitary Standards on November 9th for Kenya's export to China<sup>140</sup>. A framework agreement was also signed between China Road and Bridge cooperation and National Highway Authority of Kenya to construct Kenya's first highway from Jomo Kenyatta International Airport to Westlands. A sh17 billion funding agreement was signed between China Exim Bank and Kenya to construct the Konza Technopolis Data Centre and IT infrastructure was also witnessed<sup>141</sup>.

The relationship between China and Kenya has actively been expressed by China in various ways. Significant contributions have been made by China infrastructural development of Kenya: SGR (\$3.6 billion), Olkari's geothermal project at (\$400 million), Jomo Kenyatta International Airport (\$115 million), LAPPSET (\$220 million), Nairobi Mombasa super highway (\$320 Million), Thika Super Highway (\$320 Million), Outer Ring Road (\$108 million), among others<sup>142</sup>. This confirms the relationship between China and Kenya which may be a true embodiment.

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<sup>140</sup> *ibid*

<sup>141</sup>Mulati L.T (2019) China-Kenya Relations: An Analysis of Its Nature since Independence. International Journal of Research and Innovation in Social Science (IJRISS), Volume III, Issue X.

<sup>142</sup>Farooq M. S., Yuan T., Zhu J. and Nazia F. 2018. Kenya and the 21<sup>st</sup> Century Maritime Silk Road: Implications for China-Africa Relations. China Quarterly of International Strategic Studies, Vol. 4, No. 3, Pp 401–418

A look at trade relations between China and Kenya shows that Kenya's imports from China were worth Ksh. 248.65 Billion in 2014 while its exports to China stood at Ksh.6.60 Billion<sup>143</sup>. Kenya mostly exports tea, scraps metals, leather, coffee, horticultural produce and sisal fiber to China and imports electrical and electronic goods, Fertilizer, machinery and textile amongst others. Kenya is acclaimed as a ticket to the East African region. It is the main focus of trade and economic cooperation of China with African continent as it is politically stable hence creating a perfect investment environment for the investors from China<sup>144</sup>.

Currently, China is the largest bilateral lender of Kenya considering China's loans to Kenya. In June 2015, the debt was at Sh262 billion (\$2.6 billion) in contrast to Sh14.7 billion (\$146 million) in 2010 and Sh82.9 billion (\$821 million) in 2014<sup>145</sup>. Between 2000 and 2008, there was a stable and progressive improvement occasioned by the commencement of a correlation with the east following its corroboration that any aid from the western nations had political ties tied to it. A remarkable jump in the 2014 was as a result of change in government that saw the president of Kenya turn greatly to China for partnership<sup>146</sup>. Kenya established and formed relations with China in an effort to begin development projects in Kenya. The delay in lending to Kenya occasioned a decline in 2014 as Kenya was unable to maintain the rate of borrowing because the development projects of the country long term in nature and results<sup>147</sup>.

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<sup>143</sup>Institute of Economic Affairs 2016. Comparative Study of Kenya US, EU And China Trade And Investment Relations. Institute of Economic Affairs (IEA Kenya)

<sup>144</sup> Ibid

<sup>145</sup>Wanjiku S., Maingi J. and Maina S. K. 2018. Effect of Kenya's Bilateral Relations with China on Economic Growth of Kenya (2000-2015). IOSR Journal of Economics and Finance (IOSR-JEF) Volume 9, Issue 5 Ver. III, PP 13-21

<sup>146</sup>Institute of Economic Affairs 2016. Comparative Study of Kenya US, EU And China Trade And Investment Relations. Institute of Economic Affairs (IEA Kenya)

<sup>147</sup> Ibid

In view of FDI, China's FDI to Kenya in early 2000s was little because Kenya had focused on investments from Western nations since many manufacturing companies were situated there. In 2000, the FDI between China and Kenya reached \$137 million; \$133 million was Kenya's imports from China and \$ 4million was the exports of Kenya to China<sup>148</sup>. In 2002 the Foreign Direct Investment between Kenya and China was \$186.37 million. The exports amounted to \$180.576 million while imports from china amounted to \$5.798 million. The FDI has rapidly increased from \$46 Million in 2008 to\$265 Million by 2015. This is due to countries outsourcing their workers to China<sup>149</sup>. Assistance from China received the least amount likened to FDI and loans in Kenya. This has been occasioned by the fact that countries would instead invest or give loans to other states that will have a positive effect on balance of payments of the country compared to gig aid.

Bilateral ties are expected to significantly boost the economic growth of Kenya. The economic growth of Kenya focuses on development of infrastructure, investment in energy and transportation, vibrant services sector, building and construction, ICT and manufacturing. The enhanced construction and improved infrastructure resulted to an influx of several foreign companies to invest in Kenya thus creation of jobs and increase of property prices. On the contrary, loans have resulted to an increase in inflation, increased debt burden and effect on interest rate. Aid was useful because it helped improve the life and welfare of the community in the rural areas without the pressure to repay the funds<sup>150</sup>.

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<sup>148</sup> Ibid

<sup>149</sup>Wanjiku S., Maingi J. and Maina S. K. 2018. Effect of Kenya's Bilateral Relations with China on Economic Growth of Kenya (2000-2015). IOSR Journal of Economics and Finance (IOSR-JEF) Volume 9, Issue 5 Ver. III, PP 13-21

<sup>150</sup> Ibid

There are several major channels in which improvement in economic infrastructure appear in the general increase in economic activity. From infrastructure to growth, most direct channels include the productivity gain of improving infrastructure by increasing the capacity of certain factor of production<sup>151</sup>. In addition, increasing investments in infrastructure indirectly increases the productivity of the other factors of production. For example, providing access to certain services, such as electricity can have a positive effect on productivity of enterprises and entrepreneurs, while at the same time enhancing the investment opportunities for other infrastructure development projects. Notably, all examples of successful development are eventually the collective outcome of individual entrepreneurial decisions to invest in new business.

Improvement in labour productivity also occurs due to limiting the time wasted shuttling to work and the stress associated with it and also more effective ways to organize work hours due to better information and communication means<sup>152</sup>. Several microeconomic studies showed that a good infrastructure promotes the improvement of education and health, which improves the stock of human capital<sup>153</sup>.

Globally, the presence of foreign firms normally has an intense impact on the participation of the host country in international trade as FDI is frequently related to growth in imports and exports<sup>154</sup>. A significant possible by-product of this process in the economic relation between

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<sup>151</sup>Warui G. M. 2014. The Effect Of China-Kenya Economic Ties On Social And Economic Development In Kenya. Unpublished Master Thesis submitted to the University of Nairobi)

<sup>152</sup> Kioko P. M. 2011. A Study on Chinese's Economic Relations with Africa: Case Study Kenya. SSRN Electronic Journal. Available at <https://www.researchgate.net/publication/228120460>

<sup>153</sup>Warui G. M. 2014. The Effect Of China-Kenya Economic Ties On Social And Economic Development In Kenya. Unpublished Master Thesis submitted to the University of Nairobi)

<sup>154</sup> Ibid



China and Kenya is that Kenyan companies may be open to transfer of progress in technology or increased skills. This form of openness could result to positive spillover impacts on the competitiveness and efficiency of Kenyan companies. Beyond the impact of the accumulation of the direct factors on growth of economic infrastructure, it is worth emphasizing some indirect but important results. First, improved share of economic infrastructure in poor regions plausibly reduces the adjustment cost of private capital and lowers the transaction and production costs.

Kiprono Kittony, the Chairman of Kenya Chamber of Commerce and Industries (KCCI), claims that the trade between China and Kenya is imbalanced and it is strongly in favour of China. He additionally asserts that China exports manufactured goods to Kenya but imports very definite number of goods from Kenya.<sup>155</sup> It has been claimed that Kenya benefits from the development of physical infrastructure, which enables Kenya to get better prices for its products compared to the Western countries. However, this is highly debatable because the trade balance between China and Kenya mostly skewed towards China with Kenya exporting less than what it imports from china.

The debt of Kenya to china is greatly increasing day by day. Kenya still has a substantial burden of debt and the loans offered by China that can bring debt these debts to indemonstrable levels. Several Chinese loans are non-concessional ones that can quickly raise the debt to a GDP level. That amount made China a major bilateral and solitary largest lender to Kenya replacing

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<sup>155</sup>Wanjiku S., Maingi J. and Maina S. K. 2018. Effect of Kenya's Bilateral Relations with China on Economic Growth of Kenya (2000-2015). IOSR Journal of Economics and Finance (IOSR-JEF) Volume 9, Issue 5 Ver. III, PP 13-21

Japan. This thus begs the questions, how then will Kenya pay for this debt with a balance of trade deficit so skewed towards China?<sup>156</sup>

Kenya benefits from an interaction that is free from outside interference and built on mutual respect. On the other hand, Kenyan citizens are tolerating the burden of interstate relations between China and Kenya. This is as a result of Chinese citizens becoming directly involved in meager business venture such as retailing and hawking, which are otherwise preserved for the middle-class and poor people. All the same, local contractors lose out in circumstances where contracts are given at interstate level.<sup>157</sup>

Chinese investments in small-scale entrepreneurial sectors of Kenya have greatly increased frequently presaged by building of specialized shopping malls for China's products. The likelihood for transfer of technology is realistic. However, in addition to these new trends, the existing as well as potential local producers are displaced; it has less impact on the local economy than foreign entrepreneurs. On the other hand, an increase in China's FDI could result to investment withdrawals and transfer by other foreign investors. In Kenya, small scale traders feel the heat of competition by the Chinese who engage manufacturing, wholesale and retail goods. Kenya experiences competition from China for manufactured goods especially clothes, soap, textile and footwear in the regional market thus displacing Kenya's manufactured goods into Tanzania and Uganda.<sup>158</sup>

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<sup>156</sup> Krugman, P.R 1988. "Financing Versus Forgiving a Debt Overhang". Journal of Development Economics Vol 29,Pp 253-268

<sup>157</sup> Warui G. M. 2014. The Effect Of China-Kenya Economic Ties On Social And Economic Development In Kenya. Unpublished Master Thesis submitted to the University of Nairobi)

<sup>158</sup> Kaplinsky,R. 2007."The impact of China and India on Africa "; A Methodological Framework; paper prepared for AERC March 2007

As a result of increased inflow of goods from China, disputes over marketing strategies and labour practices have become a major issue. The predilections to employ Chinese citizens and the long working hours anticipated by Chinese managers have created conflicts with domestic labor laws and cultures. Additionally, company policies have led to dissatisfaction in communities which consider that China's firms are not helping adequately to improve local employment and bolster the economy of Kenya<sup>159</sup>.

The most troubling economic aspect of China's presence in Kenya is the volume of affordable imports overflowing the Kenyan market. It is a positive development for the consumers as many Kenyans can easily buy manufactured goods such as radios, pens, clothes and shoes at an affordable price among others<sup>160</sup>. However, cheap Chinese imports are making the producers run out of business. Although it may appear like the government will try to strengthen manufacturing, the cheap imports rewards exceed the loss of competitiveness for the policymakers. In an article in the *East African*, a Kenyan newspaper, inculpated the Chinese of "dissolving" affordable goods into Kenyan market<sup>161</sup>. Several locals are concerned that Chinese businesspeople were surpassing local Kenyans through supplying affordable goods. The Kenyan producers are concerned that affordable Chinese products hamper Kenyan companies from

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<sup>159</sup> Ojiambo V. 2013. Effects of Foreign Aid Predictability on Investment and Economic Growth in Kenya. Kenyatta University.

<sup>160</sup>China Internet Information Center 2019.China expo will help alleviate unemployment in Kenya. Available at [www.p.china.org/cn/China-expo-will-help-alleviate-unemployment-in-Kenya--China's-Poverty-Reduction-Online.html](http://www.p.china.org/cn/China-expo-will-help-alleviate-unemployment-in-Kenya--China's-Poverty-Reduction-Online.html)

<sup>161</sup>Warui G. M. 2014. The Effect of China-Kenya Economic Ties On Social And Economic Development In Kenya. Unpublished Master Thesis submitted to the University of Nairobi)

advancing the ability to produce competitive finished manufactured goods domestically, therefore gaining profit in appreciation of raw materials<sup>162</sup>.

Many Kenyan are worried about the total number of Chinese firms that are in the country not to mention the number of contracts these companies get from the government of Kenya with relative ease. Since almost every important road projects are given to Chinese firms, it offers less opportunity for the growth of Kenyan construction firms. For other industries also, be it in telecommunications or extraction of resources, the same can be true. The enormous size of the contracts is also alarming to Kenyans who dread that wealth and money will leave the country in the Chinese contractors' pockets.

Cheap Chinese intermediate and finished goods provide a general economic benefit. Chinese competition drives uncompetitive companies out of the market and gets rid of the net losses in the domestic economy<sup>163</sup>. The remaining companies can be able to enhance efficiency and improve standards to provide inputs to Chinese firms. For example, during the construction of the SGR, local cement manufactures improved their production to match up to the international standards and provide part of the railway. Companies using Chinese goods as intermediate inputs are improving their efficiency while informal sector companies using intermediates are increasing their retail margins and creating more employment opportunities. Only small retailers seem to benefit from Chinese goods. Chinese products help small stalls and shops make big profits, and since 70% of shopping are from small stalls, retailers seem to have

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<sup>162</sup> Ibid

<sup>163</sup> Farooq M. S., Yuan T., Zhu J. and Nazia F. (2018) Kenya and the 21<sup>st</sup> Century Maritime Silk Road: Implications for China-Africa Relations. *China Quarterly of International Strategic Studies*, Vol. 4, No. 3, 401–418

greatly benefitted from Chinese goods on a large scale. Several streamlined producers may miss out; even so economic theory reveals that the general profit is positive<sup>164</sup>.

As states in a McKinsey Report, there are more than 400 Chinese enterprises operating in Kenya that create approximately 130,000 jobs. These businesses have been instrumental in advancing the economic and social change. In October 2018, an association of more than 90 Chinese multinational companies that operate in Kenya under the Kenya China Economic Trade Association organized a career fair in Nairobi. These companies offered many jobs opportunities to Kenyan youth and pledged to continue providing standard employment opportunities as part of their strategy for business development. The constructions of major infrastructural projects by China has incorporated a large number of local workers, helping to reduce the rising rate of unemployment. A good example of this is the SGR, which was Kenya's largest project since Kenya's independence in 1963<sup>165</sup>.

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<sup>164</sup>World Investment Reports, various issues, United Nations Conference of Trade and Development.

<sup>165</sup>China Internet Information Center (2019)China expo will help alleviate unemployment in Kenya. Available at

[www.p.china.org/cn/China-expo-will-help-alleviate-unemployment-in-Kenya--China's-Poverty-Reduction-Online.html](http://www.p.china.org/cn/China-expo-will-help-alleviate-unemployment-in-Kenya--China's-Poverty-Reduction-Online.html)

## **CHAPTER FOUR**

### **Interventions used, Challenges and Opportunities in managing the Economic Impact of These Relations**

It is clear that Kenya is not in an advantageous position in the China-Kenya relations. This is due to several factors. In an effort to ingratiate itself to African States, China has outlined its plan in an official paper seeking guidance on cooperation with African nations. Published in 2005 by the Ministry of Foreign Affairs of the PRC, it is recognized as the African policy of China and it presents principles and goals as follows; mutual support and close coordination, sincerity,

common prosperity and reciprocity, friendship and equality, mutual benefit, learning from one another and seeking common growth<sup>166</sup>.

Overall, diplomatic relations, Foreign Direct Investments, trade, and China's aid to Kenya have had a mixed effect, resulting in both profit and loss. On one hand, sizeable quantities of Chinese imports provide local consumers with cheap industrial goods, even though at times with fairly poor quality. Nevertheless, cheap Chinese products have laid off several local producers and family businesses. Numerous companies have collapsed due to their failure to compete with the more experienced and government-backed Chinese counterparts.

According to Kipnetich, several factors facilitate the inflow of FDI.<sup>167</sup> These include political legal environments, market size, infrastructure, a country's political stability and predictability, openness of the economy, labour conditions, the degree of globalization of a country and availability of other support services. Amineh contends that for a country to attract high level of FDI and develop certain conditions such as legitimate political leaders that determine policies and decision making, strong and effective political economies, professional and effective institutions, security and friendly relations with other countries-foreign relations and resources are a prerequisite<sup>168</sup>. The 2004 Investment Promotion Act elucidates the government's dedication to attract Foreign Direct Investment in Kenya as it was discovered that FDI in Kenya was decreasing in the last decade, while it increased in other nations in the region<sup>169</sup>.

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<sup>166</sup>Farooq M. S., Yuan T., Zhu J. and Nazia F. 2018. Kenya and the 21<sup>st</sup> Century Maritime Silk Road: Implications for China-Africa Relations. *China Quarterly of International Strategic Studies*, Vol. 4, No. 3, Pp 401–418

<sup>167</sup> Kipnetich, J.2008. Kenya's Competitiveness in Business. Investment Promotion Centre, Nairobi.

<sup>168</sup> Alden, C., Large, D., & Soares de Oliveira, R. 2008. China returns to Africa: Anatomy of an expansive engagement. *ElcanoNewsletter*, (51), p20

<sup>169</sup>World Investment Reports, various issues, United Nations Conference of Trade and Development.

The inflows of FDI from China became significant in current years. This can be explained by two factors namely; Kenya's loss of competitiveness in attracting FDI is that all FDI inflows from China have made up a significant inflow of the Net Foreign Direct Investment in Kenya. China has modified its new policy towards Kenya meant for strengthening its economic cooperation ties. Therefore, presence of Chinese companies has greatly increased. However, the significance of China's FDI inflows to Kenya depends more on capital investment than on quality of activity. This is as a result of the companies that were established having tended to provide services like trade that involves very few companies participating in manufacturing<sup>170</sup>.

Over the past few years, Chinese companies have become increasingly involved in trade, services, building of infrastructure, manufacturing, and other sectors; and are working harder to integrate into the domestic market. Overall, they have actively fulfilled their social responsibilities while running their businesses, gained great trust from the local community and contributed to creation of a good business environment in the region. However, even now there is recurring infringement of local workers' rights and also negligence of their safety, health and well-being by a few Chinese construction firms. Due to this, domestic governments have enacted strict legal provisions to protect the Kenyan workers<sup>171</sup>.

The government of Kenya has shown a cooperative and positive attitude towards the growing presence of China in the country. Therefore it needs to ensure that Chinese companies do not benefit at the cost of local companies and Kenyans and that the socioeconomic relations

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<sup>170</sup>Warui G. M. 2014. The Effect of China-Kenya Economic Ties on Social And Economic Development In Kenya. Unpublished Master Thesis submitted to the University of Nairobi)

<sup>171</sup> People Daily 2015. China-Africa Relations: Something Besides Natural Resources. Available at <http://en.people.cn/n/2015/0302/c90780-8855942.html/>.



between China and Kenya are considered to create well-balanced results for both nations. Many Kenyans have expressed great concern that Chinese firms prefer Chinese employees mostly at the highest level of management compared to their African counterparts<sup>172</sup>. Chinese Multinational Corporations are familiar with these criticisms. However, for example, a telecommunication company (Huawei), have promised to increase the total number of Kenyan employees that work for their companies. Chinese firms and enterprises employ most of the local workers in full and part-time roles; most of the companies surveyed also report that they have a workforce localization policy to refute the notion that Chinese firms only employ Chinese workers. The Workers also received basic skills, hygiene and safety training<sup>173</sup>.

China is a wealthier middle- income state that has a great potential to increase its exports in various sectors. As a low middle-income nation, Kenya is more dependent on commodity and agricultural exports. The economy of China has shifted its emphasis to consumption. Therefore, Kenya may seize the opportunity and export business services, financial and tourism to China. For example, Kenya has had the chance to export the MPESA system to China and other states, mainly those whose financial services are poorly developed. Exportation of more services to China and to other nations will assist in improving Kenya's services industry and stabilize the overall balance of trade<sup>174</sup>. When it comes to trade, many Chinese and Kenyan officials are mainly concerned by bilateral trade deficit. However, it is a pointless statistic; a nation may have a coinciding surpluses and deficits with several different trading associates and have an overall positive balance.

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<sup>172</sup>Sino-Africa Centre of Excellence Foundation (SACE). 2014. Business Perception Index Kenya 2014: Chinese companies' perception of doing business in Kenya 2014.

<sup>173</sup> Ibid

<sup>174</sup> Ibid

A comprehensive trade deficit is a more pertinent and major cause of concern for the policy makers. The China-Kenya Industrial Capacity Exposition, a three day event was held on November 26-29 in 2019 in the capital, Nairobi. This yearly Expo is an outcome of the Forum of Beijing held in 2018 on Sino-Africa Cooperation summit that opened a hopeful chapter in Sino-Africa cooperation. This event created a unique platform for the private and public sectors of the two nations to seek cooperation in all sectors which can advance Kenya's economic growth and transformation.

As a national platform for trade and investment, the expo showcases China's best products, technologies and brands in different fields. In addition, it is an important chance for African nations to start business with major companies of China and acquire knowledge before proceeding to trade with China.<sup>175</sup> The target sectors include machinery and equipment, agricultural processing machinery, information and communication technology (ICT), energy, transportation and logistics and infrastructure. 83 Chinese mega-enterprises took part in the expo held in Nairobi<sup>176</sup>.

Moreover, to expand trade and industrial capabilities in Kenya, China continuously contributes extremely to direct creation of jobs. In fact, the main focus of the exhibition is the China and Kenya job fair of which presents a forum for Kenyan youth to connect with potential employers<sup>177</sup>. Also, business adjustment sessions in the areas of infrastructure, ICT, automobiles and machinery industries, transportation and agriculture and agro-processing

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<sup>175</sup>China Internet Information Center 2019. China expo will help alleviate unemployment in Kenya. Available at [www.p.china.org/cn/China-expo-will-help-alleviate-unemployment-in-Kenya--China's-Poverty-Reduction-Online.html](http://www.p.china.org/cn/China-expo-will-help-alleviate-unemployment-in-Kenya--China's-Poverty-Reduction-Online.html)

<sup>176</sup> Ibid

<sup>177</sup> Ibid

were held during the job fair. In an attempt to boost the economy of the country, the government of Kenya has opened the doors for the investors from China to consider investments with their fellows from Kenya through joint ventures or public-private partnerships.<sup>178</sup>

The flooding of Kenya's market with China's cheap and poor quality textile has resulted to loss of business for many textile manufacturing companies of Kenya thus creating unemployment. In addition, these local companies cannot invest in developing of local designs as a result of Chinese acquiring some of these local textile industries. Those that have been acquired by the Chinese employ their nationals to work in those factories. In response to this, the Kenyan government has improved incentives and removed taxes to help the local textile industries. For instance, taxes have been removed by the government on all textile manufacturing machinery and cotton ginning. This is a means of encouraging importation of modern equipment that would enable the industries to effectively compete with other industries. In addition, taxes on every goods, services and the cotton ginning industries were also dropped by the government. Incentives were also improved so as to tempt Kenya's textile industries to move to its export processing zones (EPZs)<sup>179</sup>.

The growing involvement of China in Kenya's formal and informal sector has caused uneasiness. Local traders at Kamkunji markets, Gikomba, Nyamakima, Luthuli and River Road are crying out to the government to protect them from the threats that have been posed by the foreigners, mainly Chinese who are invading the sector. As a result, seven Chinese national who traded in

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<sup>178</sup> Ibid

<sup>179</sup> EPZA. 2005. Kenya's Apparel and Textile Industry 2005, EPZA Annual Report. [www.epzakenya.com](http://www.epzakenya.com)

second hand clothing in Gikomba were deported by the government as it was discovered that three of them were trading without permits to work whilst the other four engaged in unauthorized jobs and other activities that generating income<sup>180</sup>.

Although there exist numerous opportunities for strengthening Sino-Africa relations, new problems are arising for the two sides on their way to stronger exchange and cooperation. There has been increasing criticism from western nations such as the United States on “neo-colonialism” of China in Africa, an accusation that has always been refuted by China<sup>181</sup>. Take, for example the performance of Chinese companies in Africa. Without a doubt, Chinese companies based in Africa are the first option for building infrastructure as it can be completed fast and inexpensively with least governmental procrastination. However, some are concern that cheap solutions in the short term could prove costly in future as the large-scale projects of China in infrastructure, agriculture and mining could cause the displacement and environmental damages to the livelihoods of host African communities.

The second problem is the negative social impact that may be caused by the China-Kenya relations as it proceeds. In some African countries, the civil society opposes several infrastructure projects, which are believed to have unfavorable impact on the local community. For example, the Kenyan government spent millions of dollars to compensate communities that

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<sup>180</sup> <https://www.standardmedia.co.ke/business/article/2001330881/how-chinese-traders-are-pushing-small-local-traders-out-of-key-markets>. Accessed 18th/August 2020

<sup>181</sup> Al Mariam, 2017. Chinese Neocolonialism in Africa: The Dragon Eating the African Lion and Cheetah? (Part I). Al Mariam’s Commentaries, Available at <http://almariam.com/2017/09/03/chinese-neocolonialism-in-africa-the-dragon-eating-theafrican-lion-and-cheetah-part-i/>

were affected by the construction of SGR line. In several instances, the court suspended the project until all compensation was settled.<sup>182</sup>.

In addition, the environmentalists sued the government over the railway line that passes through Nairobi National Park contending that doing so would damage the natural habitat of the animals in the park. Domestic laws are at times very complex and take time to be fully understood and followed. Unfortunately, Chinese firms rarely have the patience to acquaint themselves and recognize these laws before starting their business. In this regard, a major obstacle for future progress is ineffective communication.

Supporting the trillion-dollar endeavor of China to build the modern Silk Road is an unprecedented loan that not only helps build rail links, ports and roads but can also cause problems for the national economic programs and local banks. At the centre of China's major funds are two Chinese policy lenders, the EXIM Bank and China Development Bank (CDB) that have provided loans totaling to US\$200 billion across Africa, the Middle East and Asia.

The growth of China-Kenya relations increases risks for commercial borrowers and lenders since all are entangled in projects that have questionable business logics, business evaluation companies, policy banks and bankers. Additionally, various economic practices of China as well as excessive dependency on imported Chinese labour in spite of high levels of unemployment among local population, disregard for workers rights and directly or indirectly assisting the corrupt and/or dictatorial governments, have fostered grassroots resentment, which could

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<sup>182</sup>Farooq M. S., Yuan T., Zhu J. and Nazia F. 2018. Kenya and the 21<sup>st</sup> Century Maritime Silk Road: Implications for China-Africa Relations. *China Quarterly of International Strategic Studies*, Vol. 4, No. 3, Pp 401–418

significantly undermine the popularity of China thus weakening the development of these relations<sup>183</sup>.

Critics of the growing presence of China in Africa often claim that financing Africa's infrastructural projects by China in exchange for the natural resources available in the continent is exploitative in nature, a "neo-colonialist" or "neo-imperialist" conduct which is not much different from what was done by the European powers a hundred years ago. They claim that China's continued involvement, would intensify many African nations' indebtedness, and the growing participation of Chinese enterprises and workers could to some extent affect the active social order in several African nations and bring about higher rates of unemployment<sup>184</sup>.

The weak exports of Kenya can be traced to the poor performance of the manufacturing sector of Kenya. For more than a decade, the performance of the manufacturing sector has only represented 10% of GDP<sup>185</sup>. Manufacturing receives least investment since investors want to avoid the high cost of doing business and underdeveloped infrastructure and are channeling funds in non-commercial sectors such as construction and real estate. The growing business sector has seen its competitiveness decline due to ineffective government policies and inefficiencies. For instance, mismanaged marketing boards and Price controls have demoralizing the coffee farmers from exporting, and the sector is hardly rebounding from the damage. These instances further lead to unbalanced trade between Kenya and China. The government must redirect resources to the production of commercial products. Otherwise there is a risk of increased debt which will result to slower growth in future.

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<sup>183</sup> Ibid

<sup>184</sup> Ibid

<sup>185</sup> World Investment Reports, various issues, United Nations Conference of Trade and Development.

With the few natural resources available in the country, Kenya has not benefitted from China's growing commodity boom. The growth does no good for the agricultural sector of Kenya due to lack of comparative advantage in the major food imports (beef, wheat, soybeans and corn) of China, making it hard for Kenya to increase its exports of agricultural products. Generally, sugar, tea, flowers and coffee are Kenya's major sources of foreign exchange earnings. However, it has managed to diversify its income<sup>186</sup>. Value-added goods such as plastics and chemicals have also turned to China, a change from the general history of resources and oil exports<sup>187</sup>. Additionally, the exports of Kenya fall with distance since China is far from Kenya. The farther Kenya is from China, the less its volume of exports are. Kenya's exports to China are less as they are 9,201.3 kilometers away from each other. This is a challenge in terms of bridging the balance of trade gap.

The window of opportunity in the market of China is finished leather due to low inputs and economies of scale. China is a competitive manufacturer of leather goods. However, Kenya can export its finished leather goods to China because China has a restricted presence in the expensive leather market, allowing Kenya to provide additional valuable leather goods<sup>188</sup>. Kenya currently exports semi-finished leather goods and raw hides which are in great demand in China. The same way Ethiopia allured investments from China in the leather sector to satisfy demand, Kenyan footwear manufacturers could serve to attract more investment to boost exports. The demand for domestic leather also exceeds the supply; indigenous producers can

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<sup>186</sup> Ibid

<sup>187</sup> Ibid

<sup>188</sup> Hansen, E. R.; Moon Y. and Mogollon M. P. 2015. Kenya -Leather industry: diagnosis, strategy, and action plan Washington, D.C. : World Bank Group. <http://documents.worldbank.org/curated/en/2015/09/25022153/kenya-leather-industry-diagnosis-strategy-action-plan>

take advantage of the new technology of Chinese companies to satisfy the growing local demand for finished leather<sup>189</sup>.

As China specializes in exports manufacturing, it is the only major exporter in universal value chains. Just like other countries with income levels which are similar, Kenya imports from China. However, there is room for export growth for Kenya. Promises have been shown by the cut-flowers and Leather goods, and Kenya could benefit from negotiating for relief from custom duty for Kenya's cut-flowers in China and also reorganizing the leather sector.

Since Kenya produces and markets some intermediate goods, several researchers (Hansen, Moon and Mogollon 2015) have deduced that imports from China can result to de-industrialization. Some suspect a premature decline of industry. Kenya will have to stimulate an increase in FDI in the manufacturing sector, infrastructure, improve labor productivity, lower transport costs and ease the regulatory burden on trade if it hopes to increase exports and manufacturing shares in GDP. China's slow growth could result to reduced FDI in Kenya. The poor performance of Kenya in attracting FDI makes the inflows of FDI volatile. Low FDI in Kenya could cripple development plans, which will increase the need for infrastructure as the national consumption of China will commute towards final consumer products, the need for raw material and natural resources will decline, and Kenya's newly discovered oil would face lower universal prices<sup>190</sup>.

Chinese loans are offered at favourable interest rates and are not tied to good governance. However, these loans can be harmful to Kenya in future since there is lack of lucidity and failure

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<sup>189</sup> Ibid

<sup>190</sup> World Investment Reports, various issues, United Nations Conference of Trade and Development.



to tie assistance to significant governance reforms. The traditional donors can make China comply with the environmental protection standards while the civil societies demand increased aid and financial transparency forcing both Chinese and non-Chinese companies to participate in the Extractive Industries Transparency Initiative (EITI) then report the payments to the government<sup>191</sup>.

At the last FOAC, Chinese president (Xi Jinping) said that both Africa and China have undertaken a vague path of win-win cooperation and that Chinese government has acknowledged its responsibility and has worked together for Africa to set up regulations and enhance its relationship with firms that wish to set up themselves there. While the mounting indebtedness of Kenya to China is worrying, for example, the SGR deal really provides a strong model for sustainable growth through partnership with China.

In addition, China provided substantial funding for infrastructure which will aid development by reducing business costs. For infrastructure projects in future, decision makers can make programs to promote transfer of technology with domestic companies and vocational institutes. Indigenous industries will develop due to many companies meeting the caliber to provide inputs for the mega infrastructure projects, offering jobs and skills they desire. As a trading partner, China is least interested in internal affairs of the other countries. When reviewing opportunities, Kenya must consider domestic capacity development to get the most out of investment and infrastructure projects.

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<sup>191</sup>Hansen, E. R.; Moon Y. and Mogollon M. P. 2015. Kenya -Leather industry: diagnosis, strategy, and action plan Washington, D.C.: World Bank Group. <http://documents.worldbank.org/curated/en/2015/09/25022153/kenya-leather-industry-diagnosis-strategy-action-plan>

Following President Uhuru's ban on importation of fish from China had flooded local market and expelled catches from Lake Victoria, the Chinese government threatened to pull out funds for the projects that it was handling in Kenya. As a result, the Department of Fisheries walked back on the directives of president Uhuru in less than three months. The fear of China's retaliation has been a great challenge to Kenya<sup>192</sup>.

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<sup>192</sup> <https://www.standardmedia.co.ke/business/article/2001330881/how-chinese-traders-are-pushing-small-local-traders-out-of-key-markets> accessed on August, 18th 2020

## **CHAPTER FIVE**

### **Summary of findings, Conclusion and Recommendation**

#### **Introduction**

The summary of the findings, conclusion and recommendation will be presented in this chapter. Both conclusion and recommendation drawn will focus on addressing the main objectives of the study that were, to examine the nature and economic impact of Kenya-China relations, to investigate interventions applied to resolve and manage the economic impact of China's involvement in Kenya, to explore the challenges and opportunities in managing economic impact of China-Kenya relations.

#### **Summary**

In order to examine the economic impact of China's relations with African countries, this study discovered that the relations between China and Africa are more complicated phenomenon. These relations are based on a very long history consisting of strategic, economic, cultural and socio-political dimensions. China became the largest trading partner of Africa thus becoming a significant market for African goods and also an important origin of several finished goods which are traded throughout Africa. China has taken part in infrastructural projects in Africa. In addition, Africa has attracted large investments from China.

Although Sino-Africa economic relations offer great opportunities for both China and African countries, there are major challenges growing as a result of these relations. For instance, the Western nations such as UK and US criticize these relations as they regard China's presence in Africa as Neo-colonialism of Africa by China. According to Kaplinsky, China is only interested in the resources available in Africa. On the other hand, former Deputy Minister of Zimbabwe, Professor Arthur Mutambara and former President of South Africa, Jacob Zuma claim that extracting natural resources from Africa is harmful to the sustainable development of Africa and thus these extractions will greatly impact the future generations of Africa. However, viewing the presence of China in Africa from the realist perspective shows that both China and Africa were driven by their own interests and that China is not in Africa to colonize Africa in this modern day.

Kenya and China established diplomatic ties in December 14, 1963. Since then, both Kenya and China have had strong economic ties with China importing and exporting a variety of goods from China and Kenya. The economic ties between Kenya and China have greatly increased over the years due to loans, investments and aid from China to Kenya. Due to this, the number of Chinese enterprises has increased and FDI's have been greatly diversified into sectors like power plants, telecommunications and transport. Kenya has been receiving foreign aid from China. In 1990s, the aid policy was changed from liberation to reduction debts, development and investment promotion. Kenya benefits from aid given by Chinese government which is exclusively project based.

Kenya has benefitted from China's aid in the sense that these aids were used in construction of the roads (Thika Super Highway), modernization of power distribution, rural electrifications and renovation of international sports centers (Moi international sports centre in Kasarani). On the other hand, China has promoted her business in Kenya through expansion of her ventures in Kenya.

### **Key Findings**

Several key findings were drawn from this study. First, it is crystal clear that the trade between China and Kenya is heavily imbalanced as this trade leans heavily in favour of China making China benefit more from this economic relation. China enjoys a better balance of trade as compared to Kenya. Kenya imports manufacturing goods from China whereas only a limited variety of Kenya's products are exported to China. It has been claimed that Kenya benefits from the physical infrastructure development and is able to get better prices for Kenyan products than it gets in Western nations. However, this is highly debatable because the trade balance is skewed towards China with Kenya's import from China being more than what it exports to China. Therefore, it is evident that the relation between China and Kenya is an asymmetrical relationship where China benefits more from Kenya than Vice versa.

Secondly, the indigenous contractors are losing out in situations whereby contracts are given at intergovernmental level. As a result, local contractors have run out of jobs as even apartments are been constructed by the Chinese contractors and these apartments to be expensive to be rented by the local citizens. As a result, the indigenous contacting companies have greatly

declined as Chinese contracting companies tend to be the first option. Regionally, due to the entry of Chinese citizens as well its goods, Kenya is losing its selling power in the retail industry and also in small scale enterprises in the textile industries and also in small enterprises which have generally been preserved for the poor and middle class people in Kenya as Chinese citizens have engaged in the small enterprises such as hawking and retailing. This shows that this economic relation has a direct effect on individual's livelihoods.

Thirdly, it is evident that Kenya's economy has greatly developed as a result of this relation but at a greater cost of heavy debt burden. Kenya has benefitted to some extent from this relation as loans have less condition as compared to the West. However, debt to China is also increasing at a very fast rate. The heavy burden of debt and Chinese loans can lead to unsustainable levels. Several of these loans are non-concessional ones that could increase the debt levels to GDP at a fast rate. The amount of these debts has resulted to the displacement of Japan with China becoming the top bilateral and single largest lender to Kenya. However, the big question is, how will Kenya pay for this debt with the balance of trade deficit that is so skewed towards China?

Furthermore, the increased number of Chinese firms in the country Kenya has worried many Kenyans because these firms obtain many contracts from the government of Kenya easily. Nearly all major roads projects are offered to the Chinese firms thus giving least opportunity for the development of the construction companies of Kenya. Also other industries such as telecommunications or extraction of resources are awarded to the Chinese. This has become a major problem for Kenyan citizens who fear that the money will be leaving Kenya in the pockets

of the Chinese as the same loans that China offers to Kenya is used to pay the Chinese contractors who are carrying out the construction projects. This means that Chinese are benefitting themselves as they end up pocketing the same loans they offer to Kenya while local construction companies decline. This therefore limits the competitive capacity of the local constructing companies

Additionally, the presence of China in Kenya has had both a negative and positive effect on the lives of the normal citizens. It has helped ease the prices of commodities in the country making the local people to be able to easily acquire the goods and services at a cheaper price due to influx of Chinese goods in the country which has a result eased the standards of living. However, the influx of these goods has affected the local businesses since most customers prefer the cheaper goods of China that are of poor quality than those of the locals. As a result, local businesses have greatly declined.

## **Conclusion**

The China-Kenya relation is intriguing and interesting despite the two countries having associated with each other since 1963. Kenya has been enterprisingly trying to promote itself socially, politically and economically. As a result of this Kenya has been promoting its economy through forming closer economic ties with countries like China. The economic relation between Kenya and China has helped in improving of Kenya's economy due to increased trade relations between the two states. Lately, the development of infrastructure in Kenya which is mainly associated with Chinese investment has greatly increased.

It is evident that developmental progress of Kenya has greatly improved due to the enhanced relationship with China. Most African countries have weak infrastructure which has greatly hindered the economic development of these countries. As the Chinese president, Xi Jinping specified that, the biggest hindrance to development of growth in Africa is inadequate infrastructure.

In the first objective of this study, I examined the nature and economic impact of China-Kenya relations. It is evident that Kenya is a gateway for China to African countries due to her political stability and strategic location. This has been a major reason for both developing and developed states to want to partner with Kenya in order to establish mutual relationship. For instance, China offers good working relationships with Kenya further providing efficiency in dealing with Kenya thus resulting to fast delivery of services. The most appealing factor to many African countries as well as Kenya is the “no strings attached policy”, “non-interference” in the internal affairs of the a country by the Chinese government as well as the “principle of mutual benefit”. This has been the main point of attraction thus resulting to the strong relation between China and Kenya.

The second objective of the study examined the interventions that have put in place in a bid to deal with the economic impact of this relation. It's evident that both the Kenyan government and the Chinese firms in Kenya have put out measures on how to protect the local citizens and the Chinese citizens from discriminations. For example, Huawei Company promised to employ more local citizens to work in the company so as to reduce the level of discriminations. Also the



Kenyan government has offered support to the local manufacturing industries so that it is able to withstand the competition from other industries.

Thirdly, the study examined the challenges and opportunities in those interventions used and challenges that have been associated with these interventions is that there are a lot disapprovals from the local people who view the presence of the Chinese in Kenya as an undermining factor. Due to the expansion of Chinese ventures in Kenya, the Kenyan citizens feel that these will make the local industries and Chinese enterprises to run out of business as the Chinese are establishing small enterprises in the country.

After analyzing the economic impact of Kenya-China relations, I have come to the conclusion that this relation has had their losses and gains but this relation is strong and very significant and it requires to be nurtured further for future benefit.

### **Recommendations**

This study recommends the following; The Kenyan government should invest more in the manufacturing sector so as to import less finished goods from China in order to equally benefit from the trade relation between China and Kenya since less import from China and more exports to China means more benefit for Kenya

Secondly, the government should put up measures to prevent the influx of Chinese goods into the country as these cheaper goods are of poor quality and bad for local consumers and also make the local businesses to decline since these cheaper goods are most preferred by consumers. Therefore, in order to protect the local business, the government should heavily tax

these Chinese goods in order to protect the indigenous business that are declining due to these affordable Chinese goods

Lastly, construction projects should be offered to the local construction companies so as to enable the local construction companies to compete with the Chinese construction companies.

Offering construction projects to the indigenous firms will lead to creation of more job opportunities which will lead to generating of more revenues for the country and promote the Kenyan economy

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## APPENDICES

### Appendix 1: Questions for Interviewees

#### Bio data of the respondent

1. Indicate your gender
  - a. Male [ ]
  - b. Female [ ]
2. What age bracket do you fall under?
  - a. 18-23 years [ ]
  - b. 24-34 years [ ]
  - c. 35-44 years [ ]
  - d. 45-54 years [ ]
  - e. 55 and above [ ]

Highest Academic level

Primary [ ]    Secondary [ ]    Tertiary [ ]    None [ ]

#### Questionnaires

1. How would you define or characterize the relation between Kenya and China?
2. Is China benefiting more from its relation with Kenya or is the benefit Mutual?
3. The relation of China with Kenya has been characterized as the “new scramble for Africa”. What is your opinion on this assertion?
4. How has this relation impacted the lives of the normal citizens of Kenya?
5. Has Kenya benefitted from this relation in terms of economic development?

6. Poverty in Kenya is increasing at a high rate. How is this relation of China with Kenya addressing the poverty issue in Kenya?
7. What is the success rate of China's investment in Kenya?
8. Has the competition between Chinese and Kenyan products and businesses affected you? If Yes, how?
9. What are your perspectives on the influx of cheap imports to Kenya?
10. What are the economic benefits of Nairobi-Thika highway?
11. How has the Chinese businesses and shops operating in the country affected your business?
12. In your perspective, has the price of commodities, transport, food, rent and school fees been affected by China's presence in Kenya? If yes, How?
13. In your opinion, has improved infrastructure led to improvement or worsening of transport fares?
14. Has construction of apartments by Chinese contractors affected real estates in Kenya?
15. Several government contracts have been offered to the Chinese companies, what is your opinion on this?
16. The United States and Europe have ceded their position of been the largest trading partners to China. Is this a new trick?
17. How is the government of Kenya addressing the complaints of Kenyan citizens that are working in companies and mines run by Chinese and facing discrimination and poor working conditions?

18. Is it true China has a policy of 'no strings attached' to the aid it offers to African countries? How does china benefit from this policy?
19. Most contracts are awarded to Chinese companies. What process is used in awarding of these contracts?
20. What measures has the government taken in dealing with Chinese small scale traders living and working in Kenya without a work permit?
21. What does China hope from this partnership now and in the near future?
22. The trade between Kenya and China is currently in favour of China. What steps is China taking to address this imbalance.