Taylor & Francis
Taylor & Francis Group

Cogent Social Sciences

ISSN: (Print) (Online) Journal homepage: https://www.tandfonline.com/loi/oass20

# Chinese credit lines in Kenya: Linked to natural resources?

Oscar M. Otele

**To cite this article:** Oscar M. Otele (2023) Chinese credit lines in Kenya: Linked to natural resources?, Cogent Social Sciences, 9:2, 2262185, DOI: 10.1080/23311886.2023.2262185

**To link to this article:** https://doi.org/10.1080/23311886.2023.2262185

© 2023 The Author(s). Published by Informa UK Limited, trading as Taylor & Francis Group.

Published online: 05 Oct 2023.

Submit your article to this journal

View related articles

View Crossmark data

Full Terms & Conditions of access and use can be found at
https://www.tandfonline.com/action/journalInformation?journalCode=oass20

cogent social sciences

INTERNATIONAL RELATIONS | RESEARCH ARTICLE

# Chinese credit lines in Kenya: Linked to natural resources?

Oscar M. Otele[1]*

Received: 28 March 2023
Accepted: 20 September 2023

*Corresponding author: Oscar M. Otele, University of Nairobi, Department of Political Science and Public Administration, Nairobi, Kenya
E-mail: otele@uonbi.ac.ke

Reviewing editor:
Cristina Elena Popa Tache, Law, Andrei Şaguna University: Universitatea Andrei Saguna, Romania

Additional information is available at the end of the article

**Abstract:** This study examines China-Kenya financial engagement in the context of the discovery of natural resources in Kenya. Based on the analysis of the outcomes of financial instruments, we use trade dependence hypotheses to determine whether financial outcomes are influenced by perceptions of China's dependence on Kenya's market and China's quest to access discovered natural resources. It is argued that between 2006 and 2011, China's dependence on Kenya's market did not influence perceptions of negotiators leading to "unfavourable" financial outcomes, however, this changed in the context of China's quest to access discovered natural resources between 2012 and 2015, thus leading to "favourable" financial outcomes. The significance of the findings is that China provided more liberalized credit lines to the Kenyan government after Chinese firms began to express more interest in natural resource extraction.

**Subjects: International Political Economy; International Relations; Political Research Methods**

**Keywords: China; Kenya; natural resources; perceptions; trade**

## 1. Introduction

Early works on China-Africa relations (see Alden, 2005, 2007; Rotberg, 2008) in the context of China's renewed interest in Africa tended to portray China's interests as driven by the quest to access natural resources. For a while, this assertion dominated the debate because China's activities were extensive in resource-rich countries such as Angola, the Democratic Republic of Congo (DRC), Equatorial Guinea, Gabon, Libya, and Nigeria. Given that extraction of resources was exchanged for building of infrastructure, popularly known "infrastructure for resources" (Alves, 2013), attention shifted to analysis of the outcomes of financial agreements between China and Africa countries. The underlying concern in the analysis was whether Chinese credit lines were favorable when compared to Western sources.

### ABOUT THE AUTHOR

Oscar M. Otele is a Senior Lecturer at the University of Nairobi, Department of Political Science and Public Administration. Over the years, his research interests have revolved around China-Africa relations. His works appear in *African Affairs, African Studies Quarterly, Politics and Policy; The African Review* and *The South African Journal of International Affairs*. He has also authored working and policy papers with globally renowned think tanks like the Council on Foreign Relations in New York, the South African Institute for International Affairs in Johannesburg. He has presented conference/workshop/seminar papers in Kenya, Uganda, Tanzania, South Africa, Egypt, Hungary, Serbia, People's Republic of China, Germany, Sweden, the UK and the US.

cogent oa

© 2023 The Author(s). Published by Informa UK Limited, trading as Taylor & Francis Group.
This is an Open Access article distributed under the terms of the Creative Commons Attribution License (http://creativecommons.org/licenses/by/4.0/), which permits unrestricted use, distribution, and reproduction in any medium, provided the original work is properly cited. The terms on which this article has been published allow the posting of the Accepted Manuscript in a repository by the author(s) or with their consent.

In Angola, opinions are divided on whether the terms offered by Chinese financial institutions are favorable. Whereas Campos and Vine (2008, p. 4) conclude that the US$ 2 billion loan package that China extended to the Angolan government and payable over 12 years, with a grace period of three years and London Interbank Offered Rate (Libor[1]) plus a spread of 1.5% to be "deeply concessional," Corkin (2013) sees otherwise. Considering the proportion of the grant element in concession loans, the fluctuating value of the Libor, the repayment period, and the amount of loans offered by China's Export-Import (Exim) Bank vis-à-vis concession loans from other bilateral donors and Preferential Buyer's Credit from other commercial institutions, Corkin (2013) does not definitively conclude that credit lines from Exim Bank are favorable, but rather assesses each parameter on its own merits. Corkin discounts Alves (2010, p. 11), suggesting that Chinese credit lines are not regular loans,[2] arguing that they do not consider the fluctuating values of Libor, which renders a floating interest rate that may rise up to 7% (Corkin, 2013, p. 80). Corkin further argues that when compared with other bilateral donors and commercial institutions, Exim Bank's loans are not cheaper, as always depicted.

Sometimes, China's Exim Bank offers slightly better terms than other commercial institutions, but this is not always the case. Indeed, the US Exim Bank provides other bank credit facilities in Libor plus an interest rate ranging from 0 to 4% (Brautigam, 2011), while Korea and India offer much better concessional terms than China's Exim Bank (Corkin, 2013, p. 80). It is only the repayment period and the amount of loans that Corkin concluded that China's Exim Bank offers advantageous terms to the Angolan government. While Exim Bank provides a repayment period of 15–18 years, European commercial banks offer four to five years. In addition,

Exim banks are almost four to five times larger than those offered by European commercial banks (Corkin, 2013, p. 80). In the DRC, China extended credit lines to Joseph Kabila's nationwide reconstruction programme that was deemed unfavorable (Marysse & Geenen, 2009, p. 389) and it took the intervention of civil society organizations and the international community to have a previous deal worth US$ 9.2 billion substantially renegotiated to US $ 6 billion without any guaranteed access to mineral assets (Mthembu-Salter, 2012). A similar instance was reported for Gabon, with over US$ 3 billion deal in 2006. In Nigeria, President Umaru Musa Yar' Adua terminated US$ 12 billion of Chinese infrastructure-for-oil deals signed during President Olusegun Obasanjo's era, citing opaque contracting processes (Alves, 2013, pp. 2014–2015). These cases illustrate the controversy surrounding the outcomes of credit lines between China and other African countries.

Although Kenya is a relatively resource-poor country, in recent years, natural resources such as oil, natural gas, coal, niobium, and rare earth have been discovered. Deposits of iron ore and minerals, such as calcium and gemstones, have also been discovered in other parts of the country. This has resulted in competition between firms from Western countries, such as the US, the UK, Germany, and Canada, and firms from emerging economies, such as China, India, and Brazil. Competition has been experienced in matters related to the exploration and acquisition of rights to extract minerals. However, in resource-rich countries, the repayment of credit lines is tied to the availability of resources, whereas in relatively resource-poor countries, the repayment is tied to the viability of the project. Undoubtedly, the forecasted viability of a project influences negotiation strategies and, consequently, financial outcomes. The literature on donor-recipient relationships (see Whitefield, 2009; Whitefield & Fraser, 2009, 2010) assumes that the availability of natural resources provides policy recipients with much needed leverage during negotiations.

Following this assumption, in the context of the discovery of natural resources and Kenya's interest in Chinese credit lines, one would expect Kenya to obtain favorable financial outcomes. However, the outcomes of financial negotiations elicit mixed responses.[3] One study found that the Kenyan government preferred Chinese development finance because of its higher proportion of grant components, longer grace periods, and repayment periods than those offered by Western countries (Kamau et al., 2009, 1603). A prominent journalist concluded that Chinese credits are

"potentially better" than commercial loans from the Organization for Economic Cooperation and Development (OECD) countries but more expensive than multilateral institutions like the World Bank (Kisero, 2013, p. 12). After comparing the cost of financing a kilometer stretch of railway line in Tanzania, Ethiopia and Kenya against the international standards renown economist concluded that the financing arrangement between China's Exim Bank and the Kenyan government as too costly. The conclusion is based on the analysis that at a global range of US$ 2.5–4 million per kilometre, the railway line connecting Dar es Salaam to Rwanda and Burundi, costs US$ 2.75 million, while Ethiopia's electrified line costs US$ 4.6 million, thus Kenya's Mombasa—Nairobi line ought to have cost US$ 1.5 billion and not US$ 4 billion.[4]

While the debate is useful in understanding the nature of financial outcomes, the behavioral dimension of negotiators in terms of how the presence of natural resources influences their perceptions is missing in this discussion. In other words, negotiators' agency is underestimated. As elaborated in the conceptual framework below, negotiators perceive the accessibility of natural resources in recipient countries as influencing negotiation strategies. Against this background, this study uses the outcomes of financial negotiations to examine whether Chinese credit lines in Kenya are linked to natural resources. It is argued that between 2006 and 2011, China's dependence on Kenya's market did not influence perceptions of negotiators leading to "unfavourable" financial outcomes, however, this changed in the context of China's quest to access natural resources discovered between 2012 and 2015, thus leading to "favourable" financial outcomes. The rest of the paper is organized as follows. The next section on the conceptual framework discusses donor-recipient theoretical models and extracts conceptual variables relevant for analysis. The section on research methods presents the cases selected and tools of analysis. The results and discussion section presents the findings, explanations, and interpretations. The concluding section presents an overview of this study.

## 2. Conceptual framework

Understanding the outcomes of financial negotiations between donors and recipients has long been recognized in the literature. Rooted in the interaction between Western donors and African countries at the onset of structural adjustment programs (SAPs), the literature deployed a rational choice model (Bates, 1981; Hyden, 1983); game theoretical model (Mosley et al., 1991) and neo-patrimonial model (Van de Walle, 2001) to understand the relationship. According to rational choice and neo-patrimonial theoretical models, negotiation outcomes could be explained by conflicts arising from the diverse groups within the recipient governments and the tendency of these governments to resist the implementation of policy reforms. However, these models underestimated the indirect role of informal organizations in influencing the allocation of external resources to policy recipients. Some members or patrons of these diverse groups may happen to be part of the ruling elite and indirectly influence government position vis-à-vis donors. Rational and game theoretical models view donor and recipient representatives as a collective of interests and capacities. However, these models underestimated the agency of politicians and bureaucrats, giving prominence to wider structural contexts that included domestic politics, ideology, and geopolitical factors (Whitefield & Fraser, 2010, p. 344). In their contributions to the debate by way of analyzing the lending practices of the World Bank and International Monetary Fund (IMF), Mosley et al. (1991) and Killick et al. (1998) found out that after many years of experience in bargaining, parties at the negotiation table discover ways of neutralizing each other strategies.

From mid-1990s, the theoretical models overlooked institutional reforms initiated by the donor community, such as debt relief initiatives, emphasis on national planning and ownership, and enhanced institutional capacity building aimed at reforming the relationship between donors and recipients. The emergence of "new" lenders (such as China) heightened the need to re-examine existing theoretical models. In response, Whitefield and Fraser (2009, 2010) developed the "New Approach," where they argued that the outcomes of aid negotiations are by-product of the interaction between the donor and the recipient preferences. Consequently, the ability of the donor and recipient to affect preferred outcomes is heavily constrained by the conditions within

which they operate and the negotiation strategies they pursue during the interaction. Starting on the backdrop that previous game-theoretic and rational choice models ignored the structural context, Whitefield and Fraser (2009, p. 39) developed analytical framework premised on the changing "global and national economic, political, ideological and institutional context within which donors and recipients define preferences and select their strategies." In these contexts, Whitefield and Fraser referred to them as the structural conditions, and although they are not deterministic per se, they shape the perception of the relative leverage of donor and recipient against each other, thus influencing the kind of strategies adopted by each party.

The attractiveness of the "New Approach" model lies in its capacity to bring to the fore how policy recipient exercise agency on matters such as priority areas, terms and conditions of financial agreements. Although the authors focused on the relationship between African countries and western development donors, in light of Rugumamu (2014, p. 12)'s observation that "the Sino-Africa cooperation has invariably tended to assume the quintessential donor recipient relationship model of engagement, leaving each and every country to negotiate with China on a country-by-country basis," some of the structural conditions in the "New Approach" may be applicable in understanding how they shape perception of the relative leverage of China and policy recipient against each other.

Financial negotiations between China and African countries involve policy recipients who apply for Chinese development finance from the Chinese Bank. With the recommendation of the resident Chinese economic counselor's office, the policy recipient submits its application to the Ministry of Finance and Commerce (MOFCOM) via the Chinese Embassy. At MOFCOM, the Department of Foreign Aid and the Department of Economic Cooperation, in consultation with the Chinese Bank, considers the application (see, Brautigam, 2009; Corkin, 2013; Hubbard, 2008). Upon satisfactory review of the application, the representatives of the two governments meet to negotiate the proposed financial agreements. The terms of the financial agreement reached between China and the policy recipient were assessed to determine whether the policy recipient obtained favorable financial outcomes. To determine whether the policy recipient obtains favorable financial outcomes, the analysis considers the repayment period and amount of credit in different categories of Chinese development finance offered by China's Exim Bank relative to other sources of foreign capital within a specific time period. The structural context within which negotiations between China and the policy recipient take place is important in shaping the perception of the relative leverage of each other, thus influencing the kind of strategies adopted by each party. Although the "New Approach" model considers economic variables like the degree of donor-policy recipient trade dependence, policy recipient's level of indebtedness and policy recipient's aid dependence, and political variables like the degree of legitimacy at abroad and the degree of institutionalization at home, the analysis in this paper considers only the degree of donor-policy recipient trade dependence.

In trade matters, natural resources are viewed in terms of the extracted raw materials seeking markets in another country; therefore, the degree of donor-policy recipient trade dependence is measured in terms of China's dependence on the policy recipient market and its accessibility to natural resources in the policy recipient. The extracted raw materials and other commodities are exported to determine whether a policy recipient has a surplus or deficit with China. It is hypothesized that if the policy recipient has surplus trade with China, it implies that China needs policy recipients more in terms of providing market; thus, China would have less space for maneuver during financial negotiations, consequently resulting in favorable financial outcomes for the policy recipient. It is further hypothesized that if China is determined to access any natural resources available in the policy recipient, this would give the policy recipient leverage during financial bargaining, leading to a favorable outcome. The case of China-Angola trade relations confirms these hypotheses. Corkin (2013, p. 124) observes that "substantial increases in Angolan petroleum exports to China [sic] rendered Angola one of China's largest sources of oil imports, with the result that China [was] considerably more dependent on Angola for petroleum than it was ten years

previously". This means that although the two countries were viable trade partners in the early years, China's dependence on Angolan petroleum was low and Angola did not have leverage against the former. However, in light of its increasing dependence on Angolan oil, Chinese leverage has eroded over time. In the Kenyan case, the hypotheses were confirmed following the research methods outlined in the next section.

## 3. Research methods

A case study of Kenya-China financial negotiations in the transport infrastructure between 2003 and 2015 was utilized. Guided by the availability of financial instruments from the National Treasury, road (The Nairobi Southern Bypass project) and railway (Standard Gauge Railway [SGR] - Phase One project) subsectors were selected as units of analysis within the case. Since 2003, road and railway subsectors have received significant amounts of Chinese credit lines and continue to illicit mixed reactions concerning the outcomes of financial negotiations.

The Nairobi Southern Bypass is one of three bypasses (the others are Northern and Eastern) designed to decongest traffic from the Central Business District (CBD) of Nairobi City. The SGR was conceived to replace the colonial aging railway system with serious limitations in terms of technology, speed, and capacity.[5] As such, it was envisioned that the SGR would provide much needed transport capacity to the Northern Transport Corridor (NTC). Consequently, in August 2012, the cabinet approved the development of the SGR, linking Mombasa to Malaba with connectivity to Kisumu.

To determine whether the Kenyan government obtained favorable financial outcomes, the repayment period and amount of credit lines offered by China's Exim Bank in support of the Nairobi Southern Bypass and the SGR (Phase One) relative to other sources of foreign capital between 2006 and 2014 were examined. The selection of the repayment period and amount of loans was informed by the fact that the two parameters existed in the credit lines of both infrastructure projects, thus serving the study well when comparing the outcomes. Although the grant component exists in both, because the study compares separate components of the loans, this parameter is not featured in the commercial component of the SGR. "Favourable" financial outcomes is measured in terms of China's Exim Bank offering longer repayment period and higher amounts of loans relative to other potential creditors, while "unfavourable" financial outcomes is where China's Exim Bank offered shorter repayment period and smaller amounts of loan relative to other potential creditors. To analyze the financial outcome, the degree of China-Kenya trade dependence is measured in terms of China's dependence on the Kenyan market in terms of the difference between exports and imports and the degree of China's accessibility to natural resources in Kenya, especially the involvement of Chinese firms in the exploration of oil and extraction of minerals. Trade statistics were obtained from the Kenya Revenue Authority (KRA) and the Center for Business Information in Kenya, while data on China's access to natural resources in Kenya were obtained from the Ministry of Petroleum and Mining. Interview data on variations in these conditions over time-informed negotiation strategies were obtained from loan negotiators and key informants. Media and parliamentary reports supplemented the primary data.

## 4. Results and discussion

This section discusses the outcomes of financial negotiations and proceeds to discuss how the outcomes were influenced by the perception of trade dependence between Kenya and China, and the second perception of China's quest to access natural resources in Kenya.

## 5. Outcomes of financial negotiations

There is scant data regarding the feasibility study of the Nairobi Southern Bypass. Data regarding the signing of commercial agreements between the Chinese contractor and Kenya implementing authority was not forthcoming either. However, given that the approval of any Chinese financial support to the recipient country is usually preceded by high diplomatic visits, the source of negotiation could be traceable to November 2006, when President Mwai Kibaki visited

Beijing attended a summit on the Forum on China-African Cooperation (FOCAC), where China pledged to extend support for the construction of the earmarked Nairobi Southern Bypass. If indeed the State Council is one of the key institutions in facilitating loan agreements (see Brautigam, 2009; Hubbard, 2008), then the visit by Wang Qishan, Chinese Vice Premier, in March 2011 might have catalyzed negotiations leading to the approval of a Preferential Buyer Credit worth US$ 183 million in 2011. Its terms included an interest rate of 2%, a grace period of seven years, and a repayment period of 12 years.[6] In addition, the Kenyan government met a management fee and commitment fee of 0.2% of the project value. The credit line also qualifies for a government grant threshold of 35%.[7] Given China's quick model of loan disbursement,[8] assuming that loan negotiations began one or two years before approval, the Kenyan Government had the option of sourcing funds elsewhere. Perhaps in 2009/2010, the Federal Republic of Germany, Government of the Netherlands, Government of Japan, and France through Agence De Francaise De Development could have been potential creditors, as they were also supporting infrastructure development. Potential commercial sources include the Indian Exim Bank and the Belgium-KBC Bank. Alternatively, the government could have approached

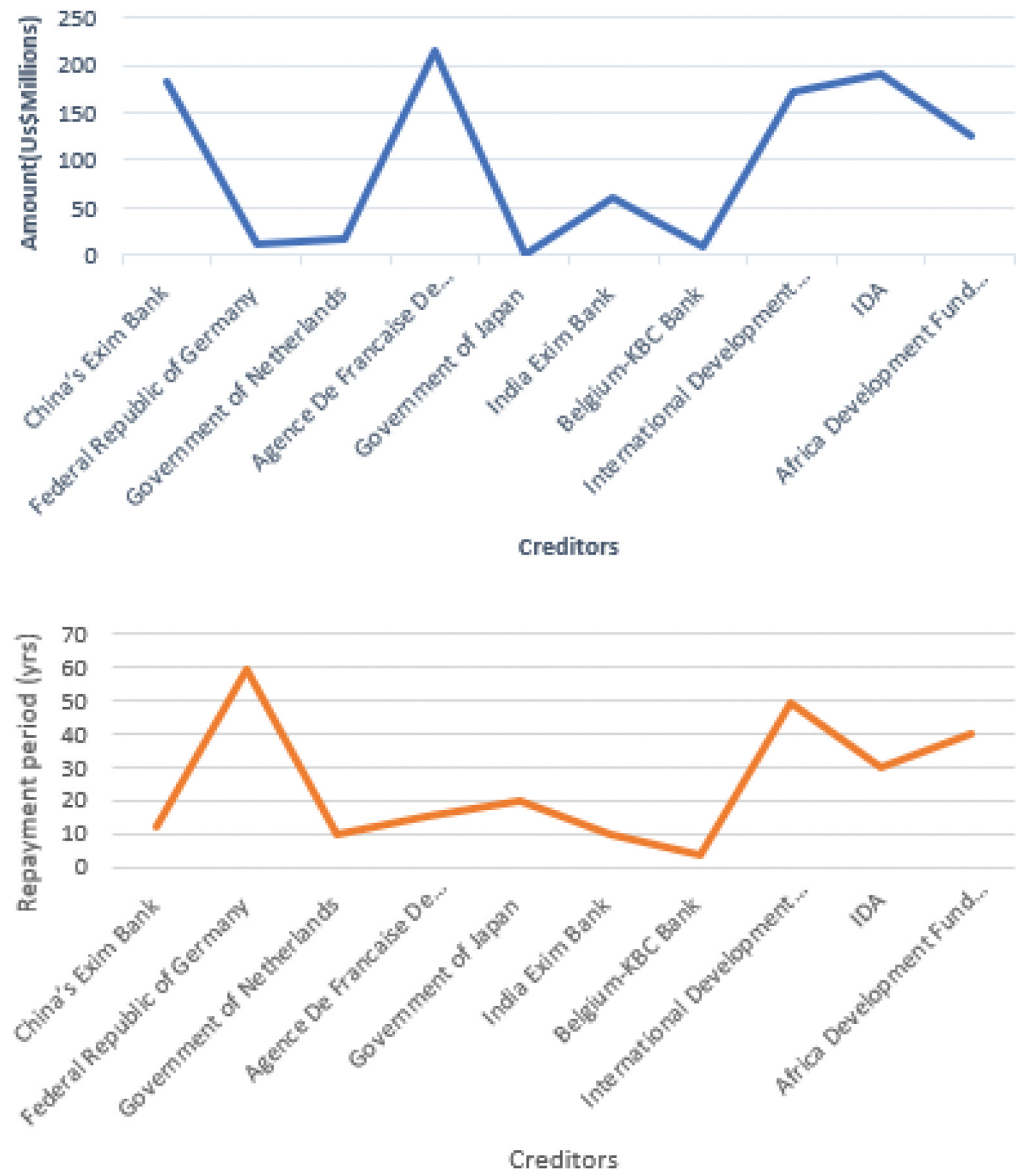



**Figure 1. China Exim Bank compared to Kenya's potential creditors in 2009 and 2010.**

Source: The National Treasury (2009–2010).

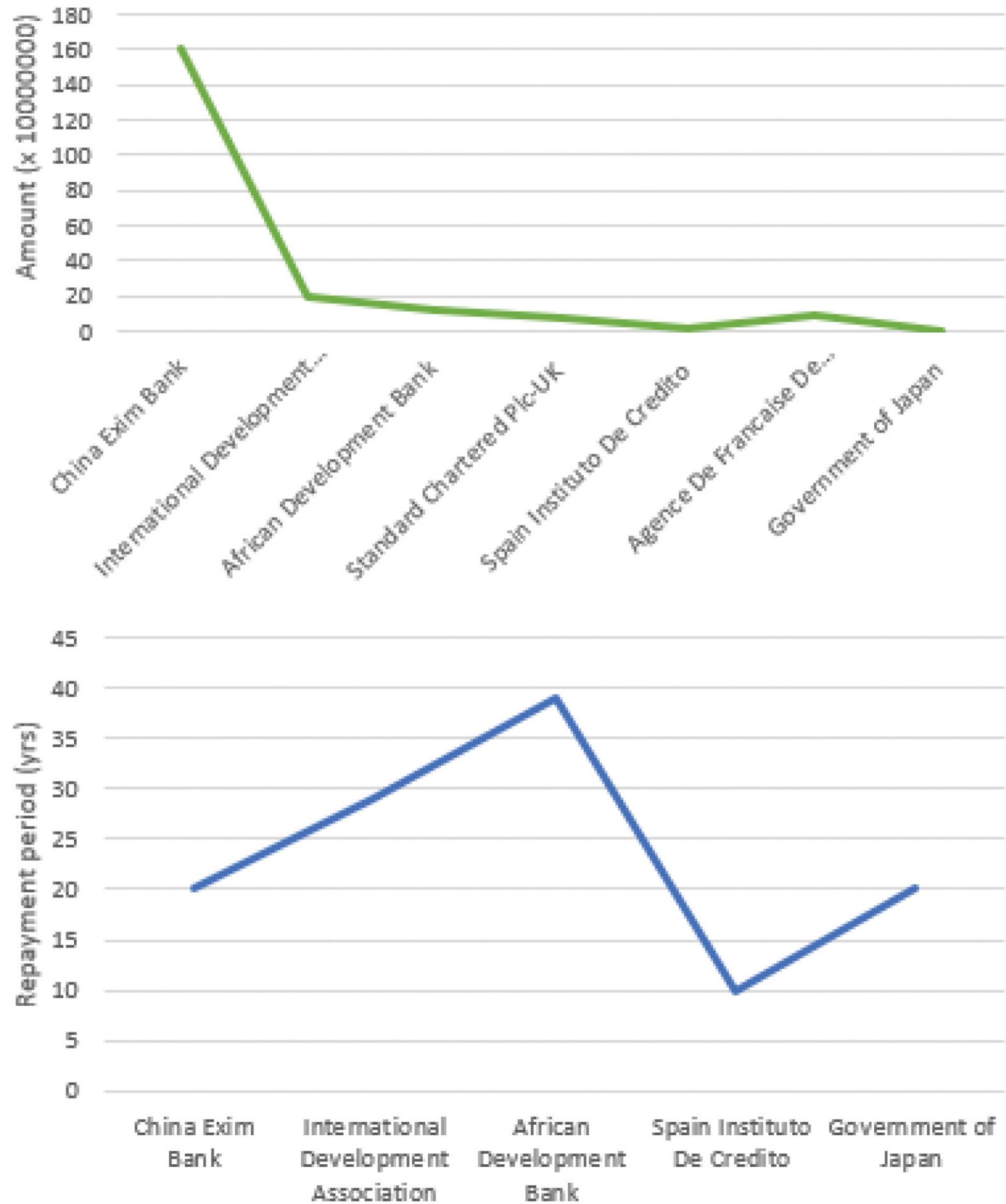
multilateral agencies, such as the World Bank or the African Development Bank. Figure 1 shows a comparison of the amounts and repayment periods offered by China's Exim Bank with potential creditors in 2009 and 2010.

As shown in the figure, whereas China's Exim Bank offered a repayment period of 12 years, only the Government of the Netherlands could have offered a shorter repayment period of 10 years. The Federal Republic of Germany and France, through its agency and the Government of Japan, might have offered a repayment period ranging between 15 and 60 years. This is higher than what China's Exim Bank offered to the Kenyan government in support of the construction of the Nairobi Southern Bypass, even though the amounts offered by Germany and Japan could have been lower than those needed to complete the entire project. Although Prizzon and Hart (2016:16) observed that Western bilateral donors previously did little infrastructure financing, it is likely that France could have upscaled the needed amount, at least going by its willingness to extend huge investments in the energy sector. Therefore, along the repayment period and amounts of loans required, in comparison to other potential bilateral donors, the concessional loan offered by China's Exim Bank for supporting the Nairobi Southern Bypass was "unfavourable." Even multilateral agencies, such as the World Bank and African Development Bank, might have offered much better repayment terms and higher amounts of loans required to support the project. However, China's Exim Bank terms are advantageous compared to other potential commercial banks. Both the Indian Exim Bank and Belgian KBC Bank might have provided a shorter repayment period and smaller loan amounts. These terms might have constrained Kenya's fiscal breathing space given that shorter repayment period would have exerted a lot of pressure to the government to meet its debt obligations. This finding mirrors China's Exim Bank in Angola, where Corkin (2013) established that the bank offered a generous repayment period and huge loans compared with European commercial banks.

Negotiations for the SGR began in 2012, culminating in the signing of the framework agreement between the first Kenya Railway Corporation (KRC) and China Road and Bridge Corporation (CRBC), and the Memorandum of Understanding between Kenya's National Treasury and China's Exim Bank in July 2013.[9] In May 2014, Chinese Premier Li Keqiang visited Kenya to witness the signing of a loan agreement amounting to US$3.23 billion. During the visit, other cooperation agreements were also signed: two cooperation agreements on economic and technical cooperation; two agreements on the provision of concessional loans; three cooperation agreements in the field of wildlife, environment, water and natural resources; two agreements related to investments in Kenya and East Africa; one related to sports and culture; one in education, science and technology; one in health and one in agriculture. The loan was a mixed credit facility comprising two components, the Preferential Buyer Credit Loan amounting to US$1.6 million and the Buyer Credit Loan amounting to US$1.633 million. The Preferential Buyer Credit Loan component had an interest rate of 2%, a grace period of seven years, and a repayment period of 20 years, while the Buyer Credit Loan component required that the loan be repaid in a period of 10 years with a grace period of five years and an insurance cover (with SinoSure) of 6.93% of the commercial loan and interest of six months Libor + 360basis point. There was also a management fee and commitment fee of 0.75% of the project value.[10] Although the Cabinet Secretary for the National Treasury acknowledged that the SGRloan had a grant component of 35%,[11] in actual sense the commercial component did not contain any grant element. 35% is only in the concessional component, and when computed to the total amount of loan, the grant element reduces further to 25%. As Prizzon and Hart (2016, p.16) rightly put the SGR "loan did not pass the Kenyan government's normal 35% grantelement … but was taken on because of the importance the government place[d]on the project" If the Kenyan government had considered other potential creditors, given that China's Exim Bank credit facility had both concessional (Preferential Buyer Credit Loan) and commercial (Buyer Credit Loan) items, two routes could have been pursued. First, the government could have approached creditors willing to support the project on concessional terms and creditors willing to offer commercial loans. In option one, as shown in Figure 2, perhaps the government could have approached Spain and Japan. The Italian government would also have expressed interest because one of its

**Figure 2. Concessional (amounts and repayments).**

Source: The National Treasury (2012-2013).




companies offered consultancy services for the project. While Spain could have offered a shorter repayment period, the Government of Japan could have offered a similar repayment period; however, the amounts readily available could have been smaller. The other option could have been approaching the World Bank or African Development Bank. Although the repayment periods for both banks were higher, they might not have provided the amount of money required to support the project in the context of Kenya's infrastructure ambition. As Pizzon and Hart (2016, p.13–14), AfDB and the World Bank are reputed for setting certain formulae of allocation to recipient countries, and this could have forced the Kenyan government to consider non-concessional options as elaborated. However, the World Bank expressed reservations in supporting the project citing viability, as it was designed along the old railway line. Therefore, for concessional items, the terms of China's Exim Bank were more advantageous than other potential sources.

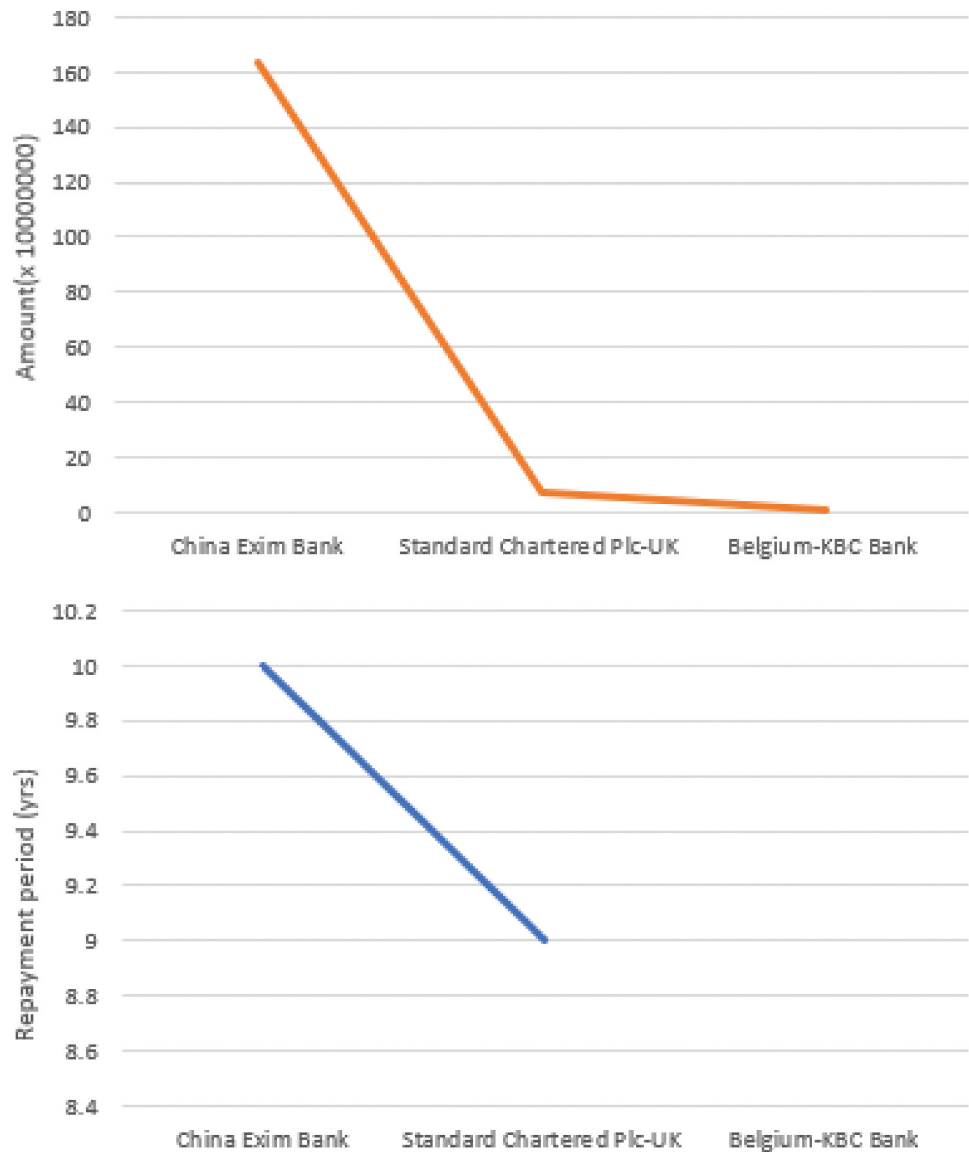



**Figure 3. Commercial components (amounts and repayment).**

Source: The National Treasury (2012-2013).

## 6. China Exim Bank compared to Kenya's potential creditors in 2012 and 2013

In option two, as shown in Figure 3, the government could have approached the Standard Chartered of the United Kingdom or Belgium-KBC Bank. However, the repayment periods for these commercial banks were shorter than those for China's Exim Bank. In addition, the amount of money each bank might have contributed could have been smaller than that needed for the project, leaving China's Exim Bank in a more advantageous position to offer commercial loans. Taken together, based on this comparison, it is fair to conclude that the credit facility for the Phase One of SGR was more "favourable" compared to other bilateral donors within the OECD-DAC group (on concessional terms) and potential commercial banks on commercial terms. Despite the apparent "favourability," China maintained its firm position on the proportion of the concessional loan even after President Uhuru Kenyatta implored upon Chinese President Xi Jinping to intervene in the matter. During bilateral talks in Beijing, Kenyatta observed the following:

cogent • social sciences

> [Kenya officials] held discussions for a facility with the Export Import [Exim] Bank of China [and that he] would appreciate [Xi's] support for this project and further request[ed] that the concessional portion for the facility be enhanced beyond 50% where it currently [stood].[12]

The longer repayment period of the SGR, qualifying it as a favorable" financial outcome, echoes one of the early studies on the developmental impact of Asian Drivers in Kenya. Kamau et al. (2009) established that Kenya was attracted to Chinese development finance because of its longer repayment period than that of Western development aid. This is further corroborated by the view held by the Director-General of Vision 2030 that a credit facility with a long repayment period and reasonable grace period from an investment perspective is good for the country since the long period offers the government space to reap infrastructure projects while at the same time repaying the loan slowly without putting undue stress on other pressing demands in the economy.[13]

In spite of the apparent "favourability," China's Exim Bank put forward a number of demands regarding the administration of the project. The Bank insisted that the Treasury produced evidence of how the government will contribute 15% of the value of the project. It also demanded evidence of a clear land resettlement programme.[14] However, perhaps the most interesting demand concerned debt servicing arrangements through guaranteed business at the Port of Mombasa. The Bank insisted that the government opened multiple escrow accounts in international banks where money (from guaranteed business) to repay interest and the principal of the loan will be deposited, and that the money must be of an equivalent to paying a one-year interest and principal of the loan (Kisero, 2013, p. 5). To ensure that the money will be obtained, China's Exim Bank insisted that the government compels the Kenya Ports Authority (KPA) and KRC to enter into a traffic arrangement whereby the KPA shall offer a sufficient amount of cargo to the SGR when completed (Kisero, 2013, p. 5).

## 7. Perception of imbalance of trade between 2003–2011

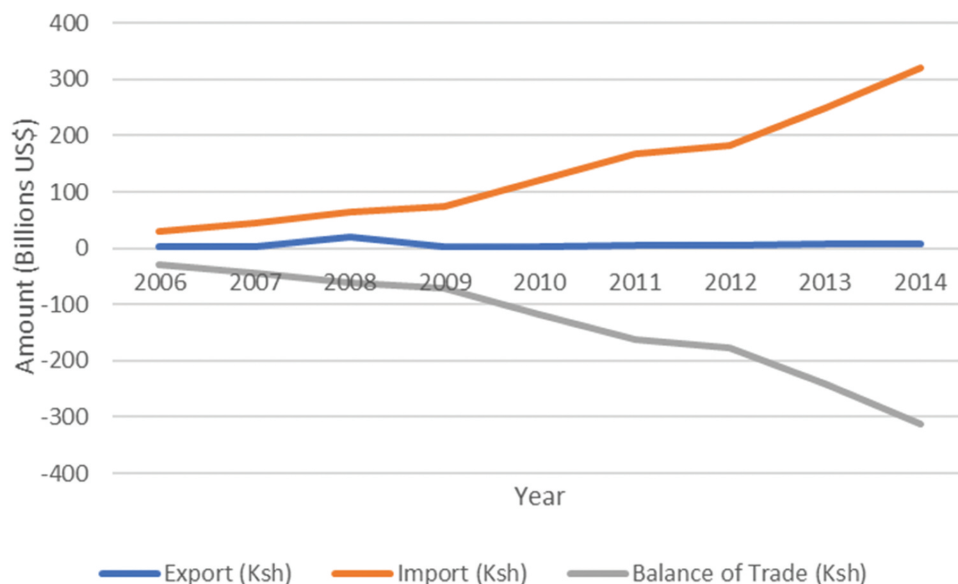
Between 2003 and 2011, exports from China to Kenya steadily increased, except in 2009 when trade volume declined because of the 2008/2009 financial crisis (Patroba, 2012, p. 7). In 2005, the volume of bilateral trade hit a record of US$ 475 million, up by nearly 30% compared to previous year. In 2006, it reached US$ 650 million, an increase of 36.1%. Of this, China's exports to Kenya were US$ 620 million while Kenya's export to China was US$20 million. Kenya's primary exports to China include scrap metal, sisal, coffee, tea, horticultural products, and fisheries. Kenya's primary imports from China include machinery and equipment. Others include building materials, industrial and agricultural goods, batteries, office supplies, textiles and clothing (Kamau et al., 2009, p. 1589). Kenya's trade deficit with China stood at US $. 600 million.

In terms of overall international trade in 2005, the top 10 trading partners accounted for approximately 60% of exports. Kenya's neighbors (Uganda and Tanzania) accounted for more than 25% of Kenya's exports. Western countries, such as the UK, accounted for 10% of Kenya's exports in the same year. Others, such as the Netherlands, France, and the US combined, accounted for 10% of Kenya's exports. Notably, China accounted for 0.518% of Kenya's exports in 2005. On the import side, with a contribution of 4.6% of imports, China was among Kenya's top 10 trading partners, accounting for 68% of the trade. Other leading importers include the United Arab Emirates, the USA, South Africa, the UK, India, Japan, Germany, and France (Republic of Kenya, 2006).

This was the trade context within which Kenya and China operated when the Chinese government pledged to support the construction of the Nairobi Southern Bypass on the sideline of the FOCAC summit in November 2006. Between the time when China pledged and when funds were approved, the pattern in terms of the quantity of trade flows and composition remained, if anything, exports from China increased, as illustrated in Figure 4. For example, China's exports

**Figure 4. Kenya's exports and imports from China, 2006–2014.**

Source: Centre for Business Information in Kenya (2006–2014).




doubled between 2010–2014 and almost equaled the quantity of imports from Western countries (Republic of Kenya, 2015).

Against the backdrop of a surplus of US$ 600 million on the Chinese side, as predicted by the China policy recipient trade dependence hypothesis, we would expect China to perceive Kenya as a key market destination for its products. In return, Kenya could perceive itself as an important trading partner for China, thereby leveraging it by strengthening its position during financial negotiations. Contrary to the expectation of the hypothesis the financial outcome of the Bypass project was "unfavourable," suggesting that perception of imbalance in trade did not inform negotiation strategies of Kenyan loan negotiators. This is further supported by the view held by a senior foreign policy officer wondering what Kenya can export to China to meet the huge demand and address the trade deficit.[15] This implies that the officer was not aware how Kenyan negotiators could transform the deficit into negotiating capital, given that Kenya is a credible market for Chinese products.

As of 2012, when negotiations for the SGR project began, China remained Kenya's largest import source. In the same year, exports from China amounted to 12% of Kenya's imports, increasing to 23% in 2014 (Sanghi & Johnson, 2016, p. 4). China was still a small export market for Kenya compared with the European market. A probable explanation for the "unfavorable" outcomes for the SGR could be derived from what Kamau et al. (2009) predicted that China's interest in oil exploration and the titanium mining industry could shift the trade imbalance between the two countries, as is the case with resource-rich countries in Africa (Corkin, 2013; Eisenman, 2012, pp. 805–806). Indeed, in terms of natural resources, the composition of trade between Kenya and China between 2008 and 2012 indicates that Kenya added oxides of zinc, chromium, manganese, iron ores, cobalt, titanium, concentrates of molybdenum, niobium, tantalum, titanium, vanadium, and zirconium to its list of exports. Traditionally, Kenya exported precious stones, semi-precious stones, and other non-ferrous base metal wastes (Centre for Business Information in Kenya, 2008–2012). The next section elaborates on this discussion to confirm the second hypothesis.

## 8. Perception of China's quest for natural resources

The availability of minerals such as soda ash, diatomite, fluorspar, titanium, and iron cores and recent discoveries such as oil have defined Kenya's engagement with China. During President Hu Jintao's state visit to Kenya in April 2006, the two countries entered into an oil and gas exploration agreement, granting China National Offshore Oil Corporation (CNOOC) exclusive rights to prospect for oil and gas in six out of 11 available exploration blocks in the country (Onjala, 2008). This represented approximately 54% of the total oil exploration granted to CNOOC in Kenya (Chege, 2008, p. 35). However, this move elicited a sharp reaction from Spain's Compania Espinola de Petrolas (Cepsc) and Sweden's Lundin International, both with interest in oil exploration, who surprisingly filed their applications much earlier than CNOOC. The two companies protested that CNOOC had received preferential treatment. However, the three companies later reached an agreement in which CNOOC had to relinquish some of the blocks to Cepsa and Lundin International (Chege, 2008, p. 35; Fiott, 2010, p. 5). By mid-2007, the CNOOC determination had not borne any fruit, forcing it to abandon the exercise. As the international prices for oil increased, attracting more prospectors, the Kenyan government asserted itself as ready for exploration (Anderson & Browne, 2011, p. 384). In the same year, China made entrance into titanium mining through Jichuan Group Ltd buying 10% of a Canadian firm Tiomin worth US$9.34 million. Although the joint venture aimed at financing and expediting the development of Kwale mineral sand projects in Kenya, this was short-lived following its acquisition by the Australian firm Base Resources in 2010. The oil exploration and titanium mining initiatives that occurred in the background of loan negotiations for the Nairobi Southern Bypass project are indicative of China's growing interest in Kenya's natural resources. The determination to explore oil and access titanium placed China in a vulnerable position in the context of competition from European players. Had CNOOC's exploration initiative been successful, this would have placed China in a more vulnerable position, thereby bolstering Kenya's position in negotiations and possibly leading to favorable financial outcomes. However, since CNOOC's mission failed the much anticipated leverage that Kenya could have obtained did not materialize, leaving it at the mercy of China, hence "unfavourable" financial outcome for the Bypass project. This outcome is consistent with the second hypothesis because the failed attempt at exploration denied the anticipated leverage during negotiation.

Perhaps, Kenyan loan negotiators became increasingly conscious of the dominance of Chinese firms in Kenya's mineral discoveries between 2010 and 2015. During this period, Kenya discovered mineral resources and rare earth elements in various parts of the country. Extractive resources discovered included natural gas reserves in Kilifi County, oil in Turkana County, coal in Kitui County, niobium, and rare earths in Kwale County, while significant deposits of iron ore, as well as minerals such as calcium and gemstone, were found in other parts of the country (Onjala & Otele, 2016). These discoveries attracted many foreign firms from the West and China. China partnered with local firms to prospect for coal resources. The Fenxi Mining Company, in partnership with the Great Lakes Corporation, began exploiting coal blocks in an area with more than 400 million tons of coal reserves with a market value of approximately US$40 billion. China's HCIG Energy Investment Company and Liketh Investment Company exploited other coal blocks in the eastern region to sell surplus electricity to Kenya's national grid. Other Chinese firms, such as China Huadian Corporation Power Operation Company, Sichuan Electric Power Design and Consulting Company, and Sichuan No.3 Power Construction Company partnered with Kenyan firms Centum Investment and Gulf Energy in September 2014 to build a 1,000 MW coal-fired power plant in Lamu (Onjala & Otele, 2016, p. 209). There is little data on the involvement of other foreign firms in the coal sector. Nonetheless, China's strategy of partnering with local firms fostered its image as a leading player in coal resource development in the country.

With regard to gold exploration, the Kenyan government granted exploration rights to Canadian firms and Africa Queen Kenya Gold Limited, while the British firm Goldplat prospected for gold and base metals in Migori and Western Kenya. There were indications that China could enter Kenya's gold industry following the decision by Canada's Barrick Gold to sell a 74% stake in London-listed

Africa Gold (ABG) to the Beijing-based China National Gold Group Corporation in August 2012. Further renewed interest saw Baringo County partner with Chuanshan International Company in mining diatomite at an estimated cost of US$60 million (Onjala & Otele, 2016, p. 212). Of significance is that many new mineral discoveries have been imported by China. In the context where Chinese and Western firms competed for access to natural resources, Kenya had the opportunity to play one group of firms against others, but more importantly, the dominance of Chinese firms was indicative of the seriousness in which China perceived Kenya as a potential destination for mineral resources needed to fuel the domestic economy. The sense of perceived importance could have informed strategies pursued by Kenyan loan negotiators in ensuring that they obtain "favourable" financial outcomes for the SGR, consistent with the hypothesis.

The conclusion that Kenyan obtained "unfavourable" financial outcomes for the Nairobi Southern Bypass and "favourable" for the SGR (Phase One) implies that some credit lines extended by China's Exim Bank are more "favourable" than others. However, this interpretation should be treated as tentative in lieu of the existing debate on the favorability of Chinese credit lines. As discussed in the introduction, there is no agreement on the specific indicators of credit lines to be analyzed in determining the outcomes. The analysis in this paper focused on the repayment period and amount of loans leaving out the proportion of the grant element and the fluctuating value of Libor. Given that lenders are business entities, the assertion that some Western players may not have provided a much need loan or shortened the repayment is based on the indicators of other projects, which vary.

In relation to the national interests of the borrowing country, the favorability of credit lines cannot be reduced to macroeconomic indicators. National interests ought to capture the collective aspirations and desires of individuals and groups within a state. Given that there have been concerns regarding the extent of the inclusion of local content in Chinese-funded projects, especially in terms of the proportion of materials and equipment sourced locally vis-àvis those sourced from China and the proportion of local workers vis-à-vis Chinese workers, consideration of these indicators would have provided a more comprehensive overview of the favorability of credit lines.

"Unfavourable" financial outcome of the Bypass project contrary to the first hypothesis suggests existence of other factors with more causative force than perception of imbalance in trade. The extent of Kenya's dependence on aid in terms of the unwillingness of other development partners to provide alternative sources of development finance could explain this outcome. Following the uncertainty in Western financial institutions in the wake of the global financial crisis of 2008/2009, financial assistance from these alternative sources could not have been forthcoming. Unlike the debt crisis of the early 1980s, which weakened only bilateral donors, this crisis affected even international financial institutions controlled by Western countries. With reduced economic power of western bilateral donors, China might have leveraged on this in providing funds to Kenya at her own terms, and this could explain why the financial outcome for the Bypass project was "unfavourable."

The other economic variable that might have had a significant causal force is Kenya's high level of indebtedness. When the Kenyan government was negotiating a credit facility to finance the construction of the Nairobi Southern Bypass, its level of indebtedness was high. In 2006, when the Kenyan government began its dealings with China's Exim Bank, the country's public debt stood at approximately US$ 9 million. Of the external debt, credits from multilateral agencies accounted for 59.3% because of what the government deemed their favorable terms (low interest rates and long repayment period), while credits from commercial banks accounted for 4.8% (Republic of Kenya, 2007, p. 123). The following year, total public debt decreased by 0.28%, while the proportion of external debt decreased by 7.9% (Republic of Kenya, 2008, p. 109). Although the previous declining trends of public debt in the last two years were reversed in 2008, with an increase of 4.6%, external debt increased by 4.1%. The main bilateral lenders were Japan, France, and Germany, whereas the main multilateral financier was the World Bank (Republic of Kenya, 2009, pp. 111–112). This high

level of indebtedness nature placed Kenya in a precarious position when negotiation for the Bypass project began resulting to "unfavourable" financial outcomes. Finally, China might have leveraged Kenya's political context in the aftermath of the 2007/2008 post-election violence. The weak Grand Coalition government was under pressure to implement Western-led institutional reforms to address the cause of violence. Against the backdrop of a thinly balanced coalition reluctant to implement reforms, China could have perceived the coalition government as weak and desperately looking for financial support to implement infrastructure projects for political gains.

## 9. Conclusion

This study examines whether there is any link between Chinese credit lines and the natural resources in Kenya. The study looks at the financial outcomes extended by China's Exim Bank and examined whether natural resources influenced the perception of loan negotiators. Using the macroeconomic indicators of the repayment period and the amount of loans extended by China's Exim Bank to finance the Nairobi Southern Bypass and the SGR (Phase One), it was concluded that some financial instruments extended to the Kenyan government are more favorable than others. However, this conclusion should be treated with care, given the exclusion of other macroeconomic indicators such as grant components and fluctuating Libor and micro-level indicators, such as the extent of the inclusion of the local content. Utilizing the China-policy recipient trade dependence hypotheses, this study analyzed whether financial outcomes were influenced by the perception of China's dependence on Kenya's market and China's quest to access discovered natural resources. It is argued that between 2006 and 2011, China's dependence on Kenya's market did not influence perceptions of negotiators leading to "unfavourable" financial outcomes, however, this changed in the context of China's quest to access discovered natural resources between 2012 and 2015, thus leading to "favourable" financial outcomes. This finding reveals that China provided more liberalized credit lines to the Kenyan government after it began to express more interest in natural resource extraction. This nexus between credit lines and natural resource extraction further reinforces the realist narrative about China's interest in Africa, driven by the desire to sustain its energy security by offering favorable credit line packages in return for natural resources.

**Author details**
Oscar M. Otele[1]
E-mail: otele@uonbi.ac.ke
[1] University of Nairobi, Department of Political Science and Public Administration, Nairobi, Kenya.

**Disclosure statement**
No potential conflict of interest was reported by the author(s).

**Citation information**
Cite this article as: Chinese credit lines in Kenya: Linked to natural resources?, Oscar M. Otele, *Cogent Social Sciences* (2023), 9: 2262185.

**Notes**

1. Libor is the (short-term) interest rate charged by private banks when extending loans to other banks. Adding 1% ( = 100 Basis Points) increases the commerciality of the loan, while the plus rate is the floating rate for any given point. According to the available information, the lowest rate ever issued for export credit is 100 basis points (Brautigam, 2011, p. 206).
2. That the interest rate at around 1.5% is much lower than standard commercial loan rates (around 10%) (Alves, 2010, p. 11).
3. The Economist David Ndii was one of the critics of the SGR (Phase One). Daily Nation. (2017). http://www.nation.co.ke/oped/opinion/Chinese-loans-for-Kenya's-progress/440808–3,217,442-emejct/index.html (accessed on 12 March 2017).
4. Ibid.
5. The Public Investment Committee, Special Report (2014), Nairobi: National Assembly.
6. The National Treasury (2015), Nairobi: The Treasury.
7. Interview with Anonymous, 15.07.2015, Nairobi: Kenya.
8. Interview with Mr. Francis Muthaura, former Head of Civil Service, 4.07.2015. Nairobi: Kenya; Interview with Mr. Sylvester Kasuku, Director-General, Lamu Port South Sudan Ethiopia Transport (LAPSSET) corridor, 20.7.2015, Nairobi: Kenya.
9. The Public Investment Committee, Special Report (2014), Nairobi: National Assembly.
10. Interview with Anonymous, 15.07.2015, Nairobi: Kenya, The National Treasury (2015). Nairobi: The Treasury.
11. The Public Investment Report, Special Report (2014), Nairobi: National Assembly.
12. Daily Nation. (2013). "Uhuru woo Chinese investors," August 21 Nairobi: Nation MediaGroup.
13. Interview with Anonymous, 14.07.2015, Nairobi: Kenya.
14. Interview with Anonymous, 15.07.2015, Nairobi: Kenya.
15. Interview with Anonymous, 14.07.2015, Nairobi: Kenya.

**References**

Alden, C. (2005). China in Africa. *Survival*, *47*(3), 147–164. https://doi.org/10.1080/00396330500248086
Alden, C. (2007). *China in Africa: African arguments*. Zed Books Ltd. https://doi.org/10.5040/9781350219106

Alves, A. (2010). A brief analysis of China's oil i nterests in Angola. In *China monitor* (Vol. 54, pp. 4–10). Centre for Chinese Studies: Stellenbosch University.

Alves, A. (2013). China's "win-win" cooperation: Unpacking the impact of infrastructure for resources deals in Africa. *South African Journal of International Affairs*, *20*(2), 207–226. https://doi.org/10.1080/10220461.2013.811337

Anderson, M., & Browne, A. (2011). The politics of oil in Eastern Africa. *Journal of Eastern African Studies*, *5* (2), 369–410. https://doi.org/10.1080/17531055.2011.573187

Bates, R. (1981). *Markets and states in tropical Africa: The political basis of agriculture policies*. University of California Press.

Brautigam, D. (2009). *The dragon's gift: The real story of China in Africa*. Oxford University Press.

Brautigam, D. (2011). Chinese development aid in Africa: What, where, why and how much? In J. Golley & L. Song (Eds.), *Rising China: Global challenges and opportunities* Australia National University Press. https://doi.org/10.22459/RC.06.2011.13

Campos, I., & Vine, A. (2008). *Angola and China: A pragmatic partnership*. Centre for Strategic International Studies.

Chege, M. (2008). Economic relations between Kenya and China, 1963–2007. In J. Cook (Ed.), *US and Chinese engagement in Africa: Prospects for improving US-China cooperation* (pp. 17–38). Centre for Strategic International Studies.

Corkin, L. (2013). *Uncovering Africa agency: Angola's management of China's credit l ines*. Farmham.

Eisenman, J. (2012). China-Africa trade patterns: Causes and consequences. *Journal of Contemporary China*, *21*(77), 793–810. https://doi.org/10.1080/10670564.2012.684964

Fiott, D. (2010). The EU and China in Africa: The case of Kenya. *Madariaga Paper*, *3*(5), 1–12. http://www.madariaga.org/publications/madariaga-papers/343-the-eu-and-china-africa-the-case-of-kenya

Hubbard, P. (2008). Chinese concessional loans. In R. Rotberg (Ed.), *China into Africa: Trade, aid and influence* (pp. 217–229). Brooking Institutions.

Hyden, G. (1983). *No short cuts to progress: African development management in perspective*. Heinemann.

Kamau, P., McCormick, D., & Pinaud, N. (2009). *The developmental impact of Asian drivers on Kenya with emphasis on textiles and clothing*. The World Economy. https://doi.org/10.1002/9781444324730.ch5

Killick, T., Gunatilaka, R., & Marr, A. (1998). *Aid and the political economy of policy change*. Routledge. https://doi.org/10.4324/9780203446539

Kisero, J. (2013). China's conditions that saw birth of railway levy. In *Daily nation*. Nation Media Group.

Marysse, S., & Geenen, S. (2009). Win-win or unequal exchange? The case of the Sino Congolese cooperation agreements? *Journal of Modern African Studies*, *47*(3), 371–396. https://doi.org/10.1017/S0022278X09003978

Mosley, P., Harrigan, J., & Toye, J. (1991). *Aid and power: The World Bank and policy-based lending*. Routledge.

Mthembu-Salter, G. (2012). Goodwill and hard bargains. The DRC, China and India, *Occasional Paper, 114*, South African Institute of International Affairs.

Onjala, J. (2008). *A scoping study on china-africa economic relations: The case of Kenya*. African Economic Research Consortium (AERC), Nairobi.

Onjala, J., & Otele, O. (2016). The emerging dominance of Chinese foreign investments in Kenya's mineral resources windfalls. In *The background and practices of China-Africa cooperation and practices on resources development*. Yunnan University Press.

Patroba, H. (2012). China in Kenya: Addressing counterfeit goods and construction", *Occasional Paper, 110*, South African Institute of International Affairs.

Prizzon, A., & Hart, T. (2016). Age of choice, Kenya in the new development finance landscape. *April. Overseas Development Institute*.

Republic of Kenya. (2006). *Economic survey 2006*. Kenya Bureau of Statistics.

Republic of Kenya. (2007). *Economic survey 2007*. Kenya Bureau of Statistics.

Republic of Kenya. (2008). *Economic survey 2008*. Kenya Bureau of Statistics.

Republic of Kenya. (2009). *Economic survey 2009*. Kenya Bureau of Statistics.

Republic of Kenya. (2015). *Kenya Economic survey 2015*. Kenya Bureau of Statistics.

Rotberg, R. (2008). *China into Africa: Trade, aid and influence*. Brooking Institutions.

Rugumamu, S. (2014). Sino-Africa relations: The dynamics of seized and squandered opportunities. *African Review*, *41*(2), 1–32. 1821-889X.

Sanghi, A., & Johnson, D. (2016). *Deal or no deal: Strictly business for China in Kenya?*. World Bank Policy Research Working Paper. https://doi.org/10.1596/1813-9450-7614

Van de Walle, N. (2001). *African economies and the politics of permanent crisis, 1979–1999*. Cambridge University Press.

Whitefield, L. (2009). *The politics of aid: African strategies for dealing with donors*. Oxford University Press.

Whitefield, L., & Fraser, A. (2009). Introduction. In L. Whitefield (Ed.), *The politics of aid: African strategies for dealing with donors* (pp. 1–22). Oxford University Press.

Whitefield, L., & Fraser, A. (2010). Negotiating aid: The structural conditions shaping the negotiating strategies of African governments. *International Negotiation*, *15*(3), 341–366. https://doi.org/10.1163/157180610X529582