

UNIVERSITY OF NAIROBI

INSTITUTE OF DIPLOMACY AND INTERNATIONAL STUDIES

**THE EFFECT OF CHINA-KENYA ECONOMIC TIES ON SOCIAL AND
ECONOMIC DEVELOPMENT IN KENYA**

BY: MACHARIA GEORGE WARUI

REG NO: R50/63073/2010

Supervisor: PROF. MARIA NZOMO

**A research project submitted in partial fulfillment of the Degree of Masters of Arts in
International Studies**

DECLARATION

I declare that this research project is my original work and has not been presented for a degree in any other university.

NAME: MACHARIA GEORGE WARUI

REG. NO: R50/63073/2010

Sign: Date:

This MA research project has been submitted for examination with my approval as university supervisor

SUPERVISOR:

Sign: Date:

DEDICATION

To my wife, my sons, daughter, parents, my stepfather Prof. Macharia Munene and all those who inspired, motivated and encouraged me in my academic endeavors.

ACKNOWLEDGEMENT

I wish to extend my sincere appreciation to all those who assisted me towards the completion of this research project. It would have been difficult to complete this research project without their support and encouragement.

I would like to thank my supervisor Prof Maria Nzomo for her intellectual and academic support throughout the research work. I also wish to acknowledge my other lecturers, Prof Makumi Mwagiru, Mr. Gerishon Ikiara, Mr Maluki, Dr. Ochieng and the late Prof. Nyunya. You all modeled me to become a better student.

My mentor Prof. Macharia Munene for his constant concern on the progress of my studies. To Shadrack Tendon my college mate for his unending support through critique and editing the project. James Macharia of Murang'a for his moral support.

To my family members, thank you for your assistance. In particular, appreciate my younger sister Hannah (USIU) for her input in this research. Stanley Munene for his assistance in accessing library materials from UON library. To my children: Anita, Victor and Vincent for your appreciation of my effort. Finally, special gratitude goes to my wife Immaculate for being patient and encouraging me throughout this study.

TABLE OF CONTENTS

| | |
|--|-----------|
| DECLARATION | ii |
| DEDICATION | iii |
| ACKNOWLEDGEMENT | iv |
| LIST OF TABLES | vii |
| LIST OF ACRONYMS | viii |
| ABSTRACT | ix |
| CHAPTER ONE: | 1 |
| GENERAL OVERVIEW | 1 |
| 1.0 Introduction | 1 |
| 1.1 Background of the study | 2 |
| 1.2 Statement of the problem | 5 |
| 1.3 Objectives of the Study | 7 |
| 1.4 Justification and Significance of the Study | 8 |
| 1.5 Literature Review | 9 |
| 1.5.1 China-Kenya Investments..... | 10 |
| 1.5.2 China’s Aid to Kenya | 14 |
| 1.5.3 China Kenya Economic Cooperation | 17 |
| 1.5.4 China Kenya Cultural cooperation | 17 |
| 1.6 Theoretical Framework | 18 |
| 1.8 Hypotheses | 25 |
| 1.9 Research Methodology..... | 25 |
| 1.9.1 Operationalization of key Terms. | 25 |
| 1.9.2 Scope of the study..... | 26 |
| 1.9.3 Limitation of the Research | 26 |
| 1.10 Chapter Outline. | 26 |
| CHAPTER TWO | 27 |
| CHINA-AFRICA RELATIONS IN HISTORICAL PERSPECTIVE..... | 27 |
| 2.1 Introduction | 27 |
| 2.2 China and the cold war era-..... | 30 |
| 2.3 Decline in Importance | 31 |
| 2.4 Chinese Investment in Africa | 32 |
| 2.5 Kenya Perspective: FDI Effects | 33 |

| | |
|--|----|
| 2.6 Determinants of Africa-China Trade Flows..... | 35 |
| 2.7 Aid, Africa and Development | 38 |
| CHAPTER THREE | 41 |
| CHINA-KENYA INVESTMENTS | 41 |
| 3.1 Introduction | 41 |
| 3.2 China -Kenya Trade Flows | 41 |
| 3.4 Composition of Chinese investment in Kenya..... | 48 |
| 3.3 Investments between China – Kenya | 49 |
| 3.5 Chinese Sectoral Investment | 52 |
| 3.6 Chinese Entrepreneurs..... | 57 |
| 3.8 Higher Education: Looking East..... | 57 |
| 3.9 Conclusion..... | 60 |
| CHAPTER FOUR | 63 |
| DATA ANALYSIS AND INTERPRETATIONS | 63 |
| 4.1 Introduction | 63 |
| 4.2 Demographic Information | 63 |
| 4.3 Effects of China Foreign Direct Investment | 65 |
| 4.4 Effects of China Aid on social and economic development of Kenya..... | 69 |
| 4.5 Effects of China Kenya economic cooperation on social and economic development of Kenya | 72 |
| 4.6 Effects of China Kenya investment..... | 75 |
| CHAPTER FIVE | 78 |
| SUMMARY OF FINDINGS, CONCLUSION AND RECOEMMDATION | 78 |
| 5.1 Introduction | 78 |
| 5.2 Summary of Findings | 78 |
| 5.3 Conclusions | 80 |
| 5.4 Recommendation..... | 82 |
| REFERENCES | 85 |
| APPENDICES | 90 |
| Appendix I: Questionnaire for the ministry of foreign affairs, ministry of trade and the Chinese high commission officials. | 90 |

LIST OF TABLES

| | |
|---|----|
| Table 1: Gender of the respondent | 63 |
| Table 2: Age distribution | 64 |
| Table 3: Period of service in the current institution | 64 |
| Table 4: Effects of China foreign direct investment on social and economic development. | 65 |
| Table 5: Extent to which China foreign direct investment affect the Kenyan social and economic development..... | 66 |
| Table 6: Effects of China foreign direct investment on the Kenyan social and economic development | 67 |
| Table 7: Extent to which the Chinese government has invested in the below sectors of the economy in Kenya..... | 68 |
| Table 8: Effects of china Aid on social and economic development | 69 |
| Table 9: Extent to which China Aid affects the social and economic development in Kenya | 70 |
| Table 10: Effects of China Aid on the social and economic development in Kenya | 71 |
| Table 11: China-Kenya economic cooperation | 72 |
| Table 12: China- Kenya economic cooperation affects the social and economic development of Kenya | 73 |
| Table 13: Effects of China- Kenya economic cooperation on social and economic development of Kenya..... | 74 |
| Table 14: Extent to which China Kenya investment affects the social and economic development of Kenya..... | 75 |
| Table 15: Effects of China Kenya investment on social and economic development of Kenya ... | 76 |

LIST OF ACRONYMS

| | |
|-------------|---|
| AfDB | Africa Development Bank |
| CAPFA | Chinese African People's Friendly Association |
| CNOOC | China National Offshore Oil Corporation |
| CNPPEC | China National Petroleum Pipeline Engineering Corporation |
| | Countries |
| CPAFFC | Chinese People's Association for Friendship with Foreign |
| DRC | Democratic Republic of Congo |
| FDI | Foreign Direct Investment |
| FOCAC | Forum on China-Africa Cooperation |
| HIV/AIDS | Human Immunodeficiency Virus/ Acquired Immune Deficiency |
| KIA | Kenya Investment Authority |
| MNC | Multinational Corporations |
| NSE | Nairobi Security Exchange |
| PRC | People's Republic of China |
| SSA | Sub Sahara of Africa |
| STDs | Sexually Transmitted Diseases |
| TAZARA | Tanzania- Zambia railway |
| UN COMTRADE | United Nations Commodity Trade Statistics |

ABSTRACT

The current diplomatic cooperation arrangement between Kenya and China covers several areas. The People's Republic of China established the diplomatic relations with the Republic of Kenya on the day of December 14, 1963. Kenya and China trade diplomatic relations have significant historical dimensions, starting with the Ming Dynasty. China views Kenya as a gateway to the region and it has become a key focus of China's trade and economic strategy in Africa. This research sought to explore the impacts of China trade, foreign aid and direct investment on Kenya's social and economic development. The main objective of the study was to establish the effect of china-Kenya economic ties on social and economic development in Kenya. Chinese relations with African countries have been positive in some ways; serious questions are being asked by Western and African intellectuals about China's tactics and strategies in its quest for resources. This relationship is likely to endure since both parties benefit to some degree. This is important to some African countries since it provides a different development model and different rules of the game put forward as the "Beijing Consensus," with its strong interest in Africa. There has been a rise in FDI through manufacturing and service sector in Kenya and the Chinese interest in Kenya have also extended to mining and mineral exploration. The above trend conforms to the hypothesis that Chinese relation with African countries aims at achieving tangible developmental results and the terms are favorable. China views Kenya as a gateway to East African region and is a focal point in terms of China's trade and economic strategy in Africa. China's investment in a number of road construction projects attests to this. More so China currently offers loans to Kenya for hospital and schools construction in less developed areas, it has set malaria prevention and control centers as well as providing volunteers to train the local people. It has been noted that monetary aid from China is tied to the use of Chinese goods and services and the only adherence required is the "One China" policy but not "good governance" as the conditionality's that currently characterize the western donors.

CHAPTER ONE:

GENERAL OVERVIEW

1.0 Introduction

China's fast-growing economic ties with Africa are attracting considerable attention. The relationship came into the spotlight during the summit of the Forum on China-Africa Cooperation (FOCAC) in Beijing in November 2006 and the Annual Meetings of the African Development Bank (AfDB) in Shanghai in May 2007. While the expansion of trade and investment between Africa and China has been generally welcomed, concerns have been expressed about how China's growing presence might affect African development.¹

There have been relatively few systematic studies of the resurging economic relations between China and Africa. Alden (2005) reviews the evolution of Sino-African economic relations since the 1970s; Edwards and Jenkins (2005) study trade-poverty links; Kennan and Stevens (2005) attempt to identify possible winners and losers among African countries as China becomes more prominent in world trade; Jenkins and Edwards (2006) examine the direct and indirect trade impact of China and India on sub-Saharan Africa. A recent study by an OECD staff team emphasizes trade and foreign direct investment (FDI), focusing on China's and India's role in specific commodity and energy markets (Goldstein et al., 2006). A World Bank study investigates constraints or policy challenges "at the border," "behind the border," and "between the borders" for increasing Africa-Asia trade and investment (Broadman, 2007).

¹ These concerns range from debt sustainability and governance reform to environmental impact; see news reports in *Les Echos*, October 24, 2006 (in French); *Financial Times*, November 28, 2006, and *News Edge*, May 17, 2007.

1.1 Background of the study

The current diplomatic cooperation arrangement between Kenya and China covers several areas. The People's Republic of China established the diplomatic relations with the Republic of Kenya on the day of December 14, 1963 (China org. cn). In the initial days of the establishment the relations between the two countries it was for a fair development for both of them. After 1965, the relation of the two countries was lowered to be at the chargé d'affaires level and towards the beginning of 1970s it gradually returned to the normal. By the end of 2002 when a new government was formed after Mwai Kibaki was elected President of the country he expressed to hold a great account of the relations with China, willing to further deepen and expand the friendly cooperation between the two countries.

Kenya and China trade diplomatic relations have significant historical dimensions, starting with the Ming Dynasty². Although China embraced communism and Kenya at independence adopted a capitalist system, their relations have largely remained cordial. China was the fourth country to recognize Kenya's independence in 1963 when the two countries exchanged diplomatic representations³ (Kamau, 2007). The Chinese embassy in Kenya is arguably their largest embassy in Africa both in terms of size and employees. It is strategically located in a relatively high-security area near the Defense Headquarters, Kenya Army Barracks, and closer to the Kenya's State House. Similarly, Kenya has an embassy in Beijing which serves China. Kenya, like other countries with diplomatic relations with China, subscribes to the 'One China Policy' which states that *"there is only one China in the world and that Chinese*

² A story is told of how through royal orders, Zheng commanded seven expeditions to the western oceans in the early 15th Century. Navigating by a compass and astronomical readings, Zheng's fleet visited many African islands in the Eastern Africa region, including Lamu and Mombasa now in Kenya and that some sailors may have settled on the Kenyan coast after a shipwreck (*Business in Africa*, 2006).

³ The first country to recognise Kenya's independence was Germany (then West Germany), then Russia, Ethiopia and then China. This order of recognition is still reflected in the diplomatic number given to the embassies of these countries which are 1-CD, 2-CD, 3-CD, and 4-CD respectively.

Taipei is one part (a Province) of China". This means that Kenya does not support Chinese Taipei's calls for independence and reiterates that it is an inalienable part of Chinese territory. The Sino-Kenya relationship, first established in 1964 was centered on promoting trade between the two countries. Since the China-Africa Forum was established in 2000, Kenya has remained an active member of the forum.

Different Ministers have represented the Kenyan government in all the Ministerial Conferences of the China-Africa Forum. The exchange of official visits at the high levels of head of states, ministers, senior government officials and business delegations has strengthened relations between China and Kenya. Many government officials have also made official trips to China (POK, 2006).

The entry of people of Chinese origin in Kenya is fairly recent and their population is still low. It is only in the last decade or so that the presence of a Chinese community in Kenya became noticeable. The small number of Chinese people and their separation from the rest of the people has, however, contributed to the Chinese community being less visible. Even those Chinese people engaged in the clothing industry avoid dealing directly with the local people. They tactfully employ local human resource managers and accountants to handle local matters. It is currently estimated that there are approximately 8,000 Chinese people living in Kenya (Kamau, 2007). However, there are no official statistics. The people of Chinese origin living in Nairobi have settled in the neighborhood of the Chinese embassy. Similarly, most of the Chinese companies with operations in Kenya have their national head office closer to the Chinese embassy and arguably closer to the other Chinese people.

Most of the Chinese people in Kenya are engaged in trading and manufacturing activities. They are involved in the importation of various products from China which they either distribute to retailers or through outlets they have opened to sell their products to the public⁴. Since the year 2000, they have been actively involved in the manufacturing of apparel. More recently, a number of them have ventured into the motor vehicle industry whereby they are involved in the importation of auto-spare parts from Asian countries.

Bilateral relations have been developing smoothly with the traditional friendship continuously deepened and friendly cooperation in all areas increasingly expanded. Bilateral economic and trade relations have scored new progress and both sides have made rapid headway in cooperation in the areas of electric power, communications, investment and project contract, achieved new results in humanities exchanges and maintained close consultations and cooperation in international affairs. The bilateral economy and trade agreements signed between China and Kenya include: "Agreement on Economic and Technological Cooperation between the People's Republic of China and the Republic of Kenya", "Agreement on Trade between the People's Republic of China and the Republic of Kenya" (1978) and the agreement on promotion and protection of investments in 2001⁵. The two countries have signed a total of 12 bilateral accords over the past three years which have covered a variety of fields including the economy, technology, energy, tourism, health, aviation, the press, archaeology and education (POK, 2006).

In 2006, Kenya and China signed six agreements signaling closer economic and technical cooperation between the two countries during a meeting held at the Great Hall of the People

⁴ Chau, D. C., & Army War College (U.S.). (2007). *Political warfare in sub-Saharan Africa: U.S. capabilities and Chinese operations in Ethiopia, Kenya, Nigeria, and South Africa*. Carlisle, PA: Strategic Studies Institute, U.S. Army War College.

⁵ Agreement on Economic and Technical Cooperation for a grant of 60 million Yuan. 5 million Yuan was earmarked by the Chinese for provision of rice as relief food donation during the Chinese President's visit

in Beijing between President Kibaki and his host President Hu Jintao (source). The signed agreements included Economic and Technical Cooperation, agreement on the provision of the concessional loan by China to Kenya and the Air Services Agreement which grants Kenya Airways landing rights in several cities in China. Also signed were agreements on Radio Cooperation between the State Administration of Radio, Film and Television of China and the Ministry of Information and Communications of Kenya and a collaborative agreement between General Administration of Quality Supervision Inspection and Quarantine of China and Kenya's Bureau of Standards.

In view of the above developments, Kenya Airways has begun operating scheduled flights to China. The Guangzhou City route was introduced due to the increased popularity of China as a business destination. The airline flies to Guangzhou three days a week (The China Monitor, November, 2005:17).

1.2 Statement of the problem

China views Kenya as a gateway to the region and it has become a key focus of China's trade and economic strategy in Africa. Being a war-free country with relatively stable political situation has made Kenya an ideal regional base for Chinese investors to expand their business in Africa. Currently China offers favorable loans to Kenya, builds hospitals and schools for less developed areas, sets up malaria prevention and control centers as well as sends volunteers to train the locals. The Kenya Airways has been granted landing rights in several cities in China and is now operating direct flights to Hong Kong (China) and Guangzhou in Southern China from Nairobi. Furthermore, since Kenya was granted Preferred Tourist Destination in 2004, arrivals from China have more than doubled and are expected to

grow even more (Kaplinsky R. et al, 2007). These initiatives are likely to boost the Kenyan economy by enhancing not just the earnings of the Kenya Airline but also earnings for the tourism sector which has become a leading foreign exchange earner for Kenya. Moreover, these operations are likely to facilitate the movement of Chinese business persons to Kenya, leading to increased foreign direct investment in Kenya from China.

A close look at China-Kenya relation shows that China- Kenya economic ties are two faced. On one hand, China is thriving by depending on African resources and managing to get most contracts for Chinese companies in the building major infrastructural projects such as the Thika super highway and the expansion of the Kenyatta international airport.

It has been argued that Kenya is benefiting from development of physical infrastructure and being able to fetch better prices for Kenyan products than it is in Western countries. This however is greatly debatable since the balance of trade between Kenya and china is heavily skewed towards China with Kenya importing more than it exports to china. Kenya debt to china is also growing by the day for example China's commitment to offer Kenya Sh425 billion loan recently secured by President Uhuru will push the country's total debt level past Sh2 trillion, Total public debt, which stood at Sh1.9 trillion as at the end of May this year, has now soared to Sh2.3 trillion, the highest in Kenya's history. The amount has made China the top bilateral and single largest lender to Kenya, displacing Japan. How then will Kenya pay for this debt with a balance of trade deficit so skewed towards China?

However Kenya is benefiting from enjoying interactions that are free from external interference and are based on mutual respect. On a different note, Kenyans are bearing the brunt of inter-government engagements between China. This is because of direct involvement of Chinese citizens in meager business venture that are otherwise associated with poor and middle class people such as hawking and retailing. At the same time, local contractors are losing in situations where contracts are awarded at the inter-governmental level. Regionally, Kenya is losing its selling power in the textile industries because of the entry of the Chinese products as well as Chinese citizens who are willing to engage in small enterprises that are generally a preserve of the poor and the middle class people in Africa. This means that Chinese economic ties have a direct impact on individual livelihoods. There is need to examine in emerging effects of China economic ties with Africa. This research therefore seeks to explore the impacts of China trade, foreign aid and direct investment on Kenya's social and economic impacts development in order to seek whether there are linkages with economic growth in Kenya.

1.3 Objectives of the Study

The main objective of the study was to establish the effect of china-Kenya economic ties on social and economic development in Kenya. The specific objectives that guided this study are

- i. To identify the effects of China foreign direct investment on social and economic development of Kenya
- ii. To explore the effects of China Aid on social and economic development of Kenya
- iii. To ascertain the effects of china Kenya economic cooperation on social and economic development of Kenya

- iv. To determine the effects of China Kenya investment on social and economic development of Kenya

1.4 Justification and Significance of the Study

Creating wealth in a country is not only an internal activity but also an external activity where different countries exchange resources. Kenya is a beneficiary of this process from other countries. These benefits come through trade, foreign direct investments and Aid. Impact of foreign trade, Foreign Direct Investment and Aid differs from one country to the other. The impacts thus depend on ability of a country to attract robust trade connections, gain competitive edge and therefore have continued investment. This means that countries must have sound policy reforms and clear strategy. Lapse in policy making is detrimental to the gains accrued from trade, FDI and Aid. Loss of such investments such as Foreign Direct Investment (FDI) which is invested in the manufacturing, agriculture, tourism, financial and business services, telecommunication and others will impact negatively affect economic growth and subsequent development. At the same time allowing too much external or foreign investment be it in aid, FDI or trade will also harm the local industries and businesses.

The purpose of this research project is contribute to not only existing information but adding knowledge valuable to policy makers to make sound and objective decisions hence tangible policies. It also seeks to elucidate on the effects of trade, Foreign Direct Investment and Aid on social and economic welfare of the people of Kenya especially the small scale traders. The findings are crucial in understanding trends that trade, investments and Aid take in Kenya. The findings further will form important knowledge beneficial to both local, foreign investors, policy makers and the Government. Policy makers will be able to come up with

sound policies that will enhance trading environment, attract more private capital and more foreign investors.

Further, policy makers will be able to make sound decisions and give directions on what types of goods and services are good for Kenya, guide investors on what and where to invest. It will be vital also to make policy recommendations on how to cushion local manufactures in textile and clothing how to diversify and value addition to compete competitively with Chinese goods. To the local contractors vital know how to discern opportunities so as to remain relevant in construction sector. Finally, it will help to gauge the technology and skills transfer and how they can be retained in growth of economy. This research project hence contributes to knowledge on trade, Foreign Direct Investment and Aid with keen interest on poor and developing nations.

1.5 Literature Review

This section analyses the effect of china-Kenya economic ties on social and economic development in Kenya as discussed by various scholars and critically analyses their views under the following themes:

- i. China Kenya Investment
- ii. China's Aid to Kenya
- iii. China Kenya Economic cooperation
- iv. China Kenya Cultural cooperation

1.5.1 China-Kenya Investments

Foreign direct investment (FDI) in Kenya is defined as investment in foreign assets, such as foreign currency, credits, rights, benefits or property, undertaken by a foreign national for the purpose of production of goods and services, which are to be sold either in the domestic market or exported overseas (Investment Promotion Center Act, Chapter 518). The Central Bank of Kenya keeps records of FDI transactions. Kenya like most of other African countries has recently liberalized the investment environment. Until 1995, all foreign investments flowing into the country were subject to approval by the Central bank. The Investment Promotion Act of 2004 clearly spells out the government commitment to attracting FDI in Kenya. This was necessitated by the realization that FDI in Kenya was declining during the last decade, while it rose in other countries in the region (Kenya, 2006).

In addition, increased competition among African countries in the global FDI also necessitated Kenya to address the domestic impediments to foreign investments. According to the Investment Act of 2004, foreign ownership is only restricted for insurance industry, telecommunication industry, and companies listed on the Nairobi Stock Exchange, to seventy-seven, seventy and seventy-five per cent, respectively. These stocks have been increasing gradually over the years. However, the FDI inflows have been subject of fluctuations particularly in the last decade. Analysis over the last decade to 2001 shows that Kenya has lost its competitiveness in attracting investment. Kenya has also lost in terms of retaining the stock of investment. The loss in Kenya's investment competitiveness is the result of many inter-connected factors such as negative perception by investors about political instability, poor governance, corruption, inadequate infrastructure, insecurity, crime, theft, and policy instability. Private investment which was growing at an average of 10% between 1985 and 1989 only grew by 0.4% between 1997 and 2001 (Central Bank of Kenya, 2006).

Chinese investment projects in Kenya currently number about 96 with a workforce of about 6,700 Kenyans and an investment capital of 52.6 million US dollars based on data from Kenya Investment Authority (KIA). Between 2000 and 2005, total FDI was US\$446 million, of which, US\$ 32 million originated from China, representing 7.2 per cent. China had a total of fifty-seven projects during the period. Using this information, we compute the average size of Chinese projects in Kenya. Although this measure is crude given the incompleteness of data, on average, an FDI project from China is US\$ 0.56 million. Most FDI from China is by companies that in China are either wholly or partially state owned even though in Kenya they operate as private companies. Until the year 2000, the FDI from China remained very low. The flows from China became remarkable in the last three years.

The FDI inflows from China have become important in recent years. This position can be explained by two factors: The loss in Kenya's competitiveness to attract direct foreign investment has meant that any FDI flows from China have constituted an important proportion of the Net FDI flows in Kenya. China has adopted a new policy to Kenya, aimed at closer ties in economic cooperation. There is therefore increased presence of Chinese enterprises. But the importance of China's FDI flows to Kenya is much more in terms of capital investment rather than the quality of activities. This is because of the firms established having tended to engage in services such as trade with very few firms participating in manufacturing. The FDI flows from China have assumed significant proportions even though they remain low i.e. ranging from US\$ 1-3 million in the last 6 years.

The Chinese FDI inflow in Kenya compared to neighboring countries may be largely determined not only by macro political and macroeconomic factors, but by the quality of the underlying domestic business climate and institutional conditions, both within Kenya and on

a regional level. In addition, and equally important from the perspective of furthering economic development and growth within Kenya, the linkages between FDI and trade among Chinese firms involved in Kenya create the possibility for positive “spillovers” in Kenya through the attraction of investment of infrastructure and related services development and through the transfer of advances in technology and managerial skills, which are often the intangible assets that accompany FDI (Broadman, 2007:292).

Greater diversification in FDI has been occurring increasingly falling into several investment sectors. Significant Chinese investments in Kenya have been made in retail ventures, tourism, transport, construction, power plants, and telecommunications, among others. To cite and example, Huawei, a major Chinese telecommunications firm, has won a huge contract to provide cell phone service in Kenya. Thus China is pursuing commercial strategies with Kenya that are about more than resources.

In light of the significant heterogeneity among Chinese FDI firms in Kenya, one would expect to observe significant differences in the emerging trade patterns between Kenya and regional states and the rest of the world. In particular, the increased presence in the services such as imports, exports, might suggest that China’s motive is to use Kenya as an entry point as a trading platform in the region.

Worldwide, the presence of foreign firms usually has a profound effect on a host country’s participation in international trade, because FDI is often associated with an increase in both exports and imports (Broadman, 2007:324). An important potential by-product of this process in China-Kenya relations is that Kenyan firms might become exposed to transfer of advances in technology or enhanced skills. Such exposure could engender positive spillover effects on the efficiency and competitiveness of Kenyan firms.

On technology transfer, most of the Kenyan EPZ firms recruited people without experience in the garment industry who were then trained within the factory (Fukunishi *et al.*, 2006). In this case, the EPZ firms do not compete directly with the local firms. Equally, some former EPZ employees leave formal employment to start their own small-scale garment firms using the training and experience they got while working in the EPZ garment firm. More importantly, some production expatriate workers left EPZ firms to team up with local investors to establish garment factories.

There are some locally-owned (non-EPZ) firms specialized in high value activities such as embroidery, sand-blasting, stone-washing and printing, and that they get regular subcontracts from EPZ firms. In this way local firms are able to participate in the global apparel value chain indirectly. Local garment firms are increasingly purchasing machinery from EPZ firms either when the EPZ firms upgrade their machinery inventory or at times when they close down. The cheap and appropriate capital goods have resulted in local firms using relatively modern technology in their production activities (Kamau, 2007).

In Kenya, there appears to be the growth of small-scale entrepreneurial investment from China, often presaged by the construction of specialized shopping malls retailing Chinese goods. Prospects of technology transfer are real, but along with these emerging trends, here is displacement of existing and potential local producers; less spin-off to local economy than other foreign contractors; while increased Chinese FDI could lead to disinvestment and relocation by other foreign investors (for example, clothing and furniture) (Kaplinsky *et al.*, 2007).

China labor conditions have generated intense interest among international policymakers, labor movement activists, and development agencies (Winters Alan and Shahid Yusuf (ed.),

2007). The extent to which such labor conditions could be imported into Kenya through FDI is a cause for concern, especially in the EPZs where already protests have been encountered due to poor working conditions.

1.5.2 China's Aid to Kenya

Foreign aid is a broad term describing the help one country gives another through some form of donation. The donors and recipients may be government or non-governmental bodies. Donations may go directly from the donor to the recipient, or they pass through other bodies. The purposes of aid differ, but are commonly grouped into three broad categories: relief, military, and development assistance (McCormick, D. et al, and 2007:4). In this study, we track a particular type of aid, official development assistance from Chinese government to Kenya.

Until the mid-1990s much of the Chinese development aid went towards liberation movements in Africa (McCormick, 2006). In fact, Kenya benefited from Chinese development aid in its early years of independence. In 1964, China provided Kenya with military support to counter a Somali invasion but it declined to provide monetary support for the independent government to purchase former colonial farms (Daily Nation, 2006). In the 1990s China changed its aid policy from liberation to reduction of debts, promotion of investment and assistance in human resource development. Kenya is one of the beneficiaries of Chinese aid, but the sources of information do not indicate whether the companies are state owned corporations or private sector firms. China's assistance to Kenya is exclusively project based. Since the establishment of the diplomatic relations, the projects of aid and assistance provided by China to Kenya have been diverse. Projects are mostly part of bigger package deals which include other types of cooperation with Kenya.

China currently gives both monetary and non-monetary aid to Kenya. Development aid from China supports investment in infrastructure, equipment and plant; academic training; technical training; human relief; and tariff exemptions. Over the last five years China has given Kenya grants and loans for infrastructure, plant and equipment. These were mainly in road construction projects, modernization of power distribution, rural electrification, water, renovation of international sports center, medical and drugs for fighting malaria, and construction of a malaria research Centre. China has for a long time awarded scholarships to Kenyan students wishing to undertake their studies in China in diverse fields. About 100 scholarships are given by the Chinese government to Kenyans each year, twenty of which are in medical related fields. On technical training, approximately 500 people from the public and private sectors benefit every year. More recently, China has been giving tariff exemptions to various products originating from Kenya with a hope of promoting trade between the two countries (Kenya, 2006).

Examples of projects supported include (Kenya, 2006): China has extended to Kenya, loans and grants for a number of projects including; the Moi International Sports Complex project in Kasarani, supply of medical equipment and drugs, the upgrading of the Moi Referral Hospital in Eldoret, Concessional Loans for construction of various roads, including Kipsigak – Serem – Shamakhoho road, Kima/Emusustwi Road and the Gambogi-Serem road and a Maize Flour Processing Project in Bomet town. China grants various scholarships to Kenya every year in the scientific field. Two Chinese postgraduate students are admitted annually to our university. In the year 2006, China awarded 20 additional scholarships.

China has made considerable contribution to capacity building for short term courses in the last few years. Five hundred Kenyans are expected to benefit from these short term courses

under the China-Africa Forum Framework Cooperation. Loans and grants from China became significant in size beginning 2002. Since then, China appears in Kenya national statistics of bilateral donors whereas before then, it was classified in the category of 'Other donors'. As a ratio of total loans and grants in Kenya, China accounted for 1.67 per cent in 2002 and 9.98 per cent in 2005. With the exception of 2004, the grant component of China's loans and grants is relatively high. Kenya was the first African country to receive Chinese financing of educational and cultural exchange programmes through the Confucius Chinese and Language Centre, currently hosted by the University of Nairobi in Kenya and Tia Jin Normal University in China (Xinhua, 2005).

According to Kaplinsky R. et al (2007) Chinese aid to SSA can be grouped into six categories. The first is financial assistance for key investments. Linked to this, in recent years, has been a programme of limited debt-relief. The third form of aid provided has been a growing training programme. China's African Human Resources Development Fund had provided training in China. Fourth, China has provided technical assistance to SSA – more than 600 teachers and more than 15,000 Chinese doctors have worked in 52 SSA countries (including Kenya). Fifth, in an initiative announced at the second ministerial meeting of the Sino- African Cooperation Forum held at the end of 2003, China has instituted a programme of tariff exemption for 25 SSA economies, covering 190 products, including food, textiles, minerals and machinery. The policy took effect at the beginning of 2005 (People's Daily, 20 October 2005). These trade preferences are called for since Chinese tariffs on imports from SSA, although generally lower than Indian tariffs, were significantly higher than those in other Asian economies. We do not have data on the differential tariffs levied by China on imports from SSA compared to tariffs levied by individual SSA countries on imports from China. Finally, China has in very recent years begun to provide military assistance to Kenya.

1.5.3 China Kenya Economic Cooperation

Kenya and China signed a Trade Agreement in 1964 and revised it in 1978. The Ministry of Trade has begun consultations to review this agreement to take in changes in the international economic arena and the phenomenal growth of the Chinese economy. To actively implement already-signed bilateral cooperation agreements, China encourages its businesses to import Kenyan goods, expand investment in Kenya, participate in its infrastructure construction and energy and resources exploitation and expand cooperation with Kenya in processing industries and agriculture. China will continue offering economic aid within its available resources and strengthen assistance for Kenya's human resources development. The government of the People's Republic of China has set up a special fund to encourage Chinese companies to import some Kenyan products, including coffee beans, rose seeds, black tea and sisal all of which are exported in raw form. Efforts being made at bridging bilateral trade should focus on value addition before export. The Third Economic and Trade Committee meeting between Kenya and China took place on 25th April 2006. The meeting addressed various issues of interest to both countries, including ways of bridging the balance of trade, which remains heavily in favor of China (POK, 2006).

1.5.4 China Kenya Cultural cooperation

In order expand cooperation in the fields of culture, education, health, tourism, journalism, environmental protection and sport and further build up mutual understanding and friendship between both peoples, a number of initiatives are on-going: In order to stimulate Chinese investment in the tourism sector as well as resulting in direct flight connections between China and Kenya (and a number of African destinations), Kenya and other individual African countries have been granted "Approved Destination Status". Chinese tourism abroad is

strongly regulated. The popular tourist destinations of Egypt and South Africa were the first countries to be granted such status. Following FOCAC's Addis Ababa Action Plan, China gave an additional eight countries (Ethiopia, Kenya, Tanzania, Zambia, Mauritius, Seychelles, Zimbabwe and Tunisia) such status. China and Kenya signed a memorandum for setting up the website "Kenya-China Economic and Trade Cooperation" in June 2006. The two sides agreed that China will import more coffee from Kenya and at the same time offered Kenya the most advanced coffee processing equipment. China's influence is not limited to raw materials. Kenyan universities are developing Chinese language programmes (University of Nairobi), Technical Scientific Cooperation (Egerton University), while Ministry of Information officials attend exchange schemes.

1.6 Theoretical Framework

The scope of this study is grounded in the fields of both International Relations (IR) and Global Political Economy (GPE). The theoretical framework therefore draws from theories emanating from both traditions. Some of the theories in International Relations are Marxism, Liberalism, and Realism. These theories are useful for explaining states' behavior in the international system.

In both GPE and IR, Critical Theorists such as Marxists focus on the structure of the international system, particularly the structure of production (Nel, 1999: 66). From this perspective, market relations are by nature exploitative, and the structure of global capitalism is essentially contradictory since it perpetuates global inequality (O'Brien & Williams, 2004: 23-24). Although it may be possible to understand China's involvement in Africa from a critical perspective, especially since the economic relationship is unequal and some may even

view it as exploitative, it poses some analytical difficulties, particularly because China is also part of the 'Global South' (comprising mostly Asia, Latin America and Africa), and sometimes even embraces the same kind of critical rhetoric against the 'Global North'. In this sense, then, Critical Theory is not the most applicable tool to utilize in this study.

Liberalism, in both GPE and IR, views the international system as essentially cooperative, as a result of interdependence (Nel, 1999: 60). Thus, Liberals view the international system as governable through the emergence of regimes, manifested in international regulatory organizations, such as the United Nations. From a Liberal perspective, pluralities of actors play equally important roles in the international system, and outcomes in international affairs are not only determined by power relations between states, but other factors also play a role (Nel, 1999: 60). In IR, Liberalism emphasizes morality in international affairs as a way to ensure cooperation and prevent anarchy (Nel, 1999: 61). Within GPE, Liberals view individuals, rather than states, as key economic actors, and firms are seen as important for the creation of wealth (O'Brien & Williams, 2004: 19). From this perspective, the role of the state in the market is minimal, since state interference is seen as a distortion of the natural market mechanism, resulting in economic failure (O'Brien & Williams, 2004: 19).

Liberalism, however, is not particularly useful for explaining China's involvement in Africa. For example, although China has become more integrated into the global market, and thus more interdependent, it has not necessarily led to cooperation. As will be shown, China has repeatedly utilized its position on the UN Security Council to its own advantage, and has not cooperated on issues such as human rights. Furthermore, Liberalism predicts that state intervention leads to market failure. However, this contention does not hold true in the

Chinese case, where almost all of China's economic relations are governed by the state, including its economic involvement in Africa. Contrary to Liberal contentions, this has not led to economic failure; rather, China's economy has been growing steadily over the last decade, and its economic power has strengthened considerably. Thus, China's behavior in the international system and relations with Africa do not easily fit into the Liberal analytical framework.

It will be shown, however, that China's involvement in Africa can be well explained from a Realist perspective in International Relations, since it is the theory that most aptly explains China's political stance towards Africa and from the perspective of Political Economy, the theory of Economic Nationalism is most applicable for the explanation and understanding of the political economy of China's involvement in Africa. According to the great proponent of Political Realism, Hans Morgenthau, the main aim of states within the international system is the pursuit of their national interests "defined in terms of power" (Morgenthau, 1973: 5). Thus, due to the structure of the international system, states are inherently self-interested entities, with the main aim of building power so as to gain and maintain an advantage in terms of the balance of power.

It was Morgenthau's contention that the national interest is defined within the "political and cultural context" of foreign policy formulation (Morgenthau, 1973: 9). It follows, therefore, that the definition of power and how it is used depend on the current political and cultural milieu (Morgenthau, 1973: 9). In this sense, China's foreign policy and external behavior "are seen as responsive to the changing dynamics of the international environment" (Zhao, 1996: 12). For example, the concept of 'energy security' is fast gaining prominence as a strategic objective for powerful states. In this context, those states whose behavior can be

explained in terms of Realism (such as China) will prioritize “securing trade routes and assuring relations with export countries conducive to continuing energy trade” (Heller, 2003: 355).

Furthermore, Realism contends that in order to be politically successful (read: powerful), states cannot afford to concern themselves with questions of morality, and therefore no action should be taken in the name of moralistic principles (Morgenthau, 1973: 10). For Realists, the most important foreign policy objective is the survival of the state in the international system (Zhao, 1996: 9). Therefore states act rationally towards the achievement of this goal, and do not allow issues of morality to impede its attainment. Realism asserts that states are the most important actors in the international system. However, the significance of the role of non-state actors in the international system is not lost on Realists: for example, states are likely to take advantage of the platform afforded by international organizations in order to boost their international standing, as well as exploit any opportunities to benefit economically through organizational channels (Heller, 2003: 355). In the case of China, it has been argued that China’s recent vigorous participation in international trade and the international system is not the result of a desire to become more politically and economically integrated, but rather the desire to become diplomatically and economically stronger (Roy, 1998: 229).

Realism is, therefore, a useful tool for explaining and analyzing China’s foreign policy behavior. For example, the Realist notions of self-interest and moral skepticism help one to understand why China’s foreign policies have been described as “generally self-serving and often ruthless” (Roy, 1998: 229). However, it is not sufficient to view China’s involvement in Africa only through the lens of Realism. China’s Africa policy challenges some of Realism’s main assumptions, such as for example the rigid contention that states always place military

security above economic security (Roy, 1998: 235). For this reason, it is also necessary to view China's involvement in Africa from the perspective of Economic Nationalism.

There are some fundamental similarities between Realist assumptions and those of Economic Nationalism. In fact, some scholars have suggested that Economic Nationalism is in effect the economic variation of Political Realism (e.g. Helleiner, 2002: 309 and O'Brien & Williams, 2004: 17). Economic Nationalism is thus suitably partnered with Political Realism in this theoretical framework.

Like Realism, Economic Nationalism propounds the primacy of the role of the state in the global system (O'Brien & Williams, 2004: 14). Economic Nationalists argue that the state's role has not diminished as a result of globalization, because the process of globalization is actually driven and shaped by states, and furthermore because national economies are the most important actors in international economic processes (Pickel, 2003: 113). A further similarity with Realism is that Economic Nationalism is also preoccupied with power. The most central concern of Economic Nationalism is that of bolstering national power (Nakano, 2004a: 222). National power implies a combination of political and economic power: when economic power is maximized, so is political power, and vice versa (Nakano, 2004a: 222). Thus, Economic Nationalists recognize that there is a profound connection between wealth and power (O'Brien & Williams, 2004: 15).

For Economic Nationalists, the well-being of the nation is of central importance for the augmentation of power (Nakano, 2004a: 222). In order for a state's economy to develop and

modernize, the state needs to mobilize the nation through state policies (monetary, trade, legal, education etc.), and in so doing, create a national market (Nakano, 2004a: 219). The state's role in economic development ultimately contributes towards the formation of a national identity, because "economic development forms and enforces the idea and sentiment of the nation, which increases the political power of the state" (Nakano, 2004a: 222). Thus, the relationship between the economy and the nation is an important issue for Economic Nationalism (Nakano, 2004b: 33).

Economic Nationalism has often been associated with Mercantilism and protectionism. However, Economic Nationalism is distinctly separate from those approaches (Helleiner, 2002: 310). Where the Mercantilist's goal is autarky, the Economic Nationalist's goals are national unity, autonomy and the maximization of national power (Nakano, 2004a: 212). Where Mercantilists advocate protectionism, Economic Nationalists will advocate free trade if it bolsters national power (Nakano, 2004a: 224). Even the foremost proponents of Economic Nationalism, Alexander Hamilton and Friedrich List, were in favor of the principle of free trade (Harlen, 1999: 734). The approach is pragmatic: implement the policy that best augments national power. Thus, List advocated protectionism and government intervention in the economy only in particular circumstances, such as "if a nation capable of industrializing had not yet done so" (Harlen, 1999: 741). Economic Nationalists argue that liberal economic policies in the *international* economy do not necessitate liberal policies in the *national* economy – rather, state intervention is a prerequisite for successful participation in the international economy (Nakano, 2004a: 224).

For Economic Nationalists, the economic policies of states are usually designed in such a way as to strengthen national unity (Nakano, 2004a: 222). Typical Economic Nationalist

policies include: industrial policy, Keynesian policy, and currency manipulation (Nakano, 2004a: 226). Economic Nationalism is well suited to the study of China's foreign relations; China has a long history of nationalism, and its foreign policy orientation remains distinctly nationalist. Chinese nationalism was spurred on particularly by Western hostility towards China, and Western rule over some parts of China since the Opium Wars in the 19th century (Zhu, 2001: 4). It is in this historical context that Chinese rulers promoted nationalism as a means to oppose external hostility and assert their independence (Zhu, 2001: 4; Chen Zhimin, 2005: 36). Nationalism was the key factor driving Chinese foreign policy for most of the 20th century (Chen Zhimin, 2005: 36).

Since 1949, the Chinese government has actively promoted 'state nationalism' (building a *Chinese* nation as opposed to *ethnic* nationalisms) (Zhu, 2001: 4). Nationalism still dominates China's foreign policy orientation. Adjustments in Chinese foreign policy are usually context-specific adaptations that serve to achieve the fundamental goal of Chinese nationalism: "to *seek and preserve China's national independence*" (Zhu, 2001: 2). The main priorities of Chinese nationalism are: economic development, national unity and independence, and international prestige (Chen Zhimin, 2005: 52). Of the three, economic development is seen as the most important priority; the one that encompasses all other national aims (Chen Zhimin, 2005: 52; Zhu, 2001: 5). It is thus within the framework of these theoretical perspectives that China's involvement in Africa will be analysed and understood.

1.8 Hypotheses

- i. Chinese foreign direct investment positively affect the social and economic development in Kenya
- ii. China Aid to Kenya negatively affect the social and economic development in Kenya
- iii. China Kenya economic cooperation has no effect on social and economic development in Kenya

1.9 Research Methodology

This study will draw from both primary and secondary sources of information. Primary data will be derived from interactive interviews and administration of questionnaires from Kenya Official in the Ministry of trade and foreign affairs, China officials in their Embassy in Kenya, a focused interview from the China embassy in Nairobi. Secondary data will be sourced from a collection and review of published and unpublished material, journals, academic papers and periodicals. These will be taken through intensive and critical analysis.

1.9.1 Operationalization of key Terms.

Investment; this is an undertaking by an individual or a business entity where an initial capital outlay is committed into an asset or a stock with a hope giving high returns in the future (World Bank, 2004).

Foreign Direct Investment; this is an investment involving a long term relationship and reflecting a lasting interest and control of a resident entity and in one economy (foreign investor parent enterprise) in an enterprise resident in an economy other than of the foreign direct investor (UNCTAD,1999;49)

Foreign Aid; is a broad term describing the help one country gives another through some form of donation (Onjala, 2008; 34)

1.9.2 Scope of the study

The study is restricted to the effect of China-Kenya economic ties on social and economic development in Kenya between years 2003 to year 2012.

1.9.3 Limitation of the Research

It is envisioned that one of the limitations was in collection of primary data especially in the Embassy owing to security challenges and getting the respondents. The data collected may also be open to biases and inaccuracies given that result from case studies are generally difficult to repeat.

1.10 Chapter Outline.

Chapter one details the introduction, literature review, and conceptual framework, and problem statement, objectives of the study, justification of the study, hypothesis and the methodology.

Chapter two presents a discussion of China Kenya ties. Chapter three provide an overview of the Effects of China Kenya Ties. Chapter four provide a critical evaluation of the effects of China Kenya Ties on social and economic development. Chapter five offer conclusions on the study.

CHAPTER TWO

CHINA-AFRICA RELATIONS IN HISTORICAL PERSPECTIVE

2.1 Introduction

The relationship between China and Africa has evolved clearly over the last five decades. Three separate periods can be distinguished within this time frame. Initially, relationships were established between China and African nation states as they gained independence. Then came the period when China was given a permanent seat on the UN Security Council in 1971. The final phase covers the post-Maoist period and is characterized by the liberalization and subsequent growth of the Chinese economy.

Chinese relations with Africa are not just a post-Cold War phenomenon. Fledgling communications began over 2000 years ago (Robison, 2006). However, the shape of the current China-Africa relations can be traced back to the 1950s and the connections forged during the anti colonial struggles for independence and revolutionary period of Chinese foreign policy from 1950 to early 1970s (Mohan, 2008:23-42) Throughout the Cold War China sponsored infrastructure and provided technical and financial assistance (Lyman, 2005), while Chinese doctors treated 180 million African patients (Brookes & Shin 2006). China and Africa claim about shared and similar trajectory of civilization. This argument posits that both 'belong to developing world and face common enemies (Mohan, 2008). These countries shared a common history and perception of domination and brutality by West. Bearing similar contours they therefore form a common strategic interest and a shared perspective in global issues. They belonged to the same club that of the third world, and they were against the same opponent of the West and North (Snow, 1995; 285-286).

Relations between China and Africa have their roots when China foreign policy was opposed to bipolar cold war and was seeking to wrestle the leadership of non aligned movement from Moscow (Snow, 1988; Jung and Halliday, 2006). China- Africa engagements took an interesting phase in 1955. This was the first official engagement. The arrangement was the Bandung conference which brought together 29 Asian and African states. The purpose of the meeting was promote economic and cultural relations between the two continents (Judith, 2006)

Sino- Africa relations were boosted by Chinese Premier Zhou Enlai's visit in 1964. The purpose of the visit was to show support to the African struggles against colonialism and imperialism (which he called the 'poor helping the poor'). According to Adie (1964) this declaration set ideological battleground with both Washington and Moscow. Premier spelt out 'Five Principles of Peaceful Coexistence' as a solid foundation of Asia-Africa relations (Yung-Lo Lin, 1989:80)

The official China policy towards Africa was spelt out. The policy included five principles. These principles were sincerity, equality and mutual benefit, solidarity and common development with emphasis on sovereignty and non-interference (PRC, 2006)

China Africa relations in 1970s saw strengthening of ties. In 1967, China had only 13 foreign missions in Africa. Diplomatic ties increased in 1970, where the number of China foreign missions in Africa increased up to 30. Improved diplomatic relations played a pivotal role in enhancing China image and status in international system. Due to the numerical strength of votes held by African states China was able to secure United Nation Security Council seat. In

1970s China cemented its Africa diplomatic ties by involving itself with aid provision. As Lucy Corkin rightly observed, China's development assistance to Africa in the form of infrastructure boasts a long history, dating back to the TAZARA railway line, completed and handed over to the Zambian government in 1976.⁶ This project was arguably most significant and biggest project of the time. Further China committed itself to construction of other prestigious project like federal buildings, stadiums, factories, infrastructure development, medical teams and student exchange programmes (Judith, 2006). China further assisted Africa through military support especially African nationalist movements to disentangle themselves from hegemonic West. China indeed supported armed opposition claiming that it was the only way through which colonialism, apartheid and racial discrimination in South Africa could be eliminated (Larkin, 2006)

This therefore has helped China to view Africa as an important ally in international system and leverage. China- Africa relations were further cemented after the Tiananmen massacre where CPC authority attacked peaceful demonstrators. China was shunned by the West leading to its isolation. However, China found a soft landing in Africa. African states did not criticize China. Scholars have argued that failure to castigate China by Africa was based on shielding its undemocratic behavior and call for democratization. Secondly, they argue that Africa felt resentment on neo-imperialist interference. Of importance Africa felt open castigation of China would result to withholding of much desired assistance (Taylor, 2004:85)

⁶ Campos, I and Vines, A (2008) Angola and China: A pragmatic Partnership, Chatham House, London.

2.2 China and the cold war era-

The 1955 Bandung conference was followed by 1964 Premier Zhou Enlai visit to 10 African countries. During the visit five Principles were outlined. According to Shelton (2001), the principles were “anti-imperialist struggles; Africa non-alignment; Africa unity; peaceful settlement of Africans disputes; and sovereignty independence for all African countries (Shelton, 2001: 112)

During decolonization period China entrenched itself by supporting Africa in pursuit for its independence and freedom. To this end China further supported liberation movements in Africa (Roy,1998: 26). To achieve this China supported the process by providing economic, technical and military support. Muekalia (2004) advances the argument that China provided assistance to curtail events and activities of Superpowers (Muekalia, 2004: 6). According to Roy (1998), the purpose of this support to Africa was to deprive colonial powers their colonies which they relied to build their economies (Roy, 1998: 25)

The period in 1970s, Sino-Africa relations were shaped by the prevailing events of bipolar international system and superpower politics. China was partly driven by the desire to fight superpower hegemony (Taylor, 2006: 2). On the other side China was driven by its ambitions to increase its own power in the international system.

In global politics of 1970s, China secured UN Security Council seat in 1971. Scholars have argued that China secured the seat due to the numerical strength of African votes. China was gaining from its support for African struggles for independence and liberation movements. Ascendancy of China to UN Security did not only elevate China in international system but also gave Third World countries a voice.

2.3 Decline in Importance

The relationship between Africa however took a shift when China undertook internal organization especially economically. This was through the introduction of Deng's Modernization Programme in 1978. The sole purpose of Modernization Programme was to modernize China. The outcome of these reorganizations was foreign policy shift from Africa. Africa significance and importance took a slowed pace. Academic experts posit that for these programmes to be realized new outlook of international interactions was important. Economic development required foreign investment and infusion of new technology, opening trading frontiers so as to increase trade volumes. Therefore China's foreign policy focused on economic modernization and increase trade relations. Africa could not be relied to provide external direct investment or technology transfer. Africa was disadvantaged as it was underdeveloped and it was not integrated in the international market. Therefore China turned to its global competitors of Europe, Unites States and Japan. Secondly China realized that economic growth thrives well in a peaceful environment. Therefore peaceful coexistence became a vital aspect of foreign policy (Taylor, 1988: 443).

In December 1982, the then Chinese Premier Zhao Ziyang visited eleven African countries. In his visits tis he stressed on four principles of Chinese cooperation with Africa (Judith, 2006). The principles included: equality and mutual benefits; an emphasis on practical results; diversity in form; and economic development (Judith, 2006).

China- Africa relations took yet another shift after 1989. China was accused for grossly violation of human rights. The events were shaped by CPC authority attack on peaceful demonstrators. China was castigated and shunned by the new allies in economy particularly US and Europe. However, this abuse of human rights was not rebuked by Africa countries.

China therefore reached for Africa as an ally to quell; anti-imperialism and anti-hegemonism. On its part China gave blind eye on neo liberal aspects of democracy and violation of human rights in Africa. China pursued ‘non-interference and sovereignty policy’ in Africa. China viewed Africa as an important ally especially in preserving its UN Security Council seat. Economically China viewed Africa as a vital partner in economic developing from a shared commonality. China advanced the policy of opening up (Taylor, 1997:13. This policy led to increased ties in development and trade links. Africa also became an important channel for direct investment from china and also foreign aid.

2.4 Chinese Investment in Africa

Africa, according to Sautman and Hairong (2007) has the highest return on FDI, ranging from 29% in 1990 to 40% in 2005. Although China’s trade with Africa is small compared to US\$1.76 trillion in world trade, it has grown from US\$3 billion in 1995 to US\$55 billion in 2006. It is predicted that Chinese investment will top the US\$100 billion mark by the end of the decade (Taylor, 2006). As evidence of this trend, there are more than 800 Chinese companies in Africa in 2006, one hundred of which are medium to large state owned firms (Xinhua, 2007)

According to Kaplinsky, McCormick and Morris (2007), China is having a profound impact on African economies. The increasing economic expansion is particularly evident in Sub-Saharan Africa. In the last decade, the Chinese have built a network of trade, aid and investment with close to fifty countries (Zafar, 2007). Chinese companies are mining oil in Angola and Sudan, building roads in Ethiopia, generating electricity in Kenya, building infrastructure and encouraging tourism in Sierra Leone, and servicing mobile phones in Kenya and Nigeria. China’s rapidly developing oil consumption seems to have a bigger effect

on Chinese-African trade (Taylor, 2006; McLeary, 2007). This is the main reason behind the whole raft of new contracts between 2002 and 2006. During this period, Chinese oil companies have signed deals to buy refineries and explore oil and gas in Algeria, Gabon, Angola, Nigeria, Ivory Coast, Kenya, Congo Brazzaville, Namibia, Ethiopia, Madagascar and Sudan. Additionally, China also helped in treating infectious diseases such as malaria and HIV/AIDS and launched the first overseas radio station in Kenya (Brooks and Shin, 2006). Recently, China and Nigeria just signed a major oil deal worth US\$23 billion (Swartz and Hall 2010). It calls for China to build three refineries in Nigeria.

As a result, trade between them has increased making China the continent's third largest trading partner after the European Union and the US. China has continued to push closer ties with Africa and has awarded US\$10 billion in aid for the next three years and dispatched volunteers to provide medical assistance and build hospitals and schools (Ewing, 2009). As Tull (2006) explains, Western criticisms of China's human rights record and other international issues have induced the Chinese to seek closer ties with non-western nations in an effort to build international coalitions.

2.5 Kenya Perspective: FDI Effects

Unlike their national leaders who are supportive of partnerships, China's increased presence in Africa has been questioned by several African scholars and societal organizations (Konings, 2007). While some scholars see China's economic growth as a positive development model for the third world (Alden, 2005), others look more critically at China's behavior on the continent and sees its parallels to the neo-colonial past (De Lorenzo, 2007). We will use the Hood and Young (1981) model that evaluate multinational activity based on social, competitive, trade, etc. criteria.

Social Effects;

Assessing the advantages and disadvantages of Chinese involvement in Africa may not be so simple. Africa's economic growth of 5.8 percent in 2007, the highest ever may partially be attributed to Chinese investment (Hanson, 2008). It has cancelled debt worth US\$10 billion from African countries, sent doctors to treat Africans, and hosted thousands of African workers and students in their universities and training centers. In addition, the roads, bridges and dams built by China are important contributors to the continent's infrastructure. On the other side, the relationship has emboldened the governments to limit their progress towards political and economic reform.

Economic Effects;

There are even more controversial points however. These are related to the trade, commerce, and social areas. According to Kaplinsky and et al. (2007), in trade, especially Sub-Saharan Africa is impacted in two ways. One aspect is the competition in internal markets for domestically-oriented manufacturers, and another is competition in external markets from export-oriented industry. The balance of trade favors China as local industries and merchants have been hit hard by the flood of cheap Chinese wholesale and retail shops used to establish networks to sell goods (Alden, 2005: 156). Moreover, African producers cannot compete with Chinese companies even in African markets since Chinese manufacturers have low production cost and market prices (Tull, 2006).

Competitive Effects;

The use of Chinese labor, as opposed to local workers in Chinese sponsored projects in Ethiopia, Sudan and Namibia has been criticized. (Alden, 2005). De Lorenzo (2007) also echoes that, what is worrisome is the impact of Chinese competition on African enterprises and exports. In Nigeria, the imported textiles have forced local factories to close. Onjala (2010) argues that Africa need to respond to the import competition and falling prices,

induced by Chinese exports of manufactured goods which may not only displace exports in third markets country markets, but also decimate manufacturing production in domestic market (Onjala, 2010) However, South Africa is not affected as much because of temporary bilateral agreements between the governments that limit Chinese imports. In Kenya, small scale traders feel the heat of competition by the Chinese who engage manufacturing, wholesale and retail goods. Kenya faces competitive price pressure from China in the regional market for manufacturing, especially textiles, clothing and footwear, and soap, potentially displacing the manufacturing exports of Kenya in Uganda and Tanzania.

Unemployment Effects;

The challenges are not limited to the competition. According to Anshan (2007), with the flow of goods from China, conflict over labor practice and market strategies is turning out to be an important issue. The preference to hire Chinese nationals and long hours of work expected by Chinese managers is causing conflict with local labor laws and cultures. In addition, company practices lead to discontent in communities who perceive that Chinese companies are not contributing enough to increase local employment and strengthen the local economy.

2.6 Determinants of Africa-China Trade Flows

Over the past decade, there has been convergence in the general trade literature toward the consensus that trade and liberalization does indeed cause growth. The greatest critique of this literature was brought by Rodriguez and Rodrik (1999), who argued that the evidence linking trade openness and growth overstates their positive relationship. They pointed out that existing literature faced endogeneity issues, omitted variable bias, and had difficulties accurately measuring trade restrictiveness/openness.

Frankel and Rose (2002) addressed the first pair of issues. They used the gravity model to instrument for trade openness, and found that not only were their results significant, but also greater in magnitude than OLS had estimated. In addition, Rodriguez and Rodrik (1999) raises concern over direct effects of geography and institutions on growth. In their analysis Rodriguez and Rodrik found that geography and institutions are forceful to trade openness and have significant pivotal impact on growth.

Wacziarg and Welch (2003) avoid difficulties in measuring trade openness by running a fixed effects regression on an index of liberalization, which is based on the identification of trade liberalization episodes. They find an increase in GDP growth post-trade liberalization, as well as positive effects on investment rates. Furthermore, they use country case studies to address the issue of liberalization coinciding with other government policies that may affect growth. This demonstrated the importance of having complementary supporting policies, and avoiding counter-productive ones.

Authors have asked whether liberalization and trade openness have a differential impact on growth in Africa in comparison to the rest of the world, since the increase in African income levels have not kept up with that of the world. The evidence thus far for Africa leans toward the suggestion that it is not difference, though the debate is still ongoing. Early in this line of literature were studies such as Ukpolo (1994), using time series for eight African countries. He does not find a significant impact of manufactured exports on growth, though there appear to be some positive linkages. More recent Africa-specific studies are finding the effect of liberalization and trade to be significant and positive on growth. Sukar and Ramakrishna (2001) conducted an empirical analysis based on the neo-classical growth model, and found

that trade plays an important role in enhancing the economic growth of Ethiopia, underscoring the importance of outward looking strategies.

According to Greenaway, Morgan, and Wright (2002), problems with mis-specification and usage of different liberalization indices are responsible for early inconclusiveness. Their evidence points to J curve type response for developing countries, robust through specification changes. Similarly, Tsangarides (2005) demonstrates that what is good for growth for the world is also generally good for Africa, though the marginal impacts may be different. In addition, he finds that variables controlling for the impact of institutions are actually only robust when estimating with an Africa-only data sample. This highlights the importance of such factors in determining the growth of this region.

Literature that focuses on the economic impacts of China-Africa trade in particular is a more recent phenomenon. Broadman (2006) uses the gravity model to assess the determinants of bilateral trade flow between China and African countries. Based on cross-sectional estimates, he finds that infrastructure quality and factors between borders (such as port quality) are just as important as trade policy itself in facilitating trade.

Jenkins and Edwards (2006) find that the likely overall impact of this trade on the poor will depend on the types of goods involved and the conditions under which they are produced. Import competition concerns are real, but have also been exaggerated. Preliminary evidence suggests Chinese exports to Africa have mainly been at the expense of exporters from other regions, which reduces the likelihood of displacing local producers. Lastly, Jenkins and Edwards (2006) evaluate the direct and indirect impacts of trade with and FDI from China and India, distinguishing between competitive and complementary effects. The overall impact will vary by country and is conditional on a number of factors. More specifically, they

determine that countries like Lesotho will stand to lose the most. Their current labor to land ratio favors the prior – in direct competition with China’s advantage.

2.7 Aid, Africa and Development

Foreign aid is a broad that describes the help one country gives another through some form of donation (Onjala, 2008). According to Kiely (2007) aid is a loan to a country at concessional or zero rates of interests (Kiely 2007: 45). The donor and the recipient may be government or non governmental organizations. The donation can be from the donor directly to the recipient or through other organizations. The intention and purpose of the aid may differ but they follow under three groups: relief, military, and development assistance (Onjala, 2008).

Calderisi (2007) observed that in recent years, in a geo-political version of Continental Drift, Africa has fallen almost completely off the map. If one had attended the 2006 Forum on China-Africa Cooperation (FOCAC) summit in Beijing, when the downtown was bedecked with African iconography and forty-eight African states attended (FOCAC, 2006), such a claim might look premature. Far from falling off the map, Africa has gained an importance and the Chinese are among a number of rapidly industrializing nations that see the continent in strategic economic terms. With this renewed economic interest have come diplomatic moves, which have raised a series of questions amongst others interested in Africa. Among the questions is the motives and sustainability of China’s ‘cooperation’ with the continent (Marks, 2006; Bennett 2007).

Calderisi’s book is one of a raft of publications dealing with Africa and/or the failure of aid. Those dealing with aid in general (Easterly, 2008; Riddell, 2007) focus on Western donors

and those of the OECD's Development Assistance Committee (DAC). The Chinese are not members of DAC. Chinese aid levels are still relatively low. However given the interlinking of aid with other financial flows it is clear that aid is having a significant impact on the development fortunes in Africa. As such, the focus on DAC donors underplays is an important driver of African development. Where these recent books deal with China they issue a warning regarding authoritarianism in Africa since "the Chinese are making it worse, for they are none too sensitive when it comes to matters of governance" (Collier, 2008: 86). This aid-governance nexus has become a key battleground in debating the efficacy of Chinese aid (Naim, 2007). In an important intervention book entitled *Dead Aid* the Zambian economist Dambisa Moyo argued, amongst other things, that the emergence of China is a "golden opportunity" for Africa (Moyo, 2009: 120) offering the continent a 'win-win' alternative to the scenario of an 'aid dependent economy' by focusing instead on trade and investment and by providing the infrastructure that will enable Africa to "move up the development curve" (Moyo, 2009: 122). While in general agreement with Moyo's argument that aid has not reduced poverty in Africa, it is necessary to note that Moyo's prescriptions are problematic insofar as they are focused on neoliberal models of development and fail to recognize the negative consequences that such recommendations have often had in Africa.

Despite these debates there are few tangible analyses of Chinese 'aid' in action which examines its effects on recipients' development prospects. In undertaking a three year research project on China's engagement with African development a critical and comparative approach was employed. The purpose was to explore the diverse impacts of Chinese aid in Africa through two case study countries, Ghana and Angola, with a view to providing a more nuanced and disaggregated analysis. This article draws on field research conducted between November 2007 and May 2009 in China, the United States, London, Ghana and Angola

involving in-depth semi-structured interviews with representatives from various government agencies, international bodies and civil society organizations. The case studies were selected for the different relationships they offered with China, largely around the different resource endowments they possessed and the types of state. And within them a focus on specific Chinese projects as examples of development ‘assemblages’ in Murray Li’s (2007) sense. The paper aims to evaluate the changing motivations and modalities of Chinese aid in the two case studies and does so through an empirical analysis of what aid has accomplished in both cases.

CHAPTER THREE

CHINA-KENYA INVESTMENTS

3.1 Introduction

3.2 China -Kenya Trade Flows

The past decade has been an era of relatively robust growth for Sub-Saharan Africa. Overall trade with China surged by 39% between 2004 and 2005, and in 2006, it reached a value of US\$55.5 billion from just US\$4 billion a decade earlier.⁷ The rising price of oil has certainly played a role in determining the high growth rates in many of these countries, but even excluding oil rich countries, the fastest growing group has had an average growth rate of over 4.5% since the mid-1990s.⁸ For a region that has been riddled with poverty and low levels of growth for decades, this is a welcome change.⁹

Over the same period, trade with China has increased dramatically. Exports in the past five years to China have been growing at an average rate of 48% per year, and now account for a tenth of all exports. The rapid growth of the Chinese economy has created a large demand for many of Africa's major export commodities, especially for oil and raw materials such as minerals, metals, and timber. For the African countries that have diversified and even moved up the technology ladder, China serves as a huge export market for goods such as light

⁷ Lisa Feng Yung Chen (2007) "Africa Trade with China for growth? Pp2-62

⁸ *ibid*

⁹ Those that are experiencing slower growth, or even zero and negative growth, tend to be those which are experiencing or have been engaged in internal conflict of some sort. Low growth countries (under 2%) include Zimbabwe, Democratic Republic of the Congo, Burundi, Guinea-Bissau, Central African Republic, and Cote d'Ivoire (World Bank World Development Indicators). For a complete breakdown of growth by country, see in Appendix, Graph A.1.

manufactures or semi-processed agricultural goods. However the balance of trade is still skewed towards the Chinese with the volume of imports from china far out weighing the exports to china from African countries.

In the other direction, Sub-Saharan Africa has seen a surge in imports of China's cheap manufactured goods. Also imported are capital goods and intermediate inputs for product assembly in Africa, which are then shipped to third markets. Imports totaled over US\$15 billion in 2005 alone, and climbed by 42.9% the following year (Broadman, 2006; The Economist 2007)

Such trade flows are sure to attract attention not only from economists and international organizations, but from news media and governments as well. Some discuss the potential for increased African growth that trade with China can bring. Others demonstrate concern for the nature of China-African trade flows, and whether or not they are actually good for the development and long-term growth of Africa. This is a valid concern since Sub-Saharan Africa remains the poorest region in the world. As we will see, while the potential benefits are likely to have a direct impact on growth, the majority of criticisms tend to be toward cost factors that indirectly affect growth, through channels such as governance or income distribution.

There are many potential benefits from increased trade with China, both in relation to growth and development in general. First, China is almost a natural trading partner with most African countries, as significant complementarities in their natural endowment of resources occur. As

China's demand for Africa's resources continues to soar, increased world prices of primary commodities may improve the terms of trade for the African countries.

Second, as China becomes a major player in the world economy, its industries are rapidly modernizing. It has a growing middle class with increased purchasing power, hungry for imports. Thus, while African exports to China are currently dominated by oil and other resources, growing demand will create the need for more goods and services – goods and services Africa can provide. This not only includes traditional agricultural exports, but will also tend towards nontraditional exports ranging from light manufactured products and household consumer goods to processed commodities and tourism (Broadman 2006).¹⁰

There are also other export opportunities awaiting Sub-Saharan Africa. Successful Chinese industries are growing larger, and as they do, they will count on primary and intermediate supplies from Africa for their products. China's growing economic prosperity has also meant shifts in its comparative advantage within and across certain industries. Many imports from Africa are and will be needed to support these shifts. One example is the increased imports of cotton in recent years from countries such as Cameroon and Tanzania. Cotton farmers in China have switched to more profitable crops, and thus cotton imports were needed to meet the demands of China's booming textile industry (Jenkins and Edwards 2006).

¹⁰ Whether or not one agrees with reverse engineering because of conflicts with intellectual property rights and patent infringement, it still benefits Africa.

In addition, as with trade in general, technology and skill transfers will be especially beneficial, particularly in a region that lacks both. Trade is intricately linked with FDI, which can foster exchange of outside know-how to African workers. Trade openness with China will bring in capital goods that are necessary to promote productivity and growth, especially as Chinese firms can more cheaply produce technological products with reverse engineering. African imports from China are more diversified, although machinery and transport equipment, manufactured goods and handcrafts account for bulk imports.¹¹

Lastly, there are benefits which accrue from more competition. Competition itself tends to increase efficiency and productivity of firms, making them better at what they do. Competition also means cheaper imports of goods from China, resulting in a gain in consumer surplus. Because Africans are now paying less for the goods and services they want and need, they are effectively richer with a higher real income.

Unfortunately, there may be downsides to this seemingly perfect relationship, as each benefit may entail its own costs as well. One aspect is the rise of internationally competitive Chinese exporters, who have already displaced many domestic businesses in the textile and apparel industries. This creates unemployment in countries already burdened by high unemployment rates, and transitions in comparative advantage will surely yield other social costs. Many Africans see the influx of Chinese goods, but do not feel as if they have improved their economic situation (Timberg, 2006). The increase in consumer surplus from cheap imports may in the long run outweigh the loss of jobs. However, negative impacts may persist if the

¹¹ Mary Françoise Renard (2011) "China's Trade and FDI in Africa" Working paper No.126. Africa Development Bank, Tunis, Tunisia.

structural rigidities in African markets do not allow for the efficient reallocation of resources, and then the “short run” will matter.

A second potential negative aspect of Africa-China trade revolves around the issue of oil and other natural resources being the primary exports China is interested in. Economically, even if they do drive growth, there are worries that trade dependence on exhaustible resources is an insecure path to development. In political economy, people are concerned about the potential resource curse. Promoters of democracy and human rights have pointed out China’s increasingly close ties to troubled governments like that of Sudan, which also happens to be the chief exporter of petroleum. This concern is particularly of China and not other countries in general for two reasons – China’s foreign policy and the sheer increase in recent trade volume. They argue that continued trade with China will only keep unfavorable regimes in power and stifle change, as China follows “a policy of noninterference in other countries’ internal affairs.” Some even see the Chinese as the next colonizers of Africa.

These benefits and costs are important to consider, because either they have affected growth or will affect growth in the long-run. The most extensive and detailed examination of the recent pattern of trade flows between Africa and China by the World Bank has provided significant evidence that they will continue to grow and develop. The bad news is, it would be almost impossible to precisely measure and estimate each benefit and cost in terms of its impact on African growth. Despite this constraint, the good news remains that newly available literature and constructed data may provide the mechanism to analyze the net impact of Chinese trade flows on African growth, and whether or not it has a significant

causal effect. If trade with China is a positive and significant contributor to African growth, we can then assess particular policies that would aid in maximizing benefits and minimizing the costs of such activities. Robust growth and sound policies to support it can only add the goals of poverty alleviation and development.

China –Kenya Trade flows

The volume and size of trade Kenya exports and imports to China have been increasing over time.¹² Kenya is ranked third among the 24 countries southern and eastern of African countries that trade with China.¹³ Trade performance shows that in 1991 bilateral trade stood at US\$ 26 million and rose to US\$ 136 in 2000. Scholars have given various analyses of trade trends between Kenya and China. According to Onjala, trade between Kenya and China did not blossom until the mid 1990s when there was an increase in Kenya's imports from China and very low value of Kenya exports to China.¹⁴ Onjala contends that two factors led to increased China's import to Kenya. First, in 1994 Kenya liberalized its exchange rate as part of economic liberalization programme supported by the IMF and World Bank.¹⁵ Secondly, China's industrial modernization programme led to the production of goods that Kenyans desired at more competitive prices than other supplies.

Kenya's imports from China were on the upward trend in 2000s. Kenya imports from China mainly composed telecommunication equipment, electrical machinery, civil engineering

¹² Mwengei el at (2012)"A study on the Impact of China's Investments in Africa: The case of Kenya". Journal of Emerging Trends in Economics and Management Sciences (JETEMS) 3 (5): 529-537

¹³ Onjala J(2008) A Scooping Study on-Africa Economic Relations: The Case of Kenya. African Research Consortium (

¹⁴ *ibid.*

¹⁵ *ibid*

equipment, motor and transport vehicles, rubber tyres, motorcycles, and iron and steel commodities, household electrical appliances, textiles, commodities for daily use, building materials and drugs (Kenya Daily Nation 29 2010). Significantly, about 40% of Chinese imports to Kenya were made of machinery and transport equipment, for industrial and agricultural production, and the service sector.¹⁶ Due to increased growth of ICT sector, in February 2006 the government removed all duties on importation of computers. This resulted in increase of goods from China. In the year 2002 the trade value between Kenya and China reached US\$186.37 million, with Chinese export taking US\$ 180.576 million while import totaled US\$ 5.798 million.¹⁷ There are over 20 Chinese companies doing business in Kenya. They include Jiangsu International Economic and Technological Cooperation Co, Sichuan Co Ltd, China Road and Bridge Construction (Group) Corporation, China Import and Export (Group) among others (China-Kenya embassy).

Despite the picture of a rosy affair between China and Kenya the balance of trade it must be stressed it favors the people's republic of China. According to Kiprono Kittony the Chairman of Kenya Chamber of Commerce and Industries (KCCI), there has been a trade imbalance, which leans heavily in favor China. He further asserts that Kenya imports manufactured goods from China while only a very limited variety of Kenyan products enter Chinese market.¹⁸ For example, bilateral trade between the two countries in 2002 amounted to US\$186.37 million. China exported US\$180.576 million to Kenya, while only importing

¹⁶ Micheal Chege (Economic Relations between Kenya and China, 1963-2007 p 28

¹⁷ Patrick Mutua Kioko (2012) "A study on economic relations with Africa: Case study, Kenya" Prime Journal of Business Administration and Management (BAM) Vol.2(3), pp485-496

¹⁸ Gitahi Nyunyi "While Uhuru tame trade imbalance between Kenya and China? The People 20/8/2013

US\$5.798 million of Kenyan goods, mainly black tea, coffee, and leather.¹⁹ In 2011 China's export to Kenya amounted US\$2.8 billion which was two and a half higher than 2008 when the value was US\$909 million. On the other hand, Kenya exports remained low at \$52 million.²⁰ According to the above statistics on the trade flows among the two suggests that the relation- ship between two nations is almost exploitative.

3.4 Composition of Chinese investment in Kenya

Chinese investment projects in Kenya currently number about 96 with a workforce of about 6,700 Kenyans and an investment capital of 52.6 million US dollars (Kenya Investment Authority). Most FDI from China is made by companies from China which is either wholly or partially state-owned even though in Kenya they operate as private companies (Kipngetch, 2008). Until the year 2000, the FDI from China remained very low. The flows from China became remarkable in 2004–2006.

According to Chege (2008) in the year 2001 and 2002, there were 17 Chinese investments established in Kenya. In the year 2003, 11 Chinese firms were also started, which were fully owned by the Chinese, mostly in services sub-sector making 82 % of the firms while the rest were in manufacturing. It was noted that capital investments in these firms were entirely foreign, averaging US\$ 1.3 million per firm and most of the capital was invested in service sector. Within the firms, employment averaged 45 persons, with local employment averaging 37 (82%), while foreign averaging 8 (18%) persons per firm. By 2004 there were about 60

¹⁹ Cheru, F., & Obi, C. I. (2010). *The rise of China and India in Africa: Challenges, opportunities and critical interventions*. London: Zed Books.

²⁰ Gitahi Nyunyi "While Uhuru tame trade imbalance between Kenya and China? The People 20/8/2013

Chinese companies doing their businesses in Kenya of which 12 firms had established their activities the in same year with capital costs averaging US\$ 775,000 per firm (ibid.). Employment was mainly local (97%), averaging 114 per firm and foreign (3%), averaging 4 persons per firm. Onjala (2007:19) mentions that in 2005, 12 Chinese firms commenced their operations in Kenya and most of the firms were in the manufacturing and services subsectors. More so eight (8) Chinese firms were established in Kenya in 2006, again mostly in the services (63%) and manufacturing (37%) sub-sectors and most of the capital was invested in services sector. The average capital investment amounted to US\$ 636,000, with a bigger share of it going into services investment.

In addition to the above, sources from Investment promotion Centre and Kenya Investment Authority show that an offshore exploration deal was signed between Kenya Government and China, allowing Chinese oil companies to explore oil in six blocks covering 44 500 sq. miles in the north and south of the country. Kenya gave six key oil blocks to Chinese companies (CNOOC) against the potential European competitors whereby companies like Cepsa of Spain and Swedish Lundin International lodged complaints as this was perceived as favoritism. Beijing Holley20 Cotec Pharmaceuticals which is one of the China's largest pharmaceutical companies opened a drug distribution centre and an East Africa Logistics Centre, in Nairobi and was meant to serve the East and Central African region. The center distributes anti-malarial medicine to the private and public sectors at less than current market prices.

3.3 Investments between China – Kenya

According to Rotberg (2008), China and Africa greatly need each other and China cannot easily grow without Africa and vice versa and it's like both benefit from this remarkably

symbiotic relationship. China with its world largest growing population sucks up basic commodities from all over including Africa and so its appetite does not equal any other world power. China not only purchases Africa's unprocessed returns of the sub soil, but also constructs or refurbishes roads and railways, creates export processing zones (EPZ), supplies equipment, supplies military free power, builds barracks, provides uniforms and offers various types of assistance. Kiely (2007) argues that foreign direct investment is good for growth because it leads to increase in income and employment and allows developing countries to import advanced technologies developed elsewhere hence creating room for competition (Kiely:2007:146). In Kenya, Foreign direct investment (FDI) is defined as investment in foreign assets, such as foreign currency, credits, rights, benefits or property, undertaken by foreign national for the purpose of production of goods and services, which are to be sold either in the domestic market or exported overseas (Investment Promotion Center Act, Chapter 518). The records of FDI transactions are kept by the Central Bank of Kenya. Like in most African countries, Kenya has recently liberalized the investment environment. An interesting question arises; what are the determinants of FDI inflows?

According to Kipngetich (2008), there are a number of factors that facilitate the FDI inflows, namely, political stability and predictability in a country, labor conditions, legal environment, size of the market, openness of the economy, infrastructure and other support services availability and degree of globalization in a country. Amineh (2010) argues that in order for a country to develop and also attract a high level of FDI, there are certain conditions that are a prerequisite, namely, legitimized political leaders who influence policy and decision making, professional and efficient institutions, strong and efficient political economy, resources, security and peaceful relations with other nations-external relations. Such conditions if put in

place attract FDI. Until 1995, all foreign investments flowing into the country were subject to approval by the Central Bank (Investment Promotion Centre). The Investment Promotion Act of 2004 spells out the government commitment to attracting FDI in Kenya because it was realized that the FDI in Kenya was declining during the last decade, while it rose in other countries in the region (Kenya, 2006). Why was then Kenya's FDI decreasing? Kipngetich (2008) argues that turbulent political environment in the last decade, stand-off with development partners especially IMF, low economic growth, corruption and insecurity, poor infrastructure, inefficient public services amongst other reasons made Kenyan FDI go down. According to then Assistant Minister for Trade, Hon. James Magara, the current global economic crises and the post elections violence of 2007, shocked Kenya and investors have been hesitant to bring business back (Kenya Business, 2009).

In addition increased competition among African countries in the global FDI also pushed the Kenya government to address the domestic impediments to foreign investments. According to the Investment Act of 2004, foreign ownership is only restricted for insurance industry, telecommunication industry, and companies listed on the Nairobi Stock Exchange, to seventy-seven, seventy and seventy-five per cent, respectively. Analysis over the last decade shows that Kenya has lost its competitiveness in attracting investment. Kenya has also lost in terms of retaining the stock of investment. The loss in Kenya's investment competitiveness is the result of many inter-connected factors such as negative perception by investors about political instability, poor governance, corruption, inadequate infrastructure, insecurity, crime, theft, and policy instability. Private investment which was growing at an average of 10% between 1985 and 1989 only grew by 0.4% between 1997 and 2001 (Central Bank of Kenya, 2006).

3.5 Chinese Sectoral Investment

For Kenya, the most worrying economic aspect of the Chinese presence is the amount of cheap imports flooding the market. For consumers, this is a positive development; now more Kenyans are able to buy cheap manufactured goods like clothing, radios, shoes, pens, etc. Yet for producers, cheap Chinese imports are driving them out of business. Though it would seem the government would want to bolster manufacturing, the benefits of affordable imports seem to outweigh the loss of competitiveness for politicians. An article in the *East African*, a Kenyan newspaper, accused the Chinese of “dumping” cheap products on the Kenyan market.²¹ Many Kenyans worried that Chinese businessmen were overtaking Kenyan locals by providing cheaper products. Some Kenyan merchants accused their Chinese counterparts of “copying our items,”²² and then selling them at a lower price. Chinese imports tend to be cheap household goods such as kitchenware, food containers, flashlights, etc.²³

Kenyan producers worry that cheap Chinese goods prevent Kenyan corporations from developing the ability to create competitive finished manufactured products domestically, thus gaining profit in value addition of raw materials.²⁴ Though cheap Chinese manufactured goods have been detrimental to many aspects of the Kenyan economy, the textile industry has been hardest hit. Agriculture remains the driving force of the Kenyan economy, the manufacturing sector still made up 20% of Kenya’s GDP in 2004, providing jobs for 300,000 Kenyans formally, and around 3.7 million in the informal sector. Kenyan textile companies have contracts with major brands such as Gap, Levi’s, and Calvin Kline.²⁵

²¹ *East African* 3 July 2007. Taylor, Ian. Pg. 64

²² Taylor, Ian. Pg. 64

²³ Omungo, Rosalia. “Creating Designs for Chinese Traders to Copy.” Trade-Kenya. 18 July 2007. Inter Press Service News Agency. [Online] <http://ipsnews.net/news.asp?idnews=38580>

²⁴ Omungo, Rosalia.

²⁵ “Kenya shrinks at US textiles deadline” BBC World News online. 4 March 2003. <http://news.bbc.co.uk/1/hi/business/2818199.stm>

Thus a depression in the manufacturing sector, especially the textile industry which in 2004 employed 32,095 Kenyans, would reverberate throughout the economy.²⁶ Unfortunately, the Kenyan textile industry has been especially hard hit the past couple of decades, beginning in the 1990s with the fall in world prices. 3,000 Kenyans, 9.3% of the entire industry, have lost their jobs in the past few years.²⁷ In 1980 there were 110 large scale garment manufacturing companies; by the early 2000s this number had dropped to fifty five.²⁸ This is in large part the direct result of cheap Chinese imports flooding the Kenyan market since 2001, when China joined the WTO. The situation in international markets is even direr. Kenyan exports are not able to compete with Chinese exports in Western markets. The government's close relationship with China and desire for Chinese finance has meant that Kenyan politicians have not held a strong line in demanding a better share of the world market.

Chinese MNCs are most visible in construction. There are four main Chinese players in the construction sector of Kenya. China Road and Bridge Corporation, Wu Yi, Synohydro Corporation Ltd., and Shengli Engineering Construction all compete for large government infrastructure contracts. China Road and Bridge Corporation has received a Ksh8.6 billion contract to construct an eastern and northern road bypass around Nairobi in an attempt to alleviate traffic in the city. The two bypasses in total will reach seventy kilometers. In the east, the new road will connect to Mombasa road to the Ruiru-Kiambu road. To the north, the bypass will connect Nakuru road to the Nairobi highway. Aside from this major project, China Road and Bridge Corporation is also contracted to build the Isiolo-Merile Road, Emali-

²⁶ Taylor, Ian. *China's New Role in Africa*. Lynne Rienner Publishers. London, England. 2009.

Ppg. 66-67

²⁷ Alden, Chris. Pg. 80

²⁸ Taylor, Ian. Pg. 82

Oloitoktok Road, the Athi River-Namanga Road,²⁹ and the Tambach-Kabarnet road in Western Kenya.³⁰ Former Roads Minister Chris Obure has also hinted at the possibility of engaging China Road and Bridge Corporation in talks about the development of a light rail and Bus Rapid Transit program in Nairobi.³¹ Aside from road projects, Chinese corporations have been commissioned to renovate the Moi International Sports Complex, expand Jomo Kenyatta Airport in 2006, and modernize Eldoret hospital. In 2008 the China Overseas Engineering Group spent US\$48million to expand Kisumu Airport.³² Chinese companies have also been identified to build the proposed standard rail gauge from Mombasa to Malaba.

Chinese MNCs have been broaching other construction fields in addition to road building. Thus far the largest single investment by a Chinese company in Kenya was the creation of a concrete pole factory in 2005. The company, opened by a Chinese businessman named Dang Song, specializes in poles to be used to support power lines. His products are also frequently used in the myriad of construction products in Kenya, many of which are headed by Chinese MNCs. The US\$3million investment is “only one part of [the] business,” according to Dang. He hopes to eventually expand to “power construction” and fiber optics. He insists that though his company is for-profit, it is still furthering socio-economic development in Kenya by creating jobs and helping the power industry.

Aside from construction, Chinese state owned corporations have made forays into natural resource extraction in Kenya. As China continues on its path of industrialization and

²⁹ “China Funds Nairobi Bypass” African Review of Business and Technology. Alain Charles Publishing Ltd. March 2008.

³⁰ Sorbara, Mark. “With China Calling, Is It Time to Say Goodbye to US and Europe?” The Nation/All Africa Global Media via COMTEX. 14 April 2006. [Online]

³¹ Ongiri, Isaac. “Kenya’s First 8-Lane Modern Highway Born” The Standard.. 14 November 2008.

³² “China May Sponsor Lamu Port.” *Business Monitor Online*.

modernization it faces a growing need for natural resources, especially oil. In 2004, China became the second largest world consumer of oil, behind the United States. 25% of Chinese oil imports originate in Africa.³³ Though Kenya is yet to be one of the suppliers of oil (Nigeria, Angola, and Sudan are the top suppliers), Chinese corporations have made headway in the country in their search for the important resource. When Hu Jintao visited Kenya in 2006 he signed US\$20 billion dollar deal for China National Offshore Oil Corporation (CNOOC), a state owned company, to prospect for oil near Isiolo in Northern Kenya. CNOOC has also begun searching for off-shore oil near the island of Lamu. In total, the company has six blocks of area in Kenya, totaling 44,500 square miles.³⁴ It is speculated that CNOOC's activities will pay off with the discovery of oil in Kenya as early 2010.³⁵ This news is exciting for the Kenyan government, which has been hoping for the discovery of natural resources in order to boost economic activity. The government has been giving incentives to corporations prospecting for oil, mostly involving large tax breaks. The coastal area of Kenya is estimated to be capable of producing 100 million barrels of crude oil, as well as 600 billion cubic feet of natural gas.³⁶

Other than drilling off the coast and near Isiolo, the China National Petroleum Pipeline Engineering Corporation (CNPPEC) has signed a US\$43.6 million contract with Kenya

³³ "Could Visits be a Move to Check China's Rising Influence?" *The East African*. 15 March 2010. [Online]

<http://www.theeastafrican.co.ke/news/Could%20visits%20be%20a%20move%20to%20check%20Chinas%20rising%20influence%20/-/2558/878424/-/qa73xd/-/>

³⁴ Taylor, Ian. *China's New Role in Africa*. Lynne Rienner Publishers. London, England. 2009.

³⁵ Kiseru, Jaindi. "Kenya's oil exploration now renews hopes of a major discovery." *The East African*. 22 March 2010. [Online]

<http://www.theeastafrican.co.ke/news/Kenyas%20oil%20exploration%20now%20renews%20hopes%20of%20a%20major%20discovery%20/-/2558/883174/-/961ml3/-/index.html>

³⁶ "Oil and Gas Opportunities Abound." *Cape Business News*. 9 March 2010. [Online]

http://wap.cbn.co.za/dailynews.php?daily_id=4454

Pipeline Corporation to modernize the Mombasa-Nairobi pipeline.³⁷ The pipeline is currently outdated and incapable of efficiently transporting oil cross-country. Nova Energy, Inc. is another MNC interested in exploiting the East African market. In March 2010 the company announced it would partner with China Crescent Enterprises, Inc. in an ambitious East African Wi-Fi Project. The desired goal of the joint venture is to provide wireless broadband meter reading capability for major metropolitan areas in East Africa.³⁸ The project will base its operations out of Kenya. The Chinese government has also profited from arms and military trade with Kenya. Though Kenya has not turned to Chinese-manufactured arms as often as other African nations such as Namibia, Sudan, or Zimbabwe, it has begun using China as an alternate arms exporter.³⁹ In 1997, Kenya ordered six Y-12 transport aircrafts (also called the Harbin Y-12, named after the city in China in which they are manufactured) from China.⁴⁰ The planes are used by the army for transportation and mobilization. In 2006, the Chinese Defense Minister Liang Guangli pledged to help modernize the Kenyan army. The following year, General Cao Guangcuan made a promise to help improve Kenya's Air Force while "commending" Kenya's efforts at peacekeeping in neighboring Sudan and Somalia.⁴¹

³⁷ "Oil and Gas Opportunities Abound." Cape Business News. 9 March 2010.

³⁸ "Nova Energy, Inc. (NVAE) East African Wi-Fi Project in Partnership with China Crescent (CCTR) and NuMobile (NUBL) to Be Featured in Exclusive Webcast Tomorrow." MarketWire via ComTex. Market Watch. 3 March 2010. [Online] <http://www.marketwatch.com/story/novaenergy-inc-nvae-east-african-wi-fi-project-in-partnership-with-china-crescent-cctr-and-numobile-nubl-to-be-featured-in-exclusive-webcast-tomorrow-2010-03-03>

³⁹ Wezeman, Pieter D. "Arms Transfers to East and Southern Africa." Stockholm International Peace Research Institute. SIPRI Background Paper. December 2009. Pg. 4 [Online] <http://books.sipri.org/files/misc/SIPRIBP0912.pdf>

⁴⁰ Taylor, Ian. China's New Role in Africa. Lynne Rienner Publishers. London, England: 2009.

⁴¹ Wangi, Githau. "West's concern over China's role in Africa starts to show" *Daily Nation*. 11 November 2008.

3.6 Chinese Entrepreneurs

It is not only large Chinese corporations that have made inroads in Kenya. Many individual entrepreneurs and workers arrive on the continent in hopes of making a profit and enjoying a higher quality of life than they would for the same workload and income in the United States or Western Europe.⁴² Many Chinese doctors come to East Africa to practice medicine. One such medical clinic in Mombasa treats illnesses ranging from malaria, typhoid, STDs, HIV, heart disease, etc. using traditional Chinese practices such as acupuncture.⁴³

The other often-seen example of Chinese entrepreneurs residing in Kenya is restaurant owners. Mombasa, a coastal tourist town in southern Kenya, boasts three such Chinese-immigrant owned restaurants.⁴⁴ The restaurants are usually frequented by Western tourists or wealthy Kenyans as many ingredients are imported from China and are thus expensive.⁴⁵ Many of these individuals are first-generation immigrants. Those with children, however, typically do not send them to expensive international schools (as do their Western counterparts). Instead, the children are sent to local schools, such as the Aga Khan School in Mombasa where Kiswahili is spoken along with English.⁴⁶ Thus the second generation learns to speak Kiswahili fluently and thus promotes greater assimilation into Kenyan society.

3.8 Higher Education: Looking East

There are not as many opportunities for entrepreneurial Kenyans to start up their own businesses in China. Yet increasingly, Kenyans are taking opportunities to travel to China for

⁴² Beech, Hannah. "The Ends of the Admiral's Universe." *The Next Asian Journey*: TimeAsia.com. Vol. 158 No. 7/8. August 20-27, 2001. [Online] <http://www.time.com/time/asia/features/journey2001/africa.html>

⁴³ Anonymous Chinese doctor. Interview with author. Mombasa, Kenya. 11 November 2008.

⁴⁴ Anonymous Chinese restaurant owner. Interview with author. Mombasa, Kenya. 3 August 2013.

⁴⁵ Anonymous Chinese restaurant owner. Interview with author. Mombasa, Kenya. 3 August 2013.

⁴⁶ Ibid.

educational purposes. In recent years the number of Kenyans, as well as Africans in general, studying abroad in China has dramatically increased. Much of this is due to the many scholarships given to African students by the Chinese government. These numbers are expected to increase in the coming years; at the last FOCAC meeting in 2006, Hu Jintao promised to increase the yearly amount of Chinese scholarships allotted to African students from 2,000 to 4,000. Government at the local level as well as specific schools and universities are also encouraged to fund their own scholarships for international students.⁴⁷ China has continued to absorb Kenyan students to its universities, thereby contributing to bridging the gap of university admissibility among those who qualify for university education.⁴⁸ Chinese scholarships give Kenyan students the opportunity to obtain an affordable education in important fields such as science, engineering, and medicine. Many Kenyan students who studies in China fully intend to return to Kenya after they complete their studies.⁴⁹ A few may end up working for a Chinese company based in Kenya, but most do not.

The Chinese are hoping to change this with the help of an organization called Chinese African People's Friendly Association (CAPFA). CAPFA is a subset of the Chinese People's Association for Friendship with Foreign Countries (CPAFFC). According to CAPFA's director, Lin Yi, they are interested in "providing job opportunities to African students in China" as well as "resolving Chinese companies' problems of localizing their African branches."⁵⁰ Africans are highly valued in African based Chinese companies, because of their knowledge of the local area, customs, and language. Lin hopes that her organization will

⁴⁷ Ni Yanshuo. Pg. 11

⁴⁸ Xinhua (2013) Kenya hails education cooperation with China as booster of bilateral ties

⁴⁹ Anonymous mother of medical student studying in China. Interview with author. Lamu, Kenya. 6th July 2013.

⁵⁰ Ni Yanshuo. Pg. 11

enable more Africans to obtain jobs with Chinese companies, as well as “promoting Sino-African relations”⁵¹ as a whole. For those Kenyans who wish to remain in Kenya for university but still express an interest in China, there is now a way for them to study Chinese. In December 2005, the Confucius Institute at the University of Nairobi was founded. Chinese classes began the following January. The Institute offers a degree in Chinese Language and Culture, taught by professors from China. The University of Nairobi holds an exchange program with Tianjin Normal University in China. The Tianjin municipal government also gives scholarships to Kenyan students from the Confucius Institute.⁵² On December 2, 2008 the Confucius Institute celebrated its third anniversary as well as graduation of the class of 2008. The PRC’s then ambassador to Kenya, Zhang Ming, was in attendance. In his speech, he cited his approval of the development of the Confucius Institute and its positive implications for the future of Sino-Kenyan relations. He also highlighted “moments of glory” for the Institute. During Hu Jintao’s 2006 tour of Kenya, he stopped by the University of Nairobi to visit the Confucius Institute.

While there he met with professors and students, and gave a Chinese-English dictionary as a ceremonial gift. Following Zhang Ming’s speech, a professor from the University of Nairobi stood up and spoke about the importance for young Kenyans to study Chinese, especially those who intend on going into business. According to this professor, within ten years Mandarin will be the official international language of business. The ceremony concluded with a presentation from the Vice Head of the Municipal Government of Tianjin, who awarded twenty scholarships for Confucius Institute students to attend Tianjin Normal

⁵¹ Ni Yanshuo. Pg. 10

⁵² “General Information: The Confucius Institute at the University of Nairobi.” Confucius Institute for Chinese Language Learning. 2 January 2001. [Online] http://www.uonbi.ac.ke/departments/index.php?dept_code=EC1&fac_code=41

University. These twenty scholarships will be awarded on a yearly basis, and the government hopes to increase the amount to forty over the next ten years. The ceremony served to show the growing popularity of Chinese language and culture among young Kenyans, which has important implications regarding the future of Sino-Kenyan relations.

3.9 Conclusion

Chinese economic incursions into Kenya have clearly grown rapidly in the past couple of decades, seeping into a multitude of different sectors with wide-ranging implications. These Chinese contracts in Kenya are financed in a number of ways. However, they tend to fall into one of three categories. The first is direct Chinese financing (via the Export-Import Bank) of Chinese MNCs in Kenya. This is done to ensure minimal risk of embezzlement of funds. In this process, the Exim Bank directly hires and pays a Chinese owned company, such as China Road and Bridge Corporation or Wu Yi, to conduct a construction project. The Kenyan government authorizes the contract, and agrees to hold responsibility for repaying the loan to the Exim Bank.

In this way, the Exim Bank subsidizes Chinese corporations' activities.⁵³ Another type of financial arrangement is a resource-backed infrastructure loan. These types of deals are most common in areas with high levels of natural resources such as the DRC, though there are a few in Kenya as well. In these agreements, the Chinese consent to constructing infrastructure projects, and in exchange, the African government gives a certain percentage or certain fixed amount of natural resources.⁵⁴ For example, CNOOC has signed a deal with the Kenyan government to prospect for oil off of the northern shore. In exchange for the infrastructure creation involved in oil extraction, such as pipelines, etc. (as well as a pledge to give grant

⁵³ Brautigam, Deborah. *The Dragon's Gift: The Real Story of China in Africa*. Oxford University Press, Oxford, United Kingdom: 2009. Pg. 142

⁵⁴ Brautigam, Deborah. *The Dragon's Gift: The Real Story of China in Africa*. Pg. 146

money to malarial programs), CNOOC will keep a certain percent of any oil found. Finally, financial contracts can be an amalgamation of credit, loans, and grants. This is termed 'package financing mode' by the Exim Bank, and constitutes concessional loans, seller's and buyer's credits, and some portion of grant money to finance large construction and engineering projects. These are less common as they are more complicated, involving multiple departments.

Additionally, mixed loans are not nearly as popular as concessional loans, which feature zero interest rates.⁵⁵ Thus Chinese projects in Kenya are financed primarily through bilateral loans, though a significant amount of grant money is offered as well for example in 2010 China extended a grant of Sh1.2 billion to Kenya. The bulk of the money was to be used in the development of the port at Lamu and the construction of a rail and road corridor from the Coast to Isiolo. Although many of the loans boast of zero interest rates, it is still significant that the Kenyan government will need to pay back these loans in full in the not-so-distant future. This future financial relationship will no doubt affect official views on continued Chinese involvement in Kenya.

Furthermore, the sheer number of Chinese companies in Kenya is worrying to many Kenyans, let alone the amount of contracts these companies obtain from the Kenyan government with relative ease. Because almost all major road projects are awarded to Chinese companies, it gives little opportunity for the development of Kenyan construction companies. The same can be said for any other industry, whether it be in telecommunications or resource extraction. The sheer size of the contracts (most amounts to billions of shillings) is also worrying to Kenyans, who fear that money and wealth are leaving the country in the

⁵⁵ Brautigam, Deborah. *The Dragon's Gift: The Real Story of China in Africa*. Pg. 175

pockets of Chinese businessmen. The final concern voiced by many Kenyans is that Chinese companies tend to favor Chinese employees especially at the top management level over their African counterparts. Yet Chinese MNCs are aware of this criticism and, like Huawei, have pledged to increase the number of Kenyan workers employed by their companies. Additionally, there is some small indication that the government is attempting to give contracts to Kenyan nationals. In January 2010 the National Youth Service of Kenya purchased road construction and earth-moving equipment from China in a deal totaling Ksh4.3bn.⁵⁶ Though the equipment is Chinese-made, the project will be carried out by a Kenyan organization.

The main objective of the study was to establish the effect of china-Kenya economic ties on social and economic development in Kenya. This study has endeavored to analyze to identify the above and according to the researchers findings it must be stated that although there are major problems such as the balance of trade deficit in the Sino-Kenya relations the overall effect on the economy of Kenya is positive in that for example Kenya has been able to develop major infrastructural projects with the help of the Chinese. These projects are expected to spur economic growth and development in the country.

⁵⁶ “National Youth Service acquires heavy earth-moving equipment from China.” Capital FM radio, Nairobi. 29 January 2010. [Online]
<http://proquest.umi.com/pqdweb?index=7&did=1950278181&SrchMode=2&sid=1&Fmt=3&VIn st=PROD&VType=PQD&RQT=309&VName=PQD&TS=1271056403&clientId=3620>

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATIONS

4.1 Introduction

This chapter discusses the interpretation and presentation of the findings obtained from the field. The chapter presents the background information of the respondents, findings of the analysis based on the objectives of the study. Descriptive and inferential statistics have been used to discuss the findings of the study. The study targeted a sample size of 55 respondents from which 50 filled in and returned the questionnaires making a response rate of 90.9%. This response rate was satisfactory to make conclusions for the study. The response rate was representative. According to Mugenda and Mugenda (1999), a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent. Based on the assertion, the response rate was considered to excellent.

4.2 Demographic Information

Table 1: Gender of the respondent

| Gender | Frequency | Percentage |
|---------------|------------------|-------------------|
| Male | 26 | 52 |
| Female | 24 | 48 |
| Total | 50 | 100 |

The study sought to determine the gender of the respondent and therefore requested the respondent to indicate their gender. The study found that majority of the respondent as shown by 52 % were males whereas 48% of the respondent were females, this is an indication that

both genders were involved in this study and thus the finding of the study did not suffer from gender bias.

Table 2: Age distribution

| Age bracket | Frequency | Percentage |
|--------------------|------------------|-------------------|
| 21 to 30 years | 16 | 32 |
| 31 to 40 years | 15 | 30 |
| 41 to 50 years | 12 | 24 |
| 51 years and above | 7 | 14 |
| Total | 50 | 100 |

The study requested the respondent to indicate their age category, from the findings, 32% of the respondents were aged between 21 to 30years, 30% of the of the respondent indicated that were aged between 31 to 40 years, 24% of the respondents were aged between 41 to 50 years, whereas 14 % of the respondents indicated that they were aged above 51 years. This is an indication that respondents were well distributed in terms of their age.

Table 3: Period of service in the current institution

| Years of service | Frequency | Percentage |
|-------------------------|------------------|-------------------|
| 1 to 3 years | 10 | 20 |
| 4 to 7 years | 17 | 34 |
| 8 to 11 years | 12 | 24 |
| Above 11 year | 11 | 22 |
| Total | 50 | 100 |

The study requested respondent to indicate the number of years they had served for. From the findings the study established that 34 % of the respondents had served for a period of between 4 to 7 years, 24% of the respondents indicated that they had served for a period of between 8 to 11years. 22 % of the respondents indicated that they had served for a period of exceeding 11 years, and finally 20% of the respondent indicated that they had served for a period of 1 to 3 year. This is implies that majority of the respondents had served for more than 4 years, this further implies that most of the respondents had vast knowledge which could be relied upon by this study

4.3 Effects of China Foreign Direct Investment

Table 4: Effects of China foreign direct investment on social and economic development.

| Policies and practices | Frequency | Percentage |
|-------------------------------|------------------|-------------------|
| Yes | 10 | 20 |
| No | 40 | 80 |
| Total | 50 | 100 |

The study sought to establish whether foreign direct investment by Chinese government have any effects on social and economic development of Kenya. From the findings majority of the respondents were of the opinion that foreign direct investments by Chinese government have affected social and economic development of Kenya as indicated by 80% whereas 20% of the respondents were of contrary opinion. This is implies that foreign direct investment by Chinese government has greatly changed the economic and social welfare of the Kenyan citizens.

Table 5: Extent to which China foreign direct investment affect the Kenyan social and economic development

| | Frequency | Percentage |
|-------------------|------------------|-------------------|
| Very great extent | 30 | 60 |
| Great extent | 12 | 24 |
| Moderate extent | 5 | 10 |
| Less extent | 3 | 6 |
| Total | 50 | 100 |

The sought to examine the extent to which foreign direct investment by Chinese Government have an effected social and economic development of Kenya, from the findings, most of the respondents were of the opinion that foreign direct investment by Chinese Government have an effected social and economic development of Kenya to a very greater extend as indicated by 60%, 24% of the respondents indicated to a great extent,10% of the respondent indicated to moderate ,whereas 6% of the respondents indicated to less extend, this is an indication respondents felt that foreign direct investment have contributed positively on social and economic development of Kenya

Table 6: Effects of China foreign direct investment on the Kenyan social and economic development

| Statement | Mean | Std deviation |
|--|-------------|----------------------|
| There has been increased competition for domestically-oriented manufacturers in Kenya from cheap imports from China | 1.19 | .45 |
| The trade imbalance between China and Kenya favors China as local industries and merchants have been hit hard by the flood of cheap Chinese wholesale and retail shops | 1.31 | .47 |
| Imported textile from China greatly affects local manufacturers | 1.14 | .42 |
| Long working hours in China sponsored projects is causing conflict with local labor laws and cultures | 2.00 | .54 |
| Local communities perceive that Chinese companies are not contributing enough to increase local employment and to strengthen the Kenyan economy | 1.51 | .59 |
| Foreign direct investment is good for growth as it leads to increase in income and employment , thus allowing developing countries to import advanced technologies developed elsewhere hence creating room for competition | 1.70 | .60 |

The study sought to establish the level at which respondents agreed with the above statements which relating to the effects of China foreign direct investment to the Kenyan social and economic development, from the findings majority of the respondents strongly agreed that,

Imported textile from China greatly affects local manufacturers as shown by a mean of 1.14, that There has been increased competition for domestically-oriented manufacturers in Kenya from cheap imports from China as shown by a mean of 1.19, that the Local communities perceive that Chinese companies are not contributing enough to increase in local employment and to strengthen the Kenyan economy as shown by a mean of 1.51, others agreed that Local communities perceive that Chinese companies are not contributing enough to increase in local employment and to strengthen the Kenyan economy as shown by a mean of 1.51 and a standard deviation of 0.59, that foreign direct investment is good for growth as it leads to increase in income and employment, thus allowing developing countries to import advanced technologies developed elsewhere hence creating room for competition as shown by a mean of 1.70, and finally that Long working hours in china sponsored projects is causes conflict with local labor laws and cultures as shown by a mean of 2.00, all cases were supported by low standard deviation an indication that respondents were of similar opinions in all cases

Table 7: Extent to which the Chinese government has invested in the below sectors of the economy in Kenya

| Sector | Very great extent | Great extent | Moderate | Less extent | No extend at all | Mean | Standard deviation |
|------------------------------|--------------------------|---------------------|-----------------|--------------------|-------------------------|-------------|---------------------------|
| Infrastructure /construction | 39 | 8 | 1 | 0 | 0 | 1.24 | 0.33 |
| Higher education | 26 | 14 | 10 | 0 | 0 | 1.68 | 0.22 |
| Energy and petroleum | 5 | 12 | 33 | 0 | 0 | 2.56 | 0.28 |
| Manufacturing | 12 | 22 | 16 | 0 | 0 | 1.51 | .59 |
| Service industries | 25 | 19 | 6 | 0 | 0 | 1.62 | 0.23 |

The study sought to investigate the extent to which the Chinese government has invested in the above stated sectors in Kenya, from the findings the study established that majority of the respondents were of opinions that, Chinese government has invested in infrastructure and construction sector to a great extent as shown by a mean of 1.24, that Chinese government has invested in Manufacturing sector to a great extent as shown by a mean of 1.51, that the Chinese government has invested in Energy and petroleum sector to a great extent as shown by a mean of 1.56, that the Chinese government has invested on higher education to a great extent as shown by a mean of 1.68, it was also revealed that the Chinese government has invested in energy and petroleum sector to a moderate extent as shown by a mean of 2.56, All cases were supported by a low standard mean of deviation which implies that they were of similar views in each case.

4.4 Effects of China Aid on social and economic development of Kenya

Table 8: Effects of china Aid on social and economic development

| | Frequency | Percentage |
|--------------|------------------|-------------------|
| Yes | 32 | 64 |
| No | 18 | 36 |
| Total | 50 | 100 |

The study sought to determine whether China Aid affects the social and economic development in Kenya, from the findings 64% of the respondents agreed that the aid granted by the Chinese government affected the social and economic development in Kenya whereas 36% of the respondent were of contrary opinion. This is an indication that to some extent, the aid granted by the Chinese government to Kenya influences the social and economic development of Kenyans

Table 9: Extent to which China Aid affects the social and economic development in Kenya

| | Frequency | Percentage |
|-------------------|------------------|-------------------|
| Very great extent | 12 | 24.0 |
| Great extent | 16 | 32.0 |
| Moderate extent | 13 | 26.0 |
| Less extent | 9 | 18.0 |
| Total | 50 | 100 |

The sought to examine the extent to which China Aid affected the social and economic development in, from the findings, most of the respondents were of the opinion that China Aid affect the social and economic development in to great extent as indicated by 32%, 26 % of the respondents were of the opinion that China Aid affect the social and economic development in to a moderate extent 24% of the respondent indicated to a very great extent ,whereas only 18% of the respondents indicated to less extend, this is an indication respondents felt that the China Aid affected the social and economic development to a great extent

Table 10: Effects of China Aid on the social and economic development in Kenya

| Statement | Mean | Standard deviation |
|--|------|--------------------|
| China aid to Kenya has no strings attached especially on issues of democracy and human rights which makes them more attractive | 1.34 | .52 |
| China Aid is considered more flexible than Western Aid in accommodating domestic constrains | 1.58 | .66 |
| Intertwining Chinese aid levels with other financial flow, this has a significant impact on the development fortunes of Kenya | 1.60 | .70 |
| China aid to Kenya has not reduced poverty | 1.31 | .56 |

The study sought to establish on respondents the level of agreement with the above statements , from the findings respondents agreed that China aid to Kenya has not reduced poverty as shown by a mean of 1.31, that China aid to Kenya has no strings attached especially on issues of democracy and human rights which makes them more attractive as shown by a mean of 1.34, others agreed that China Aid is considered more flexible than Western Aid in accommodating domestic constrains as shown by 1.58, and finally that Intertwining Chinese aid levels with other financial flow, this has a significant impact on the development fortunes of Kenya as shown by a mean of 1.60. All cases were supported by a low standard mean of deviation which implies that respondents were of similar opinions.

4.5 Effects of China Kenya economic cooperation on social and economic development of Kenya

Table 11: China-Kenya economic cooperation

| | Frequency | Percentage |
|--------------|------------------|-------------------|
| Yes | 29 | 58.0 |
| No | 21 | 42.0 |
| Total | 50 | 100 |

The study sought to determine whether China- Kenya economic cooperation affect the social and economic development of Kenya from the findings. majority of the respondents agreed that the China- Kenya economic cooperation affects the social and economic development of Kenya as shown by 58% whereas 42% of the respondent disagreed with the argument, this indicates that China- Kenya economic cooperation affect the social and economic development of Kenya.

Table 12: China- Kenya economic cooperation affects the social and economic development of Kenya

| | Frequency | Percentage |
|-------------------|------------------|-------------------|
| Very great extent | 3 | 6.0 |
| Great extent | 22 | 44.0 |
| Moderate extent | 13 | 26.0 |
| Less extent | 12 | 24.0 |
| Total | 31 | 100 |

The sought to examine the extent to which China- Kenya economic cooperation affect the social and economic development of Kenya from the findings, most of the respondents were of the opinion that China- Kenya economic cooperation affect the social and economic development of Kenya to great extent as indicated by 44%, 26% of the respondents were of the opinion that China- Kenya economic cooperation affect the social and economic development of Kenya Moderate extent 24% of the respondent indicated to less extent ,whereas 6.0% of the respondents indicated to very great extent, this is an indication respondents felt that the China- Kenya economic cooperation affect the social and economic development of Kenya to a moderate extent

Table 13: Effects of China- Kenya economic cooperation on social and economic development of Kenya

| Statement | Mean | Standard deviation |
|--|-------------|---------------------------|
| China import more coffee from Kenya and at the same time offered Kenya the most advanced coffee processing equipment | 2.13 | 0.23 |
| Kenyan universities are developing Chinese language programs to enhance cultural cooperation between the countries | 1.74 | 0.22 |
| China has for a long time awarded scholarships to Kenyan students wishing to undertake their studies in China in diverse fields | 1.76 | 0.23 |
| China grants various scholarships to Kenya every year in the scientific field and in turn two Chinese postgraduate students are admitted annually to Kenyan university | 1.56 | 0.28 |
| Chinese scholarships give Kenyan students the opportunity to obtain an affordable education in important fields such as science, engineering, and medicine | 1.94 | 0.20 |

The study sought to establish on respondents the level of agreement with the above statements which relate on effects of China- Kenya economic cooperation on social and economic development of Kenya from the findings, majority of the respondents agreed that China grants various scholarships to Kenya every year in the scientific field and in turn two Chinese postgraduate students are admitted annually to Kenyan university as shown by a mean of 1.56, that Kenyan universities for example Nairobi university and Kenyatta

universities are developing Chinese language programs to enhance cultural cooperation between the countries as shown by a mean of 1.74, that China has for a long time awarded scholarships to Kenyan students wishing to undertake their studies in China in diverse fields as shown by a mean of 1.76, that Chinese scholarships give Kenyan students the opportunity to obtain an affordable education in important fields such as science, engineering, and medicine as shown by a mean of 1.94 and finally it was agreed that China import more coffee from Kenya and at the same time offered Kenya the most advanced coffee processing equipment as shown by a mean of 2.13, all cases were supported by low mean which implies that respondents were of similar opinion.

4.6 Effects of China Kenya investment

Table 14: Extent to which China Kenya investment affects the social and economic development of Kenya

| | Frequency | Percentage |
|-------------------|------------------|-------------------|
| Very great extent | 10 | 20.0 |
| Great extent | 19 | 38.0 |
| Moderate extent | 13 | 26.0 |
| Less extent | 8 | 16.0 |
| Total | 50 | 100 |

The sought to examine the extent to which China Kenya investment affects the social and economic development of Kenya, from the findings, most of the respondents were of the opinion that China Kenya investment affects the social and economic development of Kenya to a greater extent as indicated by 38.%, 26% of the respondents were of the opinion that China Kenya investment affects the social and economic

development of Kenya to a moderate great 20% of the respondent indicated to very great extent ,whereas 16% of the respondents indicated to less extend, this is an indication respondents felt that, China Kenya investment affects the social and economic development of Kenya to a great extent

Table 15: Effects of China Kenya investment on social and economic development of Kenya

| Statements | Mean | Standard deviation |
|---|------|--------------------|
| Kenyan producers worry that cheap Chinese goods prevent Kenyan corporations from developing the ability to create competitive finished manufactured products domestically, thus gaining profit in value addition of raw materials | 1.19 | .45 |
| Chinese manufactured goods have been detrimental to many aspects of the Kenyan economy | 1.31 | .47 |
| Chinese Multi National Corporation have been broaching various construction fields in Kenya , in addition to construction which negatively affect local construction firms | 1.14 | .42 |

The study sought to determine the level at which respondents agreed or disagreed with the above statements which relate on effects of China Kenya investment on social and economic development of Kenya, from the findings it was established that majority of the respondents

strongly agreed that Chinese Multi National Corporation have been broaching various construction fields in Kenya , in addition to construction which negatively affect local construction firms as shown by a mean of 1.14, Kenyan producers worry that cheap Chinese goods prevent Kenyan corporations from developing the ability to create competitive finished manufactured products domestically, thus gaining profit in value addition of raw materials as shown by a mean of 1.19 and finally others agreed that that Chinese manufactured goods have been detrimental to many aspects of the Kenyan economy as shown by a mean of 1.37.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter presented the summary of the data findings, conclusion drawn from the findings highlighted and recommendation made there-to. The conclusions and recommendations drawn were focused on addressing the objectives of this study which were to examine the effects of China foreign direct investment on social and economic development of Kenya , to establish the effects of China Aid on social and economic development of Kenya, to determine the effects of china Kenya economic cooperation on social and economic development of Kenya and to determine the effects of China Kenya investment on social and economic development of Kenya

5.2 Summary of Findings

According to Sautman and Hairong (2007), there are factors that made China's relationship with Africa distinctive. Other than aid and migration policies, the "Chinese model" of investment and infrastructure loans known as the "Beijing Consensus" is a very important approach that needs to be discussed. In Ramos's (2004) terms, it is a new attitude towards politics, development, and global balance of power. In general, it values the political and international relations concept of multilateralism, consensus and peaceful co-existence (Wenping, 2007). This approach contrasts with Washington consensus, a neo-liberal paradigm that takes into consideration democracy, good governance, and poverty reduction (Fine and Jomo, 2005- in Sautman and Hairong, 2007).

The Chinese model of investment in essence brings economic growth objectives and foreign policy together guiding trade and invest decisions in Africa along with “no strings attached” financial and technical assistance (Zafar, 2007). Chinese bid competitively for resource and construction projects using investment and infrastructure loans. These loans are often advanced at zero or near-zero percent interest or allow for repayment in natural resources (Brautigam, 2003). For example, China offered US\$2 billion in aid for infrastructure projects, thereby securing a former Shell Oil block in Angola by outbidding an Indian proposal. In a similar case, a Chinese firm promised US\$7 billion in investments and rehabilitation of power stations to secure an oil area sought by western corporations (Alden and Davies, 2006). Many Africans view Chinese investment as different from the western investment. According to This Day (2005), the Chinese are not imposing the neo-liberal package of reform usually required by the World Bank under its “conditionality provisions.” Chinese aid by contrast comes without strings attached and is seen as supporting initiatives by African states to address development issues not solved by Western investment (Sautman and Hairong, 2007).

There has been a substantial growth in the relationship between China and Africa. The Chinese strategy is working for both parties in many ways, especially in investment, foreign aid and debt forgiveness. This is impressive given the very different cultures and agendas of these countries. Chinese investment has not, yet, begun to rival western investment, but that in no way diminishes the significant strides that have been made and there seems to be a commitment to continue this forward momentum. From an African perspective, Chinese investment has been good in many situations, but as with other investments it comes with a substantial price. The price includes dominance of local culture and considerations.

It has also negatively impacted local trade and commerce. In some cases, African labor has not benefited from Chinese investment. Finally, Chinese investment has propped up some rogue regimes. It is too early to tell if the world-wide recession has negatively affected Chinese investment. Clearly, the Chinese have a strong track record of investing in Africa and rhetorically they support continued development. As more data becomes available, it will be very interesting to see if there are any changes in these patterns. Theoretically, Dunning's economic framework seems to do a good job of predicting Chinese investment. A clear example of this is in extraction industries. The Chinese are especially concerned about oil. The addition suggested here is the addition of the influence of the Chinese government to the decision making process.

5.3 Conclusions

In conclusion, while Chinese relations with African countries have been positive in some ways, serious questions are being asked by Western and African intellectuals about China's tactics and strategies in its quest for resources. Unfortunately, many authoritarian African leaders have actually embraced the Chinese model allowing them to maintain a strong grip on political power (Brooks and Shin, 2006). Economy and Monaghan (2006) also mentioned that African leaders cite China as the ideal model for their countries and economies.

The current recession has focused the world's attention on financial problems from Iceland to Greece and from the US to Japan. Somewhat overlooked in this downturn is the relationship between Africa and China. Clearly, this is a very important relationship on many different levels and should concern western business and governmental interests.

This relationship is likely to endure since both parties benefit to some degree. This is important to some African countries since it provides a different development model and different rules of the game put forward as the “Beijing Consensus,” with its strong commitment to Africa. It is also attractive because it does not prescribe behavioral outcomes for African leadership. The Chinese seem willing to work with the African governments and have rejected criticisms. They are not apologizing for their activities (Wu, 2010) and claim that the investments are now more ‘market driven.’

China’s relation with Africa aims at achieving tangible developmental results and the conditionalities are suitable for African countries, this research highlights important issues as follows: There has been a rise in FDI through manufacturing and service sector in Kenya and the Chinese interest in Kenya have also extended to mining and mineral exploration. However there seems to be very limited joint ownership or local capital in Chinese investments and more so, the employment level in such firms for both Kenyans and China is very low. The above trend conforms to the hypothesis that Chinese relation with African countries aims at achieving tangible developmental results and the terms are favorable. China views Kenya as a gateway to East African region and is a focal point in terms of China’s trade and economic strategy in Africa. China’s investment in a number of road construction projects attests this. More so China currently offers loans to Kenya for hospital and schools construction in less developed areas, it has set malaria prevention and control centers as well as providing volunteers to train the local people. It has been noted that monetary aid from China is tied to the use of Chinese goods and services and the only adherence required is the “One China” policy but not “good governance” as the conditionalities that currently characterize the western donors. This suggests that Chinese aid and trade are intertwined in many ways and is hard to separate the two. Generally, the impact of China's diplomatic

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

5.4 Recommendation

The empirical evidence indicates that trade with China has had a positive impact on both oil and non-oil countries. Therefore, the first set of policy recommendations focuses on policies directed at increasing the amount of trade between China and Sub-Saharan Africa.⁵⁷

First, the critical point is that policies should be enacted to encourage African exports to China. One component of this is that African countries must begin to think about product diversification to meet the demands of rising incomes in China. This can mean more movement towards light-manufacturing and food products, or the exploration of opportunities for tourism. A second component is to increase the value of exports to China by exploiting opportunities for value-added processing. For example, the processing work on aluminum or on parts along the cotton-textile-apparel chain can be done locally before exporting to China (Broadman 2006). China should also be encouraged to have more manufacturing industries in Africa. This will limit exportation of resources which after making finished products are shipped back to Africa at higher prices.

⁵⁷ Broadman (2006) concludes that while formal trade and investment policy are important, the priority for policy reforms for African nations should be on “behind-the-border” and “between-the-border” conditions, as they are the major elements which will influence the extent and effects of commerce with China. The combination of underdeveloped market institutions and weak governance with constraints on business competition is what hinders additional trade with China. While I agree to an extent, there is considerable interdependence of policies and factors that affect trade. Thus, I take the more holistic approach and consider all aspects together and broadly.

For these things to occur, help from the WTO and other international organizations is necessary. They have the resources to help build capacity (i.e. Aid-for-Trade programs), provide crucial information, and offer technical assistance and sound trade policy advice.⁵⁸

But international organizations cannot do everything. Governments should be solid partners in creating trade-facilitating infrastructures, and must revamp regulations which hinder progress toward trade, such as overbearing customs regimes. African governments, particularly to strengthen domestic policies and governance and to harmonize regional policies so as to improve the continent's bargaining position with China, are required to ensure that the China-Africa relationship contributes to sustainable growth and poverty reduction.⁵⁹ For instance, improved coordination among African countries on border relations will help facilitate the movement of goods for processing and export. These improvements fall under the category of strengthening institutions in general, which, as already seen impacts on growth and undoubtedly supports trade itself.

In addition, policy-makers should reevaluate and lower the trade barriers of their respective countries. Some tariffs prevent the necessary materials to enter for intermediate processing, which means that the country in question will lose out on export opportunities. Non-tariff barriers will have a similar impeding effect, but worse in the sense that the country may not even benefit from tariff revenues.

Furthermore, general education and skills training should be encouraged made accessible and improved in quality. Education allows a workforce to be more flexible and adaptable to the

⁵⁸ This would include help towards establishing a better process by which quality data can be collected, in order to facilitate better research and thus policy making.

⁵⁹ Richard Schiere (2011) China and Africa: An Emerging Partnership for Development? An Overview of issues

demands of the global market. All these policies will help African producers take advantage of future demands from the Chinese economic powerhouse.

Lastly, Africa is not solely responsible for increasing trade with China. China currently has a system of escalating tariffs on Africa's leading exports, making it more difficult for the value-added processing to occur before items are exported. China must reduce these tariffs as they not only distort producer incentives, but also prevent Africa from reaching and benefiting from their own comparative advantage.

REFERENCES

- Africa, *Working Paper 291*, Institute of Development Studies, University of Sussex, Brighton.
- AGOA: *Can the Sub-Saharan Africa Textile and Apparel Industry Survive and Grow in the Post-MFA World?*”, Report prepared for USAID East and Central Africa Global Competitiveness Trade Hub.
- Alden C (2007). *China in Africa*. Zed books Ltd, London/New York Amineh M (2010). Class Handouts and Discussions Aid Watch (www.aidwatch.org.au).
- Alden C, Large D, Oliveira RS (2008). *China Returns to Africa: A Rising Power and a Continent Embrace*. Hurst Publishers Ltd, London.
- Bamou Ernest and Adeola Adenikinju (2006). Impact of China and India on Sub-Sahara Africa. Evaluating Asian Drivers Impacts on Sub-Saharan Africa Oil and Gas Industries: A Methodological Framework. Final Report submitted to AERC
- Brautigam, D. (2006). “*Flying Geese*” or “*Hidden Dragon*” *Chinese Business and African Industrial Development*, Mimeo, American University, Washington
- Broadman, H.G., G. Isik, S. Plaza, X. Ye and Y. Yoshino (2006), *Africa’s Silk Road: China and India’s New Economic Frontier*, The World Bank, Washington D.C.
- Business in Africa* (2006). “*Unpacking Africa’s Great Asian Opportunity*”, Business in Africa May 2006 Issue, Nairobi.
- Campos, I and Vines, A (2008). *Angola and China: A pragmatic Partnership*, Chatham House, London
- Central Bank of Kenya (2007).
- Centre for Business Information in Kenya (2006). *Kenyan International Trade Statistics*; CBIK a Division of Export Promotion Council, Nairobi.

- Chau, D. C. (2007). Political warfare in sub-Saharan Africa: U.S. capabilities and Chinese operations in Ethiopia, Kenya, Nigeria, and South Africa. Carlisle, PA: Strategic Studies Institute, U.S. Army War College.
- Chen Y (2007). “Africa Trade with China for growth?” Stanford University
- Cheru, F., & Obi, C. I. (2010). *The rise of China and India in Africa: Challenges, opportunities and critical interventions*. London: Zed Books.
- Chinafrica, September 2007. Vol.2, No.9.
- Daily Nation (2006). *When Kenya Viewed Beijing Suspiciously*, Sunday Nation, April 30 2006, Nairobi.
- Dobler, G. (2005). *South-South Business Relations in Practice: Chinese Merchants in Oshikango, Namibia*, Mimeo.
- Embassy Attache, Nairobi (2007). Discussion Notes prepared during field interview meetings.
- Geda Alemayehu (2006). The Impact of China and India on Africa: Trade, FDI and the African Manufacturing Sector, Issues and Challenges. A Framework Paper for AERC Project.” Department of Economics, University of Addis Ababa
- Gu Jing and John Humphrey (2007). “The Impact of Africa on China.” Paper Prepared for AERC, 2007.
- Kamau P. (2007). Kenya: A case study-The Developmental Impact of Asian Drivers on Kenya with Emphasis on Textiles and Clothing Manufacturing. Mimeo.
- Kaplinsky, R (2007). “The Impact of China and India on Africa”: A Methodological Framework. Paper Prepared for AERC, March 2007.
- Kaplinsky R, McCormick D, Morris M (2007). “The Impact of China on Sub Saharan Africa”, *Working Paper 291*, Institute of Development Studies, University of Sussex, Brighton.

- Kaplinsky, R., McCormick and M. Morris (2006). “The Impact of China on Sub Saharan Africa”, Agenda setting paper prepared for DFID China Office, Institute of Development Studies, Brighton.
- Kaplinsky, R., McCormick and M. Morris (2007). *The Impact of China on Sub Saharan Kenya*, MINISTRY OF FOREIGN AFFAIRS (2006) A Brief Prepared for Institute for Development Studies, University of Nairobi
- Kenya, Republic (various issues), *Economic Survey*, Government Printer, Nairobi.
- Kenya, Republic (various issues), *Statistical Abstracts*, Government Printer, Nairobi.
- Kiely R (2007). *The New Political Economy of Development: Globalization, Imperialism and Hegemony*. Palgrave Macmillan.
- Kipngetch J (2008). “Kenya’s Competitiveness in Business”. Investment Promotion Centre, Nairobi.
- Morgenthau H (1973). *Politics Among Nations. The Struggle for Power and Peace*. 5thed. New York. Alfred. A Knopf
- McCormick D (2008). “*China and India as Africa’s new Donors: The Impact of Aid on Development.*” (Review of African Political Economy Journal, March 2008, 35(115): 73-92
- McCormick Dorothy (2006). “China, India, and African Manufacturing. Framework for Understanding the Impact of Aid and Migration.”, Institute of Development Studies, Nairobi, Kenya
- McCormick Dorothy, Winnie Mitullah, and Eric Manga (2007). “Extent and Forms of Donor Proliferation and Coordination in Kenya: The Case of Inclusive Industrialization and Governance Reform, 2000-2005.” Institute for Development Studies, University of Nairobi.

- Moyo D (2009). *Dead Aid: why Aid is Not Working and How There is Another Way for Africa*. Penguin books Ltd.
- Nyunyi G “Will Uhuru tame trade imbalance between Kenya and China? The People”
20/8/2013
- O’Brien R, Williams M (2007). *Global Political Economy*. Palgrave Macmillan. Wise geek
(www.wisegeek.com)
- Onjala J (2008). “A Scoping Study on China – Africa Economic Relations: The Case of Kenya.” African Economic Research Consortium (AERC), Nairobi, Kenya
- Onjala J (2010). “The Impact of China-Africa Trade Relations: The Case of Kenya”. AERC Collaborative Research China-Africa Project No.5 Nov 2010.
- Pere G (2006). *China in Africa: mercantilist predator, or partner in development*. Institute for Global Dialogue Midrand, South Africa.
- Power M, Mohan G (2008). “*New African Choices? The Politics of Chinese Engagement.*”
(Review of African Political Economy Journal, March 2008, 35(115): 23-42.
- Renard M (2011) “China’s Trade and FDI in Africa” Working paper No.126. Africa Development Bank, Tunis, Tunisia
- Rosalia O “Creating Designs for Chinese Traders to Copy.” Trade-Kenya. 18 July 2007.
InterPress Service News Agency. [Online]
<http://ipsnews.net/news.asp?idnews=38580>
- Rotberg R (2008). *China into Africa: Trade, Aid and Influence*. Brookings Institution Press, Washington, D.C.
- Schiere R (2011). “China and Africa: An Emerging Partnership for Development? An Overview of issues” Working paper No.125. Africa Development Bank, Tunis, Tunisia.

- Tull M (2006). "China's engagement in Africa: Scope, Significance and Consequences",
Journal of Modern African Studies, 44:3, 459-479.
- United Nation- Economic Commission for Africa (2005) *Compendium of Intra-African and Related Foreign Trade Statistics*, ECA, Addis Ababa
- United Nations Development Programme (2006). Kenya Development Cooperation Report 2005.
- USAID (2005). "Impact of the End of MFA Quotas and COMESA's Textile and Apparel Exports under AGOA." Can the Sub-Saharan African Textile and Apparel Industry Survive and Grow in the Post-MFA World?
- Winters L and Shahid Yusuf (ed) 2007. *Dancing with Giants: China, India, and the Global Economy*. The World Bank.
- World Investment Reports, various issues, United Nations Conference of Trade and Development.
- Xinhua, News Agency (2005), "First Confucius Institute for Africa Launched in Nairobi," December 20, 2005.
- Xinhua, News Agency (2013) "Kenya hails education cooperation with China as booster of bilateral ties," August 28, 2013
- Zafar Ali (2007). *The Growing Relationship between China and Sub-Saharan Africa: Macroeconomic, Trade, Investment and Aid Links*. World Bank Research Observer, Vo.22, Issue 1, 2007.

APPENDICES

Appendix I: Questionnaire for the ministry of foreign affairs, ministry of trade and the Chinese high commission officials.

Part A: Demographic Information

1. Kindly indicate your institution?

.....

2. Kindly indicate your gender?

Male []

Female []

3. Age of the respondent?

21 to 30 years []

31 to 40 years []

41 to 50 years []

Above 50 years []

4. Length of time serving in the current institution?

1 to 3 years []

4 to 7 years []

8 to 11 years []

Above 11 years []

Part B: Effects of China foreign direct investment on social and economic development

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

Yes []

No []

6. To what extent does China foreign direct investment affect the Kenyan social and economic development?

Very great extent []

Great extent []

Moderate extent []

Little extent []

No extent []

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

| | Strongly agree | Agree | Neutral | Disagree | Strongly disagree |
|---|----------------|-------|---------|----------|-------------------|
| There has been increased competition for domestically-oriented manufacturers in Kenya from cheap imports from China | | | | | |
| The trade imbalance between China and Kenya favors China as local | | | | | |

| | | | | | |
|--|--|--|--|--|--|
| industries and merchants have been hit hard by the flood of cheap Chinese wholesale and retail shops | | | | | |
| Imported textile form China greatly affects local manufacturers | | | | | |
| Long working hours in china sponsored projects is causes conflict with local labor laws and cultures | | | | | |
| Local communities perceive that Chinese companies are not contributing enough to increase in local employment and to strengthen the Kenyan economy | | | | | |
| Foreign direct investment is good for growth as it leads to increase in income and employment , thus allowing developing countries to import advanced technologies developed elsewhere hence creating room for competition | | | | | |

8. To what extent has china invested in the following sector of the economy in Kenya?

| | Very great extent | Great extent | Moderate | Less extent | Not at all |
|------------------------------|-------------------|--------------|----------|-------------|------------|
| Infrastructure /construction | | | | | |
| Higher education | | | | | |
| Energy and petroleum | | | | | |
| Manufacturing | | | | | |
| Service industries | | | | | |

Part C: effects of China Aid on social and economic development of Kenya

9. To what extent does China Aid affect the social and economic development in Kenya?

Yes [] No []

10. To what extent does China Aid affect the social and economic development in Kenya?

Very great extent []

Great extent []

Moderate extent []

Little extent []

No extent []

11. What is your level of agreement on the following statement relating to effects of China Aid on the social and economic development in Kenya?

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

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

.....

.....

.....

Part D: Effects of china Kenya economic cooperation on social and economic development of Kenya

13. Does China- Kenya economic cooperation affect the social and economic development of Kenya?

Yes [] No []

14. To what extent does China- Kenya economic cooperation affect the social and economic development of Kenya?

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

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

| | Strongly agree | Agree | Neutral | Disagree | Strongly disagree |
|--|----------------|-------|---------|----------|-------------------|
| China import more coffee from Kenya and at the same time offered Kenya the most advanced coffee processing equipment | | | | | |
| Kenyan universities are developing Chinese language programmes to enhance cultural cooperation between the countries | | | | | |

| | | | | | |
|--|--|--|--|--|--|
| China has for a long time awarded scholarships to Kenyan students wishing to undertake their studies in China in diverse fields | | | | | |
| China grants various scholarships to Kenya every year in the scientific field and in turn two Chinese postgraduate students are admitted annually to Kenyan university | | | | | |
| Chinese scholarships give Kenyan students the opportunity to obtain an affordable education in important fields such as science, engineering, and medicine | | | | | |

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

.....

.....

.....

Part E: effects of China Kenya investment on social and economic development of Kenya

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

Very great extent []

Great extent []

Moderate extent []

Little extent []

No extent []

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

| | Strongly agree | Agree | Neutral | Disagree | Strongly disagree |
|---|----------------|-------|---------|----------|-------------------|
| Kenyan producers worry that cheap Chinese goods prevent Kenyan corporations from developing the ability to create competitive finished manufactured products domestically, thus gaining profit in value addition of raw materials | | | | | |
| Chinese manufactured goods have been detrimental to many aspects of the Kenyan economy | | | | | |

| | | | | | |
|--|--|--|--|--|--|
| <p>Chinese Multi National Corporation have been broaching various construction fields in kenya , in addition to construction which negatively affect local construction firms</p> | | | | | |
|--|--|--|--|--|--|

19. How else does China Kenya investment affect the social and economic development of Kenya?

.....

.....

.....