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INSTITUTE OF DIPLOMACY AND INTERNATIONAL STUDIES

CHINESE INFLUENCE ON AFRICAN ECONOMY;

A CASE STUDY OF KENYA

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**A Research Project Submitted in Partial Fulfillment of the Requirements of the
Degree of Masters of Arts in International Studies of the University of Nairobi**

2014

DECLARATION

This thesis proposal is my original work and has not been submitted for a degree to any other university.

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DEDICATION

I dedicate this work to the Holy Spirit my comforter, teacher and guide.

ACKNOWLEDGEMENTS

I wish to extend my sincere gratitude, first to the Lord, Almighty who gave me the endurance needed to tread the rocky path of completing this project..

Secondly, to my family members and my pastors for praying for me and couraging me all the way.

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ABSTRACT

The main objective of this study was to examine the role of China-Kenya's relation in terms of investment, trade, diplomacy and aid. The study explores China's foreign policy in general, then moves to tackle China-Africa relations and China's diplomatic relations with Kenya. The type of research design that was used for this study was the explanatory design. The data collection tools for the secondary data that was used were information gathering, and document analysis. The main study issues that follow are divided into five sections and section one explores China's foreign policy, China-Africa relations and boils down to diplomatic relation between China and Kenya. Section two examines Chinese investment in Europe and other developed economies, is also provides some data on what kind of investments is being undertaken. Section three examines China-Africa trade relations. It also examines the loss and gain relation resulting from the trade venture. They also affirm that the no strings-attached aid policy pursued by the Chinese leads to a decrease in the strain on governments to advance on issues such as human rights. The above trend conforms to the hypothesis that Chinese relation with African countries aims at achieving tangible developmental results and the terms are favourable. China views Kenya as a gateway to East African region and is a focal point in terms of China's trade and economic strategy in Africa.

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ABBREVIATIONS AND ACRONYMS

BRICs	-	Brazil, Russia, India and China
CPC	-	Communist party of China
EPZ	-	Export Processing Zones
EU	-	European Union
FDI	-	Foreign Direct Investment
FOCAC	-	Forum on China-Africa Cooperation
GATT	-	General Agreement on Tariffs and Trade
GDP	-	Growth Domestic Product
GM	-	General Motors
IEA	-	International Energy Agency
MFN	-	Most Favored Nation
PRC	-	People's Republic of China
SAP	-	Structural Adjustment Programmes
USSR	-	Union of Soviet Socialist Republics
WTO	-	World Trade Organization

CHAPTER ONE

INTRODUCTION AND BACKGROUND OF THE STUDY

1.1 Introduction

China is flexing its economic strength in Africa, not because it wants to colonize Africa, but because of mercantilist ambitions in search for raw materials – petroleum, timber, cobalt, platinum, copper, diamonds and so on.¹ China's going-out engagement is helping shape the future of a resurgent continent. China has become one of Africa's major economic influences as Africa's prime trading partner and creditor. Over a million Chinese have migrated to Africa over the last decade loyal to expansion and growth.²

Examples of these expansions include new hospitals and schools in Angola, the railway projects in Kenya,³ the construction of the African Union in Addis Ababa, and energy extraction operations in Tanzania. China's up-and-coming presence can be felt across the continent. Abandoning Taiwan is an increasingly enticing prospect for many African countries given China's noticeable economic impact and the surprising opportunities they are bringing to enhance technology, employment, and infrastructure.⁴

According to estimates of the International Energy Agency (IEA), the scale of investment in the continent's oil and gas supply infrastructure over the period of 2010-2035 will be around \$2.1 trillion. The resource affords a chance for sub-Saharan Africa to recover from years of economic misery brought in part by tough conditionalities as part of the IMF-led and World Bank-

¹ Alden, C., (2007). *China in Africa*. Zed books Ltd, London/New York

² Pere, G., (2006). *China in Africa: mercantilist predator, or partner in development?*. Institute for Global Dialogue Midrand, South Africa.

³ Onjalla, J., (2008). *A Scoping Study on China – Africa Economic Relations: The Case of Kenya*. African Economic Research Consortium (AERC), Nairobi, Kenya (5th March 2008).

⁴ Power, M., & Mohan, G., (2008). New African Choices? The Politics of Chinese Engagement (*Review of African Political Economy Journal*, March 2008, Vol. 35, 115. P. 23-42)

supported Structural Adjustment Programmes (SAP). For a continent that has often been seen as a global backwater there are major potential benefits and pitfalls.

In order to take advantage of these resources, well-known and emerging powers for instance the US, UK, Brazil, China, India, and France continue vying for power in the continent. China is on the lead in building relations with African countries. Over the last few years, the influence of Chinese has increased markedly in the continent. The nation has come up as Africa's largest trading partner.⁵ Joint trade has improved dramatically raising to highs of \$166.3 billion. This was triple the figure recorded in 2006.⁶ Imports and exports have recorded impressive growth rates. According to estimates, there are approximately 800 Chinese firms in Africa that are investing in the energy, infrastructure and banking sectors. The deepening connection between China and the continent has led to the development of the Forum on China-Africa Cooperation (FOCAC). The first ministerial conference of FOCAC was held in 2000 with the most recent one held this past July in Beijing.⁷

The enhancement of Chinese influence in Africa has been witnessed with alarm in many industrial countries. Critics say that there is slight or no long-term benefit of the increase in trade to the continent. This is mainly because exports to China mainly comprise of commodities such as oil and agricultural produce. They also affirm that the no strings-attached aid policy pursued by the Chinese leads to a decrease in the strain on governments to advance on issues such as human rights.⁸ Chinese support to dictators is viewed as being counterproductive to the welfare

⁵ Power, M., & Mohan, G., (2008). New African Choices? The Politics of Chinese Engagement (*Review of African Political Economy Journal*, March 2008, Vol. 35, 115. P. 23-42)

⁶ Kaplinsky, R., D. McCormick and M. Morris (2007), *The Impact of China on Sub Saharan Africa*, Working Paper 291, Institute of Development Studies, University of Sussex, Brighton.

⁷ Sutter, Robert G. (2008) *Chinese Foreign Relations* Maryland, Rowman & Littlefield Publishers. P.340-342

⁸ Moyo, D., (2009). *Dead Aid: why Aid is Not Working and How There is Another Way for Africa*. Penguin books Ltd.

of the ample and as benefitting Africa's elite. Some commentators have accused the Chinese of pursuing a neocolonialist policy in the continent.

It is, ironical that the nations that separated up Africa and its people in the last quarter of the 19th century are condemning the Chinese of being neocolonialists. The scramble for Africa took place between 1884 and 1885 subsequent to a conference in Berlin. The colonial powers left profound imprints on the continent. Some of the major problems that persist to plague Africa were nee fostered, perpetuated, by the colonial powers to further their own ends. The recurrent outbreak of violence between the Tutsis and Hutus in Rwanda is an example where Belgian policy favoured the minority Tutsis much to the chagrin of the majority Hutus. Economic development and policies favoring firms from the metro pole were also promoted by the colonial powers.⁹

A 2007 article by Jędrzej George Frynas (currently a professor at Middlesex University in the UK) and Manuel Paulo in the magazine *African Affairs* revealed this exploitation further. According to article, the growth of oil resources in African colonies was pursued by the colonial powers with the aim to supplement their strategic and economic interests, and private as well as public firms of these powers developed the oil sector.¹⁰ In Anglophone Africa, a Shell–BP venture was given an effective monopoly for oil exploration and production in Nigeria. A colonial ordinance issued in 1914 stipulated that only British oil companies were permitted to obtain oil licenses in Nigeria, allowing Shell–BP to dominate the country's oil production. Similarly, in Francophone African countries like Algeria and Gabon, French oil interests were supreme. The newly-independent government in Algeria was forced to sign a guarantee that French oil companies would be given special treatment in the yielding of oil concessions for a

⁹ Pere, G., (2006). *China in Africa: mercantilist predator, or partner in development?*. Institute for Global Dialogue Midrand, South Africa.

¹⁰ Ibid

period of six years after the country's independence.¹¹ Other than this, the military footprint of the US has also developed significantly in the continent. Other than combating terrorism, the military presence has a very important support role in ensuring that oil fields in the continent in nations such as Nigeria are secure.

Alternatively, Chinese venture in the region is not based on extracting monopoly contracts for its firms.¹² Equally, in terms of growth lending, as conflicting to conditional lending by multilateral agencies (such as the World Bank) controlled by urbanized countries, Chinese aid to the region is unreserved and typically spent on infrastructure projects that have a superior impact on people's lives. Sinopec, one of the leading Chinese state-owned oil companies, acquired oil concessions in Angola on the back of an oil-backed credit of \$2 billion from China's Eximbank to rebuild the country's railways, state buildings, hospitals and roads. Far from being seen as neocolonialist, the "Beijing consensus" between African countries and China — to borrow a term coined by Joshua Cooper Ramo of the UK-based Foreign Policy Centre — is viewed as a much more attractive alternative economic development model in the continent, compared to the Washington consensus.¹³

These principles are more of a declaration of China's aid framework which provided favourable conditions for the recipient countries in Africa and most importantly the 'no political strings' issue coupled with the Beijing's willingness to provide aid and concessional loans. China's involvement with Africa is not recent, but there has been a lot of involvement and trials on poverty alleviation where it was agreed that grants hardly changed anything and that's when China underwent foreign trade and aid reform in late 1980s and early 1990s. It was after years of

¹¹ O'Brien, R., & Williams, M., (2007). *Global Political Economy*. Palgrave Macmillan

¹² Ibid

¹³ Sutter, Robert G. (2008) *Chinese Foreign Relations* Maryland, Rowman & Littlefield Publishers. P.340-342

experimentation that Chinese government effected its interest-deducted loan scheme and this new form of aid was gradually accepted.¹⁴

Chinese – African relations are characterized by summit diplomacy, equality, co-development and cooperation and it is worth mentioning that summit diplomacy is not found with any other country, except in Africa. Rotberg¹⁵ argues that China has a unique feature in foreign policy embedded in the principle of noninterference in the internal affairs of other countries. China's African policy has retained its principles while at the same time adapting to domestic and international conditions. China's engagement with Africa is changing Africa with opportunities and emerging challenges. However Chinese-Africa cooperation is an example of equality and co-development in international relations.

1.2 Statement of the Research Problem

There has been rise of regionalism such as European Union (EU) and the like and it has been noticed that China has been serenely getting higher. China has managed to gain long strides in the worldwide arena and more so it has been investing deeply in Africa. Despite the fact that many Africans hail the capital and knowledge, others dread that China is stepping in with heavy boots in a variety of cycles. This has raised concerns with the urbanized nations and big world donors raising concerns whether China would bring hope or problems. Therefore, based on such quarrel, this paper examined the relation of China with Africa with focus to Kenya. It explored the aspects of trade, investment, diplomatic, Aid and military relations between China and Kenya. It also examined the gains and losses amidst this relation.

This study also examines if engagement with Africa is a factor in the role of the developing states in economy development. It aims to draw lessons from China, and shape African economic

¹⁴ O'Brien, R., & Williams, M., (2007). *Global Political Economy*. Palgrave Macmillan

¹⁵ Rotberg, R., (2008). *China into Africa: Trade, Aid and Influence*. Brookings Institution Press, Washington, D.C.

norms and policies towards international development; thus asking is capital accumulation *caeteris paribus* a factor when it comes to developing states contribution to international development?

1.3 Objectives of the Study

The role of China-Kenya's relation in terms of investment, trade, diplomacy and aid.

1.3.1 Sub-Research Questions

1. What is the composition of China's FDI in Kenya?
2. What are the major exports and imports from both countries (China and Kenya)?
3. What type of aid does Kenya receive from China?

1.4 Literature Review

This section starts by exploring China's foreign policy in general, then moves to tackle China-Africa relations and China's diplomatic relations with Kenya.

1.4.1 Foreign Policy for China

Since the founding of the people's republic of China in 1950, Chinese leadership has wrestled with the dilemmas of the need to restore the country to its historical standing as a leading power against the milieu of its own development challenges. According to Alden in 1978, the new leader Deng Xiaoping set China on a gradual capitalist –oriented development road which produced three decades of double digit growth with income per capita of US\$ 1, 700 in 2005.¹⁶

Alden continues to state that the approach to foreign policy was based on the following:

"observe calmly, secure our position. Hide our capabilities and bide our time. Be good at Maintaining a low profile, never claim leadership".¹⁷

¹⁶ Alden, C., (2007). *China in Africa*. Zed books Ltd, London/New York

¹⁷ Ibid

Chinese development is not a zero-sum game and so the policy statements express six themes, namely; China is a peace-loving nation and opposes the use of force in international disputes, with the exception of Taiwan. China is a developing country, and pursues unity with the third world countries. China is co-operative in international affairs, and supportive of international organizations and international treaties.

Chinese foreign policy is independent and autonomous. China is an aspiring great power with growing national strength and rising international status. China pursues ‘people-centered’ (or put people first) development and policies. Such became the watchword for Chinese foreign policy. There are issues that characterize Chinese foreign policy adopted as in early 2006, namely sincerity, equality, mutual benefit, solidarity and common development. Rotberg refers the same principles as equality, co-development, diplomacy, and cooperation.¹⁸ The policy restates the issue of „One China“ principle as the political foundation for the founding and development of China’s relations with African countries and regional organizations.¹⁹

1.4.2 China – Africa Relation

China was attracted to Africa as early as the T’ang dynasty (A.D. 618 – 907) and the 19th century reports of the meat-eating, ivory exporting people of po-pa-li who are the inhabitants of the now modern Kenya or Tanzania confirms this.²⁰ It is in the 15th century that China started its first certain direct involvement with Africa. From Kenya or Tanzania a number of giraffes and other animals were strapped to the tumbling decks of Chinese junk and transported across the sea to the imperial palace in distant Beijing. Since then China and Africa have enriched each other

¹⁸ Rotberg, R., (2008). *China into Africa: Trade, Aid and Influence*. Brookings Institution Press, Washington, D.C. pp 35

¹⁹ McCormick, D., (2008). China & India as Africa’s new Donors: The Impact of Aid on Development. (Review of *African Political Economy Journal*, March 2008, Vol. 35, 115. P. 73-92)

²⁰ Rotberg, R., (2008). *China into Africa: Trade, Aid and Influence*. Brookings Institution Press, Washington, D.C. pp 35

intellectually, culturally and commercially, but still there are questions as to whether China's promises to do more for economic growth and poverty alleviation more than Western nations will bear results. China's goals are ideological as well as material. It is not in competition with United States or Europe for Africa or to score in the ongoing battle for global hegemony.²¹ Diplomatically China has established embassies in 38 of Sub-Saharan Africa's 48 countries and exchanged military attaches with 14 African nations. There are scholarships available for study in China for African students.

China and Africa's shared reliance on one another can be evidenced in Beijing Summit of the Forum on China-Africa Cooperation (FOCAC) which is held every third year. In 2006 the summit included the government officials, heads of state and representatives from forty eight African countries and the former Chinese President Jiang Zemin visited Africa four times. As of 2007, President Hu Jintao had paid five visits to the continent- twice as vice president and three times as president.²²

According to Kaplinsky, McCormick and Morris China's African policy can be divided into three periods,²³ namely;

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

Within these periods there has been gradual shift in Chinese policy towards economic development which was followed later by new foreign policy of independence, peace and

²¹ Ibid

²² Rotberg, R., (2008). *China into Africa: Trade, Aid and Influence*. Brookings Institution Press, Washington, D.C. pp 21

²³ Kaplinsky, R., D. McCormick and M. Morris (2007), *The Impact of China on Sub Saharan Africa, Working Paper 291*, Institute of Development Studies, University of Sussex, Brighton.

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

In 1982, Premier Zhao Ziyang had his first visit to eleven African countries with an intention of showing China's diplomatic focus on Africa as well as other developing countries and to establish mutual understanding, friendship and strengthen two sides cooperation. Zhao announced four principles on Sino-African Economic and Technical Cooperation, namely equality, bilateralism, effectiveness and co-development.²⁴ The four principles were a supplement to Zhou Enlai's 8 principles of Economic and Technical Aid which were put forward during his visit to Africa in December 1963 – January 1964²⁵ and they are as follows;

- Aid should not be considered as a unilateral grant, but as mutual help.
- Neither conditions nor privilege should be attached to the aid.
- To reduce the burden of the recipient countries, the repayment period could be extended for no-interest or low-interest loans.
- The purpose of aid is to help recipient countries develop *independently*.
- To increase the income of recipient countries, Chinese programs should produce faster results with less investment.

²⁴ Moyo, D., (2009). *Dead Aid: why Aid is Not Working and How There is Another Way for Africa*. Penguin books Ltd. P.13

²⁵ Rotberg, R., (2008). *China into Africa: Trade, Aid and Influence*. Brookings Institution Press, Washington, D.C. pp 16

- China will provide the best equipment and materials for the recipient countries, and promises to replace them if the quality is not what was stipulated in the agreement.
- Guarantee that technicians in recipient countries will master relevant technology when technical assistance is provided.
- Experts from China should never enjoy any privileges and should receive the same treatment as the local experts in recipient countries.

These principles are more of a declaration of China's aid framework which provided favourable conditions for the recipient countries in Africa and most importantly the 'no political strings' issue coupled with the Beijing's willingness to provide aid and concessional loans. China's involvement with Africa is not recent, but there has been a lot of involvement and trials on poverty alleviation where it was agreed that grants hardly changed anything and that's when China underwent foreign trade and aid reform in late 1980s and early 1990s.²⁶ It was after years of experimentation that Chinese government effected its interest-deducted loan scheme and this new form of aid was gradually accepted.

Chinese – African relations are characterized by summit diplomacy, equality, co-development and cooperation and it is worth mentioning that summit diplomacy is not found with any other country, except in Africa. Rotberg²⁷ argues that China has a unique feature in foreign policy embedded in the principle of noninterference in the internal affairs of other countries. China's African policy has retained its principles while at the same time adapting to domestic and international conditions. China's engagement with Africa is changing Africa with opportunities and emerging challenges. However Chinese-Africa cooperation is an example of equality and co-development in international relations.

²⁶ Moyo, D., (2009). *Dead Aid: why Aid is Not Working and How There is Another Way for Africa*. Penguin books Ltd. P.13

²⁷ Rotberg, R., (2008). *China into Africa: Trade, Aid and Influence*. Brookings Institution Press, Washington, D.C.

1.5 Theoretical Framework

There are various theories that argue about the rise of China. For some neo-liberals who advocate globalization, the rise of China is key to their case that globalization is good for development. Globalization has its benefits and also costs but some arguments state that China cannot rise just because of the benefits of globalization alone. The key argument states that Chinese development fits in to the model of 'developmental state'. A developmental state is a state whose government has intense autonomy, power and capacity at the centre to follow, outline and hearten the attainment of clear developmental objectives, whether by establishing and promoting the conditions and direction of economic growth, or by organizing it directly, or varying combination of both.²⁸ Development in China and most East Asian countries occurred most successfully because states intervened to consciously promote social transformation and industrialization.²⁹

The state did this by use of selective protection for their industries from cheap imports from the established overseas industries; they intervened to secure investment in dynamic sectors; discipline of both capital and labour through corrective measures against capital export and workers rights; and the forcible removal of people from the land in order to secure labour force for the new-fangled industries.³⁰ These issues are strict actions and do not correspond with liberal views of development as a process based on consensus, but made China and the East Asian countries industrialize using such measures while Africa is still struggling.

There is another argument which is skeptical about Chinese success story and suggests that China is an example of sustained capitalist accumulation which has been undergoing a highly

²⁸ Moyo, D., (2009). *Dead Aid: why Aid is Not Working and How There is Another Way for Africa*. Penguin books Ltd. P.13

²⁹ Ibid

³⁰ Alden, C., (2007). *China in Africa*. Zed books Ltd, London/New York

contradiction and conflict ridden process even if there has been some social gains made. There is another aspect of the debate in relation to Chinese rise that examines the broader geopolitical implications. One clear issue is that China is not an ally of the United States, but tensions have remained, not only on human rights and repression in China but also on the issue of Taiwan. However China has tried as a state to deliberately foster large companies. China's growth is attributable in the very least to its market conforming policies. It is argued that if China was further liberalized, its growth would be greater. The rise of China is not a zero-sum game and that is where its relation with Africa and Kenya in particular comes into play. The question is whether African countries will be able to follow the example of China and other East Asian countries that have been able to develop while Africa is still struggling with development.³¹

1.6 Justification of the Study

Certainly, of the immediate importance to China are Africa's plentiful resources. China needs each main product, in many people's eyes. However, it is not enough to quarrel that China treats Africa merely as a resource base. It can be argued that China's commitment with Africa in the new century is characterized not only by a want for economic resources, but more decisively, by the profitable deals and political muscles. In the at large white paper, economic connections through agricultural communication, financial cooperation, preferential loans, and investment in African infrastructure are included and given high weight.

This study only applies economic growths role in development assuming that all other factors are constant. Economic development is always analyzed from the supply side of the equation with developing countries taking precedence due to their strong continued ability to raise capital stock contrary to developed countries. This has left the trade equation imbalanced. However with the current rising of growing economies from the south side of the divide, the equation seems to be

³¹ Alden, C., (2007). *China in Africa*. Zed books Ltd, London/New York

tilting towards a balance, allowing more developing states participate in the development agenda actively. This study will be important in the sense that it will provide a basis for strengthening choice and approach of economic policies and strategies relative to Africa development and subsequently enhance academic knowledge on the influence of china in developing countries.

1.7 Study Hypotheses

1. There are major exports and imports from both countries China and Kenya.
2. China's influence on Africa economy aims at achieving tangible developmental results and the conditionality are suitable for in Kenya.
3. Chinese relation with African countries aims at achieving tangible developmental results and the terms are favorable.

1.8 Research Methodology

The type of research design that was used for this study was the explanatory design. This involved explanation of causes and effects of the independent and dependent variables associated with the problem. The study relied on secondary from data books, journals and academic papers.

The data collection tools for the secondary data that was used were information gathering, and document analysis. This technique mainly involved literature research. Data collected in this procedure included quotations, opinions and specific knowledge and background information relating to the Chinese influence on African economy. The research design used in this study was descriptive survey method. This method is preferred because it allows for prudent comparison of the research findings.³² The qualitative design chosen for this research is natural

³² D. R. Cooper and P. S. Schindler, *Research Methods* (7th ed. New York: Irwin/McGraw-Hill, 2000) p 112

inquiry. Research unfolds and emerges empirically from the data and is more responsive to contextual values rather than researcher values³³.

Data collected was both quantitative and qualitative and it was analyzed by means of content analysis.³⁴ This method is preferred because the information collected were qualitative and therefore require analytical understanding. When human coders are used in content analysis, reliability translates to the amount of agreement or correspondence among two or more coders.³⁵ Reliability in content analysis was ensured by analyzing the amount of agreement or correspondence among the key informants. The secondary data were collected from electronic journals, book, periodic reviews and articles.

The data was analyzed by making connections to the existing, and integrating it with relevant concepts and theoretical framework. Data was analyzed interpretatively and this was done by synthesizing, categorizing and organizing the data into patterns that produce the description of the phenomena or a narrative of the synthesis. It proceeded from the belief that all meaning is situational in the particular context or perspective.³⁶ As a result, there could be different meanings to the same phenomena because the meaning will depend on the context. Since it is a qualitative research the hypothesis were generated after the data is collected. This entailed evaluating and analyzing the data to determine the adequacy of its information and its credibility, usefulness, consistency and validation of the hypothesis. This was the final step that entailed giving a vivid descriptive account of the situation under study. It will give an analytical view citing the significance and implications of the findings.³⁷

³³ Jankowicz A. D., *Research Projects* (6th ed. London: Thomson Learning, 2002) p 87

³⁴ Holsti, O.R., *Content Analysis for the Social Sciences and Humanities*, (MA: Addison-Wesley 1980) pp, 7

³⁵ Neuendorf, K. A., *The Content Analysis Guidebook Thousand Oaks*, (CA: Sage Publications, 2002) pp. 56

³⁶ GoK, 2005, *Draft National Policy on Peace Building and Conflict Management*, National Steering Committee (NSC), Nairobi.

³⁷ Burrow, E. Gichohi H & M. Infield, 2001, *Rhetoric or Reality; a review of Community Conservation Policy and Practice in East Africa*, Nairobi.

1.9 Chapters Summary

The study paper examines the China-Africa economic relations with special focus on Kenya. The first part is comprised of the study abstract which in a nutshell captures the main issues undertaken in the study. It also contains a few key words which are repeatedly used all along the study paper even though there others not listed. Chapter one provides the description of the research, research question, study hypothesis and theoretical perspective of the study. The theoretical perspective of the study explores the theories that explain why China and other East Asian countries were able to develop while African countries did not.

The main study issues that follow are divided into five sections and section one explores China's foreign policy, China-Africa relations and boils down to diplomatic relation between China and Kenya. Section two examines Chinese investment in Europe and other developed economies, is also provides some data on what kind of investments is being undertaken. Section three examines China-Africa trade relations. It also examines the loss and gain relation resulting from the trade venture. Section four looks at China-Kenya trade relations, Chinese Aid to Kenya by exploring on the imports and exports between the two countries and identifies the sectors that have been able to gain from such aid. Section five briefly highlights on the conclusion part highlights some of the important points that will be gathered along the study paper.

CHAPTER TWO

EUROPEAN UNION (EU)-CHINA TRADE AND COOPERATION

2.1 Introduction

Economic cooperation continued with the EU's "New Asia Strategy" through the initial Asia–Europe Meeting held in the year 1996, frequent policy documents desiring closer partnerships with China and the 1998 EU-China summit. Even though the 1997 Asian monetary disaster dampened many investors' enthusiasm, China battered the crisis well and continued to be a main hub of EU trade. Chinese privileged were anxious to return the European interest.

2.2 Cooperation and Partnership

After the end of the Cold War, relations with Europe were not as high a priority for China as its associations with Japan, the US and other Asian powers.³⁸ Nonetheless, attention in closer relations begun to increase as economic associates increased and attention in a multipolar system grew. Though at first striking arms restriction on China after Tiananmen, European leaders eased off China's isolation. China's growing economy became the center for many European visitors and in turn Chinese businessmen began to make regular trips to Europe. Europe's interest in China led to the EU becoming oddly active with China during the 1990s with high-level exchanges. EU-Chinese trade increased faster than the Chinese economy. This was evident in the tripling in ten years from USD14.3 billion in 1985 to USD45.6 billion in 1994.³⁹

However, security co-operation and politics was in a weak position with China seeing little chance of development. Europe was top of the desires for NATO growth and interference in Kosovo, which China opposed as it saw them as extending US influence. However by 2001 China moderated its anti-US stance in the hopes that Europe would cancel its arms embargo but

³⁸ Reuters Africa (<http://af.reuters.com>)

³⁹ China Daily, "China to invest 7t Yuan for Urban Infrastructure in 2011-15," May 13, 2013.

pressure from the US led to the embargo remaining in place.⁴⁰ Due to this, China saw the EU as being too weak, divided and dependent on the US to be a significant power. Furthermore, it shared too many of the US' concerns about China's authoritarian system and threats of force over Taiwan. Even in the economic sphere, China was angered at protectionist measures against its exports to Europe and the EU's opposition to giving China the status of market economy in order to join the WTO.⁴¹

However, They made high level visits all through the 1990s, visits that were accompanied by major EU sales to China. Trade in 1993 saw a 63% increase from the preceding year.⁴² China became Europe's fourth largest trade associate at this time. Constantly following the financial crisis in 1997, EU-Chinese trade increased by 15% in 1998.

France was leading the EU's desire for closer ties in order to establish a multipolar world and was the prime, in conjunction with Russia, to set up strategic partnerships with China. However EU-China have experienced a cool down after China canceled the EU-China yearly summit in November 2008.⁴³ Apparently, this was caused due to French President Sarkozy's plans to meet with the Dalai Lama.

2.3 China Trade with the U.S.

U.S.-China economic ties have expanded substantially over the past three decades. Total U.S.-China trade rose from \$2 billion in 1979 to \$562 billion in the year 2013. China is presently the United States' second-largest trade associate. It is also the third-largest export market, and the biggest source of imports in the United States. China is estimated to be a \$300 billion market for U.S. firms (based on U.S. exports to China and sales by U.S.-invested firms in China). Several

⁴⁰ "China asks EU to scrap 'prejudiced' arms embargo". *The Hindu*. January 28, 2010.

⁴¹ Rettman, Andrew (25 July 2011) *Leaked cable shows fragility of EU arms ban on China*, EU observer

⁴² Ibid

⁴³ Ibid

U.S. firms analyze contribution in China's market as critical to staying globally competitive. General Motors (GM), for example, which has invested greatly in China. It has sold more cars in China than in the United States every year from 2010 to 2013.⁴⁴ Additionally, U.S. imports of low-priced commodities from China significantly profits U.S. consumers, and firms that employ China as the last point of assembly for their products, or employ Chinese made inputs for production in the United States, are able to lower costs. China is the largest foreign holder of U.S. Treasury securities (nearly \$1.3 trillion as of April 2014). China's purchases of U.S. government debt help keep U.S. interest rates low.⁴⁵ Borders

U.S.-China trade rose rapidly after the two nations reestablished diplomatic relations (in January 1979), signed a bilateral trade agreement (July 1979), and provided mutual most-favored-nation (MFN) treatment beginning in 1980. In 1979 (when China's economic reforms began), total U.S.-China trade (exports plus imports) was \$2 billion; China ranked as the United States' 23rd largest export market and its 45th -largest source of imports. In 2013, total bilateral trade (exports plus imports) reached \$562 billion. China is presently the second-largest U.S. trading partner (after Canada), the third-largest U.S. export market (after Canada and Mexico), and the largest source of U.S. imports. In recent years, China has been one of the fastest-growing U.S. export markets, and the importance of this market is expected to grow even further, given the pace of China's economic growth, and as Chinese living standards continue to improve and a sizable Chinese middle class emerges. According to one estimate, China is currently a \$300 billion market for U.S. firms if U.S. exports to China and sales by U.S.-invested firms in China are counted.⁴⁶

⁴⁴ Reuters Africa (<http://af.reuters.com>)

⁴⁵ Rettman, Andrew (25 July 2011) *Leaked cable shows fragility of EU arms ban on China*, EU observer

⁴⁶ Rettman, Andrew (17 December 2010) *Ashton pragmatic on China in EU foreign policy blueprint*, EU Observer

Table 1. U.S. Merchandise Trade with China: 1980-2013 and Projections for 2014

(\$ billions)

Year	U.S. Exports	U.S. Imports	U.S. Trade Balance
1980	3.8	1	2.7
1990	4.8	15.2	-10.4
2000	16.3	100.1	-83.8
2005	41.8	243.5	-201.6
2006	55.2	287.8	-232.5
2007	65.2	321.5	-256.3
2008	71.5	337.8	-266.3
2009	69.6	296.4	-226.8
2010	91.9	364.9	-273.1
2011	103.9	393.3	-295.5
2012	110.6	425.6	-315.0
2013	121.7	440.4	-318.4
2014 (estimate)	131.2	460.2	-329.0

Source: U.S. International Trade Commission DataWeb.

Note: Projections for 2014 made using actual data for January-May 2014.

2.3.1 U.S. Merchandise Exports to China

U.S. merchandise exports to China in 2013 were \$121.7 billion, up 10.3% over 2012 levels. In 2013, China was the third largest U.S. merchandise export after Mexico and Canada. Beginning 2000 to 2013, the divide of whole U.S. exports to China rose from 2.1% to 7.7%. The five main goods U.S. exported to China in 2013 were aircraft and parts, motor vehicles, oilseeds and grains, electro medical, waste and scrap, and navigational, measuring, and control instruments. As from 2004 to 2013, U.S. exports to China amplified by 349%, which was recorded as the

highest growth rate for U.S. exports amongst its top 10 export markets. U.S. goods exports to China during the first five months of 2014 were up 7.8% over the same period in 2013 (compared with a 3.0% rise in total U.S. exports to the world). In addition, China was the second-largest U.S. agricultural export market in 2013 at \$27.9 billion.⁴⁷ China is also a major market for the United States exports of personal services. These totaled \$30 billion in 2012, making China the fourth-largest export market for United States personal services.

Table 2. Major U.S. Exports to China: 2009-2013

(\$ millions and percent change)

NAIC Commodity	2009	2010	2011	2012	2013
2012-2013 % change					
Total Exports to China	69,576	91,911	104,122	110,516	121,736
10.2%					
Oilseeds and grains	9,376	11,251	11,556	16,451	15,725
-4.4%					
Aerospace products and parts	5,344	5,764	6,398	8,364	12,591
50.5%					
Waste and scrap	7,142	8,598	11,551	9,519	8,757
-8.0%					
Motor vehicles	1,134	3,523	5,371	5,821	8,643
48.5%					
Navigational, electromedical, and controlling instruments	2,917	3,780	4,301	5,154	5,737
11.3%					
Semiconductors and other electronic components	6,041	7,534	5,692	4,860	5,723
17.8%					
Basic chemicals	3,433	4,182	4,684	4,717	5,123
8.6%					
Resin, synthetic rubber, & artificial & synthetic fibers & filament	4,234	4,036	4,332	4,483	4,287
-1.2%					

U.S. Bureau of Economic Analysis, *U.S. International Services*.

⁴⁷ Rettman, Andrew (25 July 2011) *Leaked cable shows fragility of EU arms ban on China*, EU observer

Many trade analysts argue that China could prove to be a much more significant market for U.S. exports in future. China is considered as one of the world's fastest-growing economies. Rapid economic increase is expected to persist in the near future. This is provided that economic reforms are sustained. China's goals of modernizing it's upgrading its industries, infrastructure, and improving rural living standards might produce considerable demand for foreign goods and services. Lastly, economic increase has considerably enhanced the purchasing power of Chinese citizens, particularly those living in urban areas along the east coast of China. China's growing economy, large foreign exchange reserves (at nearly \$3.95 trillion through March 2014), and large population of over 1.35 billion people (19.2% of the world's population) make it a potentially enormous market.⁴⁸

According to a report by the Boston Consulting Group, ⁴⁹China had 148 million 'middle class and affluent' customers, defined as those who have an annual household income was 60,000 RMB (\$9,160) or higher, and that level is projected to rise to 415 million by 2020.⁷ Another Boston Consulting Group study estimated that China had the world's second largest number of household millionaires (after the United States) in 2013 at (at nearly 2.4 million). It was further estimated that China had 983 households with private financial wealth at over \$100 million.⁵⁰

Although Chinese private consumption as a percent of GDP is much lower than that of most other key economies, the speed of development of Chinese private use has been increasing quickly. For instance, private use as a percent of GDP in China in 2013 was recorded at 36.8%, compared to 68.5% that was recorded in the United States. However, the yearly rate of

⁴⁸ Rettman, Andrew (17 December 2010) *Ashton pragmatic on China in EU foreign policy blueprint*, EU Observer

⁴⁹ Boston Consulting Group, *Big Prizes in Small Places: China's Rapidly Multiplying Pockets of Growth*, November 2010, p. 10.

⁵⁰ Ibid

development in Chinese private consumption from 2002 to 2013 averaged 10.3% compared to 2.5% for the United States.

2.4 Brazil–People's Republic of China Trade relations

There are several reasons why emerging powers today are perceived to be much more than supporting actors in the worldwide ground.⁵¹ Initially, they put forward a rising influence on worldwide economic issues, such as investments and trade. At first regarded as an ellipsis to refer to dynamic markets, the BRICs (Brazil, Russia, India and China) have become integral players in the process of economic recovery after the global financial crisis in 2008 and 2009. These countries not only proved more resistant to the crisis, but also lead the efforts to global economic recovery when compared to the developed economies with 40 percent of the world's population and almost 25 percent of global GDP. Furthermore, out of the top 20 companies in the 2010 Forbes Global 2,000 list, five are from the BRICs (3 Chinese, 1 Russian, and 1 Brazilian).⁵²

China became Brazil's largest trading associate in 2009. Former Brazilian President Luiz Inácio Lula da Silva and various in the Brazilian media believe China to be "Brazil's most promising business partner and a strategic ally" due to China's "quickly increasing demand for agricultural produce and raw materials". Joint trade grew from US\$ 6.7 billion in 2003 to US\$ 36.7 billion in 2009. China and Brazil cooperate economically on quite some mutual beneficial projects such as the already in 1988 preparations for a joint project to construct the China-Brazil Earth Resources Satellite program, which in the year 1999 and 2002 fruitfully constructed two satellites providing

⁵¹ Wilson, Dominic and Roopa Purushothaman, "Dreaming with BRICs: The Path to 2050," *Goldman Sachs Financial Workbench*, Global Economics Paper No. 99, 2003.

⁵² T. Vigevani and G. Cepaluni, "A Political Externa de Lula da Silva: A Estratégia da Autonomia pela Diversificação," *Contexto Internacional*, 29 (2), 2007, pp. 273-335.

crucial information on (new sources of) natural resources.⁵³ Additionally, a global Satellite Communications company (INSCOM) was set up as a joint venture.

Other projects in the range of the Earth Resources Satellite are the constructions of Porto do Açú near Vitória, Rio de Janeiro and Campos dos Goytacazes, which can hold China-max containerships to import and export raw materials and vice versa. Further main significant infrastructure investment is the construction of roads, a continental pipeline and high speed trains. Chinese investment in Brazil takes strategic approaches and does so in strategic areas to consolidate China's role in the Brazilian economy. This creates economic power, increases interdependence and expands the region of influence of Chinese companies in Brazil and.⁵⁴ Chinese investments in Brazil are concentrated mainly in the energy, mining, steel and oil industries.

Despite the generally close relationship in 2010, Brazil was amongst few up-and-coming economies to openly condemn China's policy in relation to the so-called Currency war. Brazil has called for China to allow a faster approval of its currency, which would help other countries to better compete against Chinese exports. Brazil also criticized US policy, saying both China and the US should seek to avoid escalating economic tension concerning trade and currency.⁵⁵

2.4.1 Partners and Competitors

When considering challenges to the international order today, Brazil and China are often viewed as partners. Most analysts and policymakers regard these two giants as emerging powers that are increasingly coordinating their moves in the international arena, in fora such as the BRICs, the G20 (group of developing nations at the WTO Doha Round), and the BASIC (Brazil, South

⁵³ “Parceria com chineses não é ameaça aos Estados Unidos, afirma Amorim” (“Partnership with China is Not a Threat to the United States, Says Amorim”), *Folha de Sao Paulo*, 24 May, 2004.

⁵⁴ Puga, Fernando and Marcelo Nascimento, “*Visão do Desenvolvimento: o efeito China sobre as importações brasileiras*” (“The China Effect on Brazilian Imports”), BNDES, 2010.

⁵⁵ Waltz, K. *Theory of International Politics*, McGraw-Hill, 1979.

Africa, India, and China grouping in climate change negotiations).⁵⁶ In 2004, an exchange of state visits between Brazilian President Lula da Silva and Chinese President Hu Jintao underlined the growing importance of this relationship. An agreement was signed to establish a bilateral mechanism of high-level strategic dialogue to address bilateral, regional, and global issues of concern just the second strategic dialogue established by China with another developing country (the other being with India).⁵⁷

Brazilian exports to China went from \$1.1 billion in 2000, to \$21 billion in 2009. Of this, approximately 78 percent accounts for basic goods (soy, iron ore, and oil). Imports from China also went up, from \$1.2 billion in 2000, to \$15.9 billion in 2009. In the first two quarters of 2010, China became the number one buyer of Brazilian exports, ahead of the United States, and number two source of Brazilian imports, behind the United States. Overall, in terms of overall trade flows, China is Brazil's key trading associate.⁵⁸

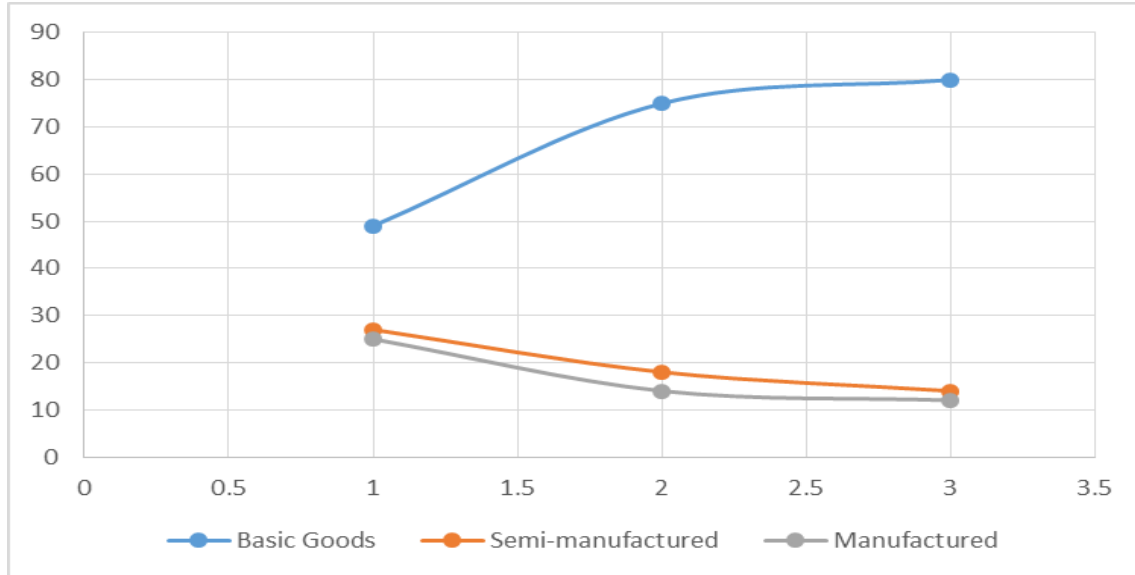
The winners of this partnership are easy to point out on Brazil's side. Agribusiness (soy and other crops) experienced a boost in productivity and record-levels of export. Vale became, in the past decade, one of the largest mining companies in the world. Petrobras benefited, not only from China's demand for oil, but also from much-needed Chinese investment in the company amidst plans to explore deep-sea oil fields off the coast of Brazil.¹¹ Embraer opened its first airplane factory overseas in China and the country became the company's second largest consumer, behind the United States. Furthermore, Brazil's infrastructure benefited from Chinese investments in the steel sector (Companhia Siderurgica do Atlantico), a major gas pipeline (Gasoduto Gasene), and a thermoelectric power plant (Candiota).

⁵⁶ Alden, Chris and M. A. Vieira, "The New Diplomacy of the South: South Africa, Brazil, India, and Trilateralism," *Third World Quarterly*, 26(7), 2005, pp. 1077-1095

⁵⁷ Reuters Africa (<http://af.reuters.com>)

⁵⁸ According to CNI (Brazilian National Confederation of Industries), of 134 protectionist measures Brazil undertook until March 2010, more than 30 percent had China as a target.

Figure 1 – Evolution of Brazilian Exports to China (%)



In the past few years, the bilateral trade relationship has proved challenging, especially for Brazil.⁵⁹ Although China became Brazil's main trading partner, Brazil does not figure among China's top ten trading partners. Moreover, relations between the two countries do not constitute a South-South exchange (a balanced exchange between developing countries), as official Brazilian rhetoric may suggest, but an increasingly North-South relationship—with Brazil as an exporter of commodities and an importer of manufactured goods from China. Approximately 79 percent of Brazilian exports to China in the first quarter of 2010 were basic goods (soy, iron ore, and oil). And Brazil's imports from China were mostly electronic and capital goods.

Furthermore, a recent study by the Brazilian National Development Bank (BNDES) shows a significant increase in imports from China. This strongly suggests two unfavorable trends for Brazil.⁶⁰ First, it confirms the changing nature of the bilateral exchange a shift from labor-

⁵⁹ Hurrell, A. "Hegemony, Liberalism and Global Order: What Space for Would-Be Great Powers?" *International Affairs*, 82 (1), 2006, pp. 1-19.

⁶⁰ Waltz, K. *Theory of International Politics*, McGraw-Hill, 1979.

intensive imports to knowledge- and technology-intensive imports from China. Second, the study points to the correlation between the import coefficient from China and the competitiveness of Brazilian products abroad.⁶¹ The Brazilian sectors (Knowledge- and technology-intensive) that have shown a significant increase in Chinese imports have also shown a lack of competitiveness in global markets. One may draw two different readings from this. First, Brazil's growing comparative advantage to produce and export basic goods may be seen as a result of China's growing economy. In a less favorable light, however, this specialization of the Brazilian economy is due to increased difficulties to compete with Chinese products elsewhere.⁶²

2.4.2 Foreign Direct Investment (FDI) and Quality of Governance

It is assumed that good institutions and quality of governance are crucial aspects in helping developing countries attract foreign direct investment (FDI) conducive to growth. Although literature has suggested that it is difficult to establish a robust causal relationship between the degree of FDI and output growth performance, several developing countries with greater financial integration have also experienced higher rates of economic growth. In the particular case of China, foreign-invested firms have contributed significantly to China's impressive export expansion and to China's overall economic growth. FDI has also been a major contributor to Brazil's impressive post-war industrial growth. Brazilian economic history shows two distinct periods: the inward, Import Substitution Industrialization (ISI) period, and the outward export period. In both periods, FDI had a decisive influence.

⁶¹ According to CNI (Brazilian National Confederation of Industries), of 134 protectionist measures Brazil undertook until March 2010, more than 30 percent had China as a target.

⁶² Vigevani T. and G. Cepaluni, "A Political Externa de Lula da Silva: A Estratégia da Autonomia pela Diversificação," *Contexto Internacional*, 29 (2), 2007, pp. 273-335.

The distribution of foreign direct investment between China and Brazil, however, presents a puzzling picture to institutional economics and politics scholarship. There is a positive correlation between the quality of institutional safeguards and FDI. In other words, foreign investors would prefer to allocate their money in countries with higher governance quality. Despite Brazil's higher scores on institutional quality, China has attracted more FDI in gross terms than Brazil.⁶³

Brazil scores better than China in nearly all governance indicators, except "governance usefulness," in which China did fairly better than Brazil in 2009. Nevertheless, Brazil improved its rank in this particular sub-index from 54.4 to 57.6, in 1998 and 2009 respectively.

In fact, Brazil has improved on all governance indicators with the exception of "Regulatory Quality," which declined from +0.30 to +0.18. Even on this particular matter, Brazil does comparatively better than China, which scores a negative -0.20. China worsened its rank position in three important governance indicators during this same period: "political stability" (from 38.5 to 29.7), "voice and responsibility" (from 9.6 to 5.2), and "control of corruption" (from 47.1 to 36.2). It is imperative to have in mind that these three indicators are the most important aspects in assuring a safer environment for investors.⁶⁴

In other words, since China has not provided enough institutional safeguards for foreign investors, Brazil's higher quality of governance should make it a better candidate for FDI than China. However, evidence shows that China has done better in attracting FDI as measured in gross terms.

⁶³ Hurrell, A. "Hegemony, Liberalism and Global Order: What Space for Would-Be Great Powers?" *International Affairs*, 82 (1), 2006, pp. 1-19.

⁶⁴ Vigevani T. and G. Cepaluni, "A Political Externa de Lula da Silva: A Estratégia da Autonomia pela Diversificação," *Contexto Internacional*, 29 (2), 2007, pp. 273-335.

Therefore, China has contradicted the expectation that as a country makes progress on rule of law, control of corruption, transparency, and financial supervisory capacity, it will be in an increasingly better position from financial globalization.⁶⁵ However, China has not definitively increased accountability in regards to political stability and corruption. Although China has indeed improved its regulatory quality and rule of law, these governance indicators still present negative scores.⁶⁶

Transparency International recently released its annual CPI (Corruption Perception Index) report for 2010. This composite index uses several international evaluations of corruption around the world to rank countries on a scale from zero (total corruption) to ten (zero corruption).⁶⁷ In 2009, Brazil was ranked 75th and China ranked 79th among 180 nations. In 2010, Brazil was ranked 69th and China improved one position, ranking now 79th among 178 countries—with the same scores (3.6 and 3.7 respectively). The 69th rank is “shared” by Cuba, Brazil, Montenegro, and Romania.⁶⁸

The first rank is shared by Denmark, New Zealand, and Singapore. In Latin America, Chile ranked 21st—above the United States, Uruguay, and Venezuela at 22nd, 24th, and 164th respectively. Among Asian countries, China ranked 14th behind Japan, Taiwan, South Korea, and Malaysia (5th, 6th, 9th, and 11th respectively). Somalia was “last,” in 178th rank.⁶⁹

⁶⁵ Hurrell, A. “Hegemony, Liberalism and Global Order: What Space for Would-Be Great Powers?” *International Affairs*, 82 (1), 2006, pp. 1-19.

⁶⁶ Vigevani T. and G. Cepaluni, “A Política Externa de Lula da Silva: A Estratégia da Autonomia pela Diversificação,” *Contexto Internacional*, 29 (2), 2007, pp. 273-335.

⁶⁷ Hurrell, A. “Hegemony, Liberalism and Global Order: What Space for Would-Be Great Powers?” *International Affairs*, 82 (1), 2006, pp. 1-19.

⁶⁸ Reuters Africa (<http://af.reuters.com>)

⁶⁹ Ibid

2.4.3 Conclusion

The future of Brazil-China relations will pose a constant challenge to policymakers and analysts alike.⁷⁰ Although the two countries may be defined generally as emerging, regional powers with global ambitions, this definition does not provide a framework capable of capturing all the nuances of the relationship. A closer look at regional context provides insight into the countries' different approaches to international security. While strategic rivalry has been an outdated concept in South America since the Brazilian-Argentinean nuclear rapprochement of the 1980s, China still faces a classic security dilemma in its own region, with potential rivalries emerging from Japan, India, and Russia, and the constant military presence of the United States.

How China and Brazil have been affected by and reacted to the globalization process also poses a puzzle. On trade, despite a very lucrative period for both countries in the past decade, the relationship is becoming increasingly asymmetrical. Some even argue that the "North-South" aspect of the China-Brazil trade relationship is a harbinger of profound and dramatic changes in Brazil's economy, such as deindustrialization. As for investments, the disparity between the two countries in terms of governance indicators and capital inflow indicates an intricate parallel. While the initial argument suggests China has the advantage, a closer look reveals the correlation between good governance and investments is real in the long run. This is more favorable to democratic Brazil.

Moreover, this disparity may suggest a different approach in terms of foreign economic policy. Both Brazil and China have amplified foreign direct investments overseas, mainly in Latin America, Africa, and Asia. It is yet to be examined that Brazil and China use different

⁷⁰ Vigevani T. and G. Cepaluni, "A Political Externa de Lula da Silva: A Estratégia da Autonomia pela Diversificação," *Contexto Internacional*, 29 (2), 2007, pp. 273-335.

approaches in dealing with governance indicators in host countries, and if that may lead to more competition between the two countries in the emerging world.

2.5 An Analysis Sino-Russian Economic Relations

The aspect of foreign direct investment and international trade has been developing with new approaches and progressive economic policy and constructs a strong base for economic relations between nations. These aspects play a vital role in Russia-China economic relations.⁷¹ Considerable changes have occurred in Russia-China economic affairs since 1991 onwards. Thereafter, in the first decade of twenty-first century, Russia-China bilateral trade volume improved further with extreme fluctuation over the time and their trade composition also underwent a change. It is said that the absolute level of bilateral foreign direct investment between Russia and China is small by world standard, but in a relative sense, Russia and China are important to each other for developing economic integration.⁷²

A number of developments in the second half of 1980s witnessed a remarkable shift in the Russian Policy towards China. A critical turn in Russia-China relations came in 1989 with Soviet leader Gorbachev's visit to Beijing. A re-establishment of the official links between the Union of Soviet Socialist Republics (USSR) and China in 1989 led to reopening of economic ties between Russia and China. At the same time, trade diversification took place with the bulk of Russia-China trade at inter-governmental level.⁷³ Machinery and equipment was the main article of the Soviet exports to China. Other important articles of the Soviet exports to China were steel, mineral fertilizers, timber and aluminium whereas China's export to the USSR was mainly

⁷¹ Akaha, T., Pavel A., Minakir & Kunio O. (1997). Economic Challenge in the Russian Far East. In Politics and Economics in the Russian Far East: Changing ties with Asia-Pacific, (ed.) T. Akaha. London: Routledge.

⁷² Huasheng, Z. (2010). *Sino-Russian Relations 2009 to 2010: A Perspective from China*. Russian Analytical Digest 73, 5-8.

⁷³ Even, V. & Wilson, R. (2012). *WTO Accession: Implications for Russia*. Russian Analytical Digest, 119. Germany.

consumer goods and foodstuffs. Russia-China trade volume was US \$4,406 million in 1992 whereas the trade volume between Soviet Union and China was US \$3,963 million in 1991 and Russia-China trade volume grew by more than 22 percent from US \$4,406 million in 1992 to US \$5,403 million in 1993.⁷⁴

Russia-China trade level for 1995 was US \$4,242 million, which was slightly higher than their trade level of previous year 1994. This was entirely due to Russian exports to China which amounted upto US \$3,377 million, whereas Russian imports from China (US \$865 million in 1995) was slightly lower than the previous year's Russian imports from China (US \$952 million in 1994). The third Sino-Russian summit in April 1996 was held with the objective of developing relations of an equal, trusting partnership aimed at strategic cooperation in the twenty-first century. In 1996, Russia-China trade turnover was US \$5,680 million. The trade figure for the year 1996 was more than the previous year's due to slightly more Russian exports to China (US \$4,684 million in 1996) than the previous year's Russian exports to China (US \$3,377 million in 1995) of raw materials, while imports from China (US \$996 million in 1996) had shown little recovery in comparison to previous year Russian imports from China (US \$865 million in 1995). According to IMF, Direction of Trade Statistics (Russian Data), Russian exports to China in 1997 was US \$3,982 million and Russian imports from China was US \$1,261 million in 1997, therefore total Russia-China trade turnover for the year 1997 was US \$5,243 million, below the 1996 level. And hopes of reaching the trade turnover of US \$7,000 million by the end of 1997 were unfulfilled.⁷⁵

⁷⁴ Huasheng, Z. (2010). *Sino-Russian Relations 2009 to 2010: A Perspective from China*. Russian Analytical Digest 73, 5-8.

⁷⁵ Akaha, T., Pavel A., Minakir & Kunio O. (1997). *Economic Challenge in the Russian Far East*. In *Politics and Economics in the Russian Far East: Changing ties with Asia-Pacific*, (ed.) T. Akaha. London: Routledge.

According to Federal State Statistic Service, Russia-China bilateral turnover at the end of 2008 was US \$55,770 million, an increase of 38.36 percent from the year 2007 Russia-China bilateral trade level (US \$40,305 million). This turnover of Russia-China trade declined by 30.10 percent to US \$38,978 million in 2009, compared to the trade volume of both countries in 2008 (See Table-1). Reason behind this decline in their trade volume was the financial crisis in the year 2008.⁷⁶

In the year 2009, China's investment in Russia was US \$9,757 million, which was around 11.9 percent of total inflow of foreign investments in the economy of the Russian Federation (Federal State Statistic Service 2013).⁷⁷ According to Russian statistics, the total FDI to Russia in 2010 was US \$52,000 million, and only US \$300 million of this came from China. Russia's investment in China was around \$20 million (Rautava 2013). In 2010, Russia-China trade improved by 50.96 percent with total bilateral trade volume of US \$58,842 million. The turnover in bilateral trade between Russia and China in 2010 was slightly lower than the target to achieve at least US \$60,000 million bilateral trade level by 2010.

⁷⁶ Federal State Statistic Service (2013). *Volume of Accumulated Foreign Investments in the Economy of Russia by Country*. Current Statistical Survey No. 1 (84), 2013,

⁷⁷ Gidadhubli, R.G. (2005). *Russia-China Relations-Role of Far East*. Mainstream, 9-13.

Table- 1: Russian Data: Russia-China Bilateral Trade Volume

Year	Export To China	Import From China	Total Trade Volume	Increase or Decrease in Total Trade Volume (%)	Trade Balance
1991	1,917	2,046	3,963	–	-129
1992	2,737	1,669	4,406	–	1068
1993	3,068	2,335	5,403	22.62	733
1994	2,838	952	3,790	-29.85	1,886
1995	3,377	865	4,242	11.92	2,512
1996	4,684	996	5,680	33.89	3,688
1997	3,982	1,261	5,243	-7.69	2,721
1998	3,144	1,146	4,290	-18.17	1,998
1999	3,476	889	4,365	1.74	2,587
2000	5,233	948	6,181	41.60	4,285
2001	4,021	1,611	5,632	-8.88	2,410
2002	6,790	2,382	9,172	38.59	4,408
2003	8,161	3,270	11,431	24.62	4,891
2004	10,020	4,733	14,753	29.06	5,287
2005	13,049	7,239	20,288	37.51	5,810
2006	15,734	12,888	28,622	41.07	2,846
2007	15,893	24,412	40,305	40.81	-8,519
2008	21,049	34,721	55,770	38.36	-1,3672
2009	16,093	22,885	38,978	-30.10	-6,792
2010	19,783	39,059	58,842	50.96	-19,276
2011	32,020	46,011	78,031	32.61	-13991

Source: IMF Direction of Trade Statistics, Various Years. Note: (a) Trade levels are in millions of \$US.

In the early 1990s, Russia was suffering from a serious shortage of consumer goods.⁷⁸ Chinese businessmen saw this as an opportunity to make a base for non-governmental trade in the Russian territory. But the Russian customs clearance procedures created an obstacle in the way of Chinese businessmen in developing such trade ground. In order to simplify the customs procedure, the Russian Customs Committee allowed entire consignments of goods delivered by plane cleared with single customs clearance form. Later, this procedure was extended to customs clearance for shipping and rail transport. In order to get gray customs clearance, Chinese businessmen were simply paying customs duties in China and getting receipt of their goods without giving customs declaration. An intermediate agent company had responsibility of all the intermediate links including transportation, customs clearance and commodity inspection.⁷⁹

Kuhr (an expert on Sino-Russian trade at the government-backed Chinese Academy of Social Sciences) approximates that about \$8 billion in old market goods flow from China into Russia each year. The standard rate for customs duty is someplace between 15 percent and 20 percent, but dreary customs permission charge is around 5 percent to 6 percent (Asia News 2009). The Russian administration takes such dreary customs authorization as an act of smuggling.⁸⁰

2.5.1 Importance of Russia's Trade Liberalization to China

The Government of the Russian Federation signed up for membership in the General accord on Tariffs and Trade (GATT) in June 1993 and the GATT Working Party was transformed into the World Trade Organization (WTO) in 1995 under Article XII of the Marrakesh Agreement. Russia's process of accession to the WTO was long and finally became 156th member of WTO on 22 August 2012. Among the most significant advantages for Russia from WTO access is that

⁷⁸ Kuhr, N. (2007). *Russian Policy Towards China and Japan: The El'tsin and Putin Period*. London, New York: Routledge.

⁷⁹ Jensen, J. & Tarr, D. (2004). *Economy-Wide and Sectors of Russia's Accession to the WTO*. The World Bank.

⁸⁰ Kuhr, N. (2007). *Russian Policy towards China and Japan: The El'tsin and Putin Period*. London, New York: Routledge.

open members will no longer be able to inflict one-sided limitations on Russian exports. As part of WTO accession Russia agreed to cut the maximum allowed agricultural support from US \$9 billion in 2012 to US \$4.4 billion in 2018. Liberal economists see WTO entry as giving a new impetus to faltering efforts to modernize and diversify the Russian economy.⁸¹

Both Chinese consumers and the Chinese economy have been getting benefits from the expanding trade relationship with Russia for past two decades.⁸² China will get more opportunity in the areas of goods and services sectors. Since, Russia, after becoming WTO member, has liberalized trade policy much more than its past trade policy liberalization.

2.5.2 Conclusion

Economic affairs through bilateral trade and investment between Russia and China in the last two decades reveal the gradual development in their economic relations. Economic cooperation between Russia and China started with the visit of Chinese Prime Minister Li Peng to Moscow in 1990. Throughout the 1990s, joint trade enhanced progressively but the trade composition changed which was considered unsuitable to Russia's long term development. In 2011, Russian decision makers expressed dissatisfaction with the structure of exports which was mainly based on Russia's exports of raw materials, energy products and low value added supplies to China. Very petite quantity of equipment and machinery was imported by China from Russia.

The foreign direct investment (FDI) stuck between Russia and China is little since the commencement of 1990s. This is evident from the fact that China did not make a manifestation in the list of main investors in Russia by 1995. When the Russian President, Putin, met The Chinese Defence Minister Chi Haotian in August 1999, he (Putin) uttered that Russian should be trained by Chinese on how to draw FDI and enhance financial growth. In a series of meetings,

⁸¹ Lamy, P. (2012). *WTO Membership will Change Russia*. Baltic Rim Economies.

⁸² Portyakov, V. (2010). *Russian-Chinese Relations: Current Trends and Future Prospects*. Russian Analytical Digest 73, 2-4.

leaders of Russia and China made a target of achieving bilateral trade volume of at least US \$7,000 million by the end of 1997 to US \$20,000 million by the end of 2000 and about US \$60,000 million to US \$80,000 million by the end of 2010. However, the hopes of attaining the set target trade quantity were not achieved as a result of the lack of complex legislative formalities, infrastructure facilities, and inefficient trade management mechanism.

CHAPTER THREE

CHINESE INVESTMENT IN AFRICA

3.1 Introduction

According to Alden, Africa has the uppermost return on FDI, ranging from 29% in 1990 to 40% in 2005. Though China's trade with Africa is little compared to US\$1.76 trillion in world trade, it has developed 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.⁸³

According to Kaplinsky, McCormick and Morris, China has a deep impact on African economies. The increasing economic expansion is particularly evident in Sub-Saharan Africa.⁸⁴ In the last decade, the Chinese have built a network of trade, aid and investment with close to fifty countries.⁸⁵ 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 cellular phones in Nigeria and Kenya.⁸⁶ China's rapidly developing oil consumption seems to have a bigger effect on Chinese-African trade. 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 Nigeria, Kenya, Algeria, Gabon, Angola, Ivory Coast, Congo Brazzaville, Namibia, Ethiopia, Madagascar and Sudan. Additionally, China also helped in treating infectious diseases such as malaria and

⁸³ Alden, C., (2007). *China in Africa*. Zed books Ltd, London/New York

⁸⁴ Kaplinsky, R., D. McCormick and M. Morris (2007), *The Impact of China on Sub Saharan Africa, Working Paper 291*, Institute of Development Studies, University of Sussex, Brighton.

⁸⁵ Alden, C., Large, D., & Oliveira, R. S., (2008). *China Returns to Africa: A Rising Power and a Continent Embrace*. Hurst Publishers Ltd, London

⁸⁶ Reuters, *China's Mobile Subscribers up 0.3% at 1.26 in April*, May 20, 2014.

HIV/AIDS⁸⁷ and launched the first overseas radio station in Kenya (Brooks and Shin, 2006). Lately, Nigeria and China signed a key oil deal worth US\$23 billion. It calls for China to build three refineries in the nation.

Consequently, trade among 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. As Alden 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.⁸⁸

3.2 China-Africa Trade Relations

3.2.1 The Chinese-Ghana Trade Relations

The China-Ghana relationship has been friendly and, according to President Mills, the Chinese have promoted Ghanaian economic growth and social development. In 1992, China built Ghana's National Theatre as a reward for Ghana's diplomatic support during the 1989 Tiananmen Square protests. The two countries recently celebrated the 50th anniversary of their diplomatic relationship. During the visit of Li Zhaozhuo, vice chairman of the National Committee of the Chinese People's Political Consultative Conference, President Mills declared that China was Ghana's "best friend" for its aid, projects, and loans. Following the first Forum on China-Africa Cooperation meeting in 2000, there has been an increase in the frequency of diplomatic visits between the two countries.⁸⁹

⁸⁷ Aid Watch (www.aidwatch.org.au)

⁸⁸ Alden, C., (2007). *China in Africa*. Zed books Ltd, London/New York

⁸⁹ Xinhua "China, Ghana seek closer ties, cooperation" February 15, 2011, http://news.xinhuanet.com/english2010/china/2011-02/15/c_13733043.htm.

Although Ghana has targeted China for increased investment under the Ghana Investment Promotion Council's strategy, China's share of Ghana's total exports has been low. However, in terms of the number of projects, China is the largest foreign investor in Ghana.⁹⁰

Broadly speaking, Ghana exports raw materials to China and imports manufactured goods. Ghana's main exports to China include: oil products, cotton, gold, aluminum, manganese, timber, cocoa beans, and frozen fish. China exports textile goods and mechanical and electronic equipment to Ghana.⁹¹ In comparison, the United States generally imports Ghanaian agricultural products and exports transportation equipment and energy related materials. Further, there is little engagement with Ghanaian companies as Chinese companies are reluctant to use local equity and local loans for their investments. Approximately 95% of the total cost of operations by Chinese companies is made up of foreign loans and equity. The isolation with which China operates in Ghana is one-sided and is not helping develop Ghanaian industry.⁹²

Chinese-Ghanaian trade has increased significantly in the past decade and shows no signs of slowing. While trade numbers vary by source, in 2010, Chinese exports to Ghana totaled more than \$1.9 billion and China imported \$123 million worth of Ghanaian goods. In 2008, Ghana received \$10.9 million in Chinese FDI flows and this amount rose to \$49.3 million in 2009—a whopping 352% increase in one year.⁹³ Similarly, in 2008, China sent \$58 million to Ghana in FDI stocks, and \$185 million in 2009. Trade between China and Ghana reached \$2 billion in 2010, though that is only 2% of the total China-Africa trade.⁹⁴

⁹⁰ Idun-Arkhurt, Isaac “*China and Ghana: A Case Study Engagement*,” South Africa Institute of International Affairs, 2008, pg. 18.

⁹¹ African Growth and Opportunity Act Info, Trade Law Center for Southern Africa
http://www.agoa.info/?view=country_info&country=gh&story=trade.

⁹² Aryeetey, Ernest; Fenny, Ama Pokuaa; Tstikata, Dela, “*China-Africa Relations: A Case Study of Ghana*,” African Economic Research Consortium, January 2008, pg. 17.

⁹³ Taylor, Ian, *China's New Role in Africa*, Lynne Rienner Publishers, 2009.

⁹⁴ Davies, Martyn “*How China Delivers Development Assistant to Africa*.” Centre for Chinese Studies, University of Stellenbosch, February 2008, pg. 43.

Looking at the humanitarian sphere, China has pledged to give over \$10 billion in aid to Africa for development projects. It is unclear how much of this is intended for Ghana as numbers on Chinese humanitarian aid are hard to locate, though likely low. For example, the Chinese have recently built the Burma Conference Center, renovated the National Theatre, assisted in an irrigation project, treated malaria, and built a hospital, all for under about \$15 million, or about \$2 million per year over the past decade. These humanitarian aid figures are quite small when compared to the U.K.'s \$149 million in aid over five years.

Four Chinese projects in Ghana are notable for their scope and provide insight into the Sino-Ghanaian relationship. They are the Bui Dam, Essipon Stadium, the telecommunications agreement with Ghana Telecom, and the Teshie Hospital. These four examples help illustrate how China goes about funding projects in Ghana, and the impacts of Chinese investment on local workers and industry.

Essipon Stadium Construction

The Essipon Stadium was one of two Chinese-funded stadiums for the 2008 African Cup of Nations. A Chinese firm completed this project and the majority of the funds came from the Ghanaian government. The Chinese Shanghai Construction Group (SCG) finished the project early with a soft loan of \$39 million from China and a \$275 million commercial loan from Barclays Bank of Ghana. SCG employed double the amount of Chinese workers over Ghanaians. Like with the Bui dam, all the workers were employed on a casual basis.⁹⁵ These stadium projects seem extravagant when compared to Ghana's GDP/capita of \$3,000/year.⁹⁶ However,

⁹⁵ Nuamah, Samuel "100 bed Teshie hospital inaugurated" The Ghanaian Times, December 22, 2010.

⁹⁶ World Factbook, "Ghana," Central Intelligence Agency, April 23, 2012, <https://www.cia.gov/library/publications/the-world-factbook/geos/gh.html>.

Ghanaian President Kufuor argued that the stadium would benefit the country's economy and he further expressed his desire to build a stadium in each regional capital in Ghana.⁹⁷

Ghana Telecom and Alcatel Shanghai Bell Agreement

The agreement between Ghana Telecom and the Chinese Alcatel Shanghai Bell (ASB) will upgrade and expand Ghana's telecom network access and seems to be solely commercial. After a bidding process, Ghana Telecom selected ASB for an \$80 million contract to provide switching lines and help grow mobile network capacity. When the project is completed there will be telecom services available to all secondary schools, towns, and villages in the country.²² This project is similar to the Chinese Huawei Technology's construction of a fiber optic cable from Accra, the capital, to Tamale in the Northern region.⁹⁸

Since the 1976 construction of the Tanzam railway in Zambia, the Chinese have been investing in Africa's infrastructure. However, Chinese involvement in other countries' strategic infrastructure has caused some consternation.⁹⁹ The close relationship between business and government in China leads some to believe that, in a crisis, Beijing would have control over other countries' important infrastructure. As Beijing helps rebuild Africa, they frequently utilize Chinese contractors and materials. Further, the access to capital available to Chinese state owned enterprises (SOE) allows them to undercut their competitors (both Western and local) and operate on lower profit margins.¹⁰⁰

⁹⁷ Ibid

⁹⁸ Bloomberg News, "Ghana Signs \$1 Billion Loan with China for Natural Gas Project" April 16, 2012,

⁹⁹ Bruatigam, Deborah, "Unpacking China Eximbank's \$10.4 Billion Ghana Credit," September 25, 2010, China in Africa: The Real Story blog,

¹⁰⁰ This Day Live, "GNPC, CNOOC Bid \$5bn to Buy Kosmos Stake" November 8, 2010, <http://www.thisdaylive.com/articles/gnpc-cnooc-bid-5bn-to-buy-kosmos-stake/74749/>.

China's Investment Attempts in Ghana's Oil Sector

The 2007 discovery of offshore oil provided a chance for the international community to invest in Ghana's energy sector. Due to bidding politics and Western bias, China does not currently have a stake in Ghana's Jubilee oil fields. Production began in 2010 and Jubilee's reserves are estimated to be between 370 million and 1.8 billion barrels. The targeted output is 120,000 barrels per day by 2012, which is a relatively small amount. For some context, the top ten oil producers all produce at least 2 million barrels per day.¹⁰¹ Thus, we can consider Ghana a non-petro country and one that must develop its economy through industries other than those related to natural resources. Last year (2013), China imported approximately 2,500 barrels a day of oil from Ghana, .05% of China's oil imports.

In 2010, the China National Offshore Oil Corporation (CNOOC), an active shopper on the world's energy market, submitted a joint \$5 billion dollar bid with Ghana National Petroleum Corporation (GNPC) for a 23.5% stake in the field. Kosmos Energy,¹⁰² the stake owner, rejected their offer for unstated reasons, though price might have been an issue. Currently, Tullow Oil, a London-based company and U.S. companies Kosmos Energy and Anadarko Petroleum hold the majority of stakes in all locations.¹⁰³

3.2.2 Chinese trade Relations with Angola

War raged in Angola for much of the country's history. In 1975 Angola gained its independence from Portugal, which had ruled the country since 1575. Angola quickly entered a 27-year civil war between the Popular Movement for the Liberation of Angola (MPLA) and the National

¹⁰¹ Bruatigam, Deborah, "Unpacking China Eximbank's \$10.4 Billion Ghana Credit," September 25, 2010, China in Africa: The Real Story blog,

¹⁰² Wallis, William "Ghana: Split Decision on Who Wins Jubilee Fields" Financial Times, September 12, 2012, <http://www.ft.com/intl/cms/s/0/97e9c716-bc71-11df-a42b-00144feab49a.html#axzz1u7v3Y4Ub>.

¹⁰³ Boadi, Samuel "China expresses interest in Ghana's oil industry" Daily Guide, February 16, 2011.

Union for the Total Independence of Angola (UNITA).¹⁰⁴ During this war, China initially supported the Moscow-backed MPLA but switched its support during the 1960s to National Liberation Front of Angola (FNLA) and then to UNITA. As part of its effort in the 1980s to befriend African nations, China established diplomatic relations with Angola in 1983, ten years before Luanda established relations with the United States. Beijing's changing loyalties likely delayed the establishment of a formal relationship. The Chinese and Angolans signed a trade agreement in 1984 and set up the Joint Economic and Trade Commission in 1988, though the group did not meet until ten years later, when the country was more stable.¹⁰⁵

Currently, Angola is a one-party state. Despite elections and constitutions, democracy's development has been curbed in Angola. The executive is the highest power and there are few checks on the President's power.¹⁰⁶ Angola has the second largest oil reserves in sub-Saharan Africa and the largest natural gas reserves. A group of dictatorial elites controls the country's oil reserves and they are under little pressure to change their ways.

The Chinese Focus on Oil

The majority of Chinese trade with Angola is focused on oil. As President dos Santos affirmed in 2007, "China needs natural resources and Angola needs development." Within the first quarter of 2012, Angola was ranked the second largest oil supplier to China.¹⁰⁷ Angola is estimated to have reserves equivalent to about 20 years of production at current rates, or almost 1% of the world's total reserves. In fact, from 2000 to 2005, China accounted for 18% of the growth in the world's

¹⁰⁴ Snow, Philip, "China and Africa: Consensus and Camouflage," in Thomas W Robinson and David L Shambaugh. *Chinese Foreign Policy: Theory and Practice*. (Oxford: Clarendon Press, 1994).

¹⁰⁵ Alves, Ana Cristina, "*The Oil Factor in Sino-Angolan Relations at the Start of the 21st Century*" South African Institute of International Affairs, Occasional Paper No 55, February 2010, pp. 5.

¹⁰⁶ Ferreira, Manuel "China in Angola: Just a Passion for Oil?" in eds: Christopher Alden, Daniel Large, and Richard Soares de Oliveira, *China Returns to Africa: A Rising Power and a Continent Embrace*, New York, Columbia University Press, 2008, pp. 300

¹⁰⁷ Global Witness, pg. 96.

demand for oil.⁶⁵ 45% of Angola's oil goes to China and makes up 15% of China's total oil imports.⁶⁶ 99.9% of Angolan exports to China are oil.¹⁰⁸

In 2008 Angola was China's largest trading partner in Africa and it briefly surpassed Saudi Arabia as the top supplier of oil to China.¹⁰⁹ One scholar described the relationship as "characterized by China's growing thirst for oil and swelling financial might...and Angola's national reconstruction needs and rising crude oil manufacture." Though, there has been a considerable increase in Chinese oil purchases, part of the explanation for the dramatic increase in trade value is the world rise in oil prices. Oil prices increased 89% from 2000 to 2005 meaning vast profits for Angola's elite.¹¹⁰

The Lobito Refiner Project

The joint venture between China's state owned oil company Sinopec and Angola's partially state owned oil company Sonangol highlights the complexity of Chinese-Angolan investments. This project was the largest amount of foreign direct investment (FDI) in Angola and is one of the most tangible forms of cooperation between the two countries. Sonangol-Sinopec International (SSI) was created in 2006 and owns 20% of Angola's block 15, 27% of block 17, and 40% of block 18. Interestingly, discussions about this partnership began during negotiations for Angola's first \$2 billion loan from Beijing in 2004.¹¹¹ And, in early 2007, China loaned \$1.4 billion to SSI at 1.4% over LIBOR.⁷¹ China has a controlling share in SSI— Sinopec owns 55% and Sonangol owns 45%. The partnership also includes oil exploration and refinery construction. In 2007, the agreement boosted Angolan oil production by 100,000 barrels a day. Angola's other refinery is

¹⁰⁸ Moss, Todd and Rose, Sarah "China ExIm Bank and Africa: New Lending, New Challenges" Center for Global Development, November 2006.

¹⁰⁹ Associated Press, "Sonangol to buy Marathon Angola stake for \$1.3 billion, blocking sale to CNOOC and Sinopec," Minneapolis-St. Paul Star Tribune, December 11, 2009,

¹¹⁰ Corkin "All's Fair in Loans and War," pp. 116.

¹¹¹ McKinsey and Co. "Lions on the move: the progress and potential of African economies" McKinsey Global Institute, June 2010.

located in Luanda and is operated solely by Sonangol.¹¹² Additionally, a group of Western oil companies developed a \$5 billion liquefied natural gas plant at Soyo and the U.S. Company Bechtel built it.

This situation was complicated by the fact that, in 2007, Angola became a member of the Organization of Petroleum Exporting Countries (OPEC) and thus had an incentive to reduce its oil supply in order to drive up the international price. Sonangol decided to develop the Lobito refinery on its own and commissioning is expected in 2015. In 2008, Sonangol selected a U.S. company as the engineering contractor.¹¹³ However, progress has been slow and Sonangol is reported to be looking for partners to help fund the \$8 billion venture.¹¹⁴ In February, Western oil companies including French Total, British BP, and Italian ENI were vying to partner with Sonangol for construction. Each of the firms are planning for a 50% stake in the refinery. The competition between foreign investors in Angola means that when negotiations with China fail, Luanda has the option to begin discussions with many other partners.

The Angolan government is beginning to maintain control over its natural resources. For example Sonangol now holds 70% of the shares in the Lobito refinery, while Sinopec has 30%. As Luanda begins to look away from Beijing, it is essential that the country build local capacity in construction and other industries.¹¹⁵ It is important to remember that because Angola's credit line is linked to oil, a non-renewable resource that is currently slated to run out in two decades, Angola's leverage to negotiate is finite.¹¹⁶

¹¹² Corkin "All's Fair in Loans and War," pp. 116.

¹¹³ Africa-Asia Confidential, "Luanda Diversifies its Portfolio," September 2009, <http://www.africa-asia-confidential.com/article/id/289/Luanda-diversifies-its-portfolio/>.

¹¹⁴ Associated Press, "Sonangol to buy Marathon Angola stake for \$1.3 billion, blocking sale to CNOOC and Sinopec," Minneapolis-St. Paul Star Tribune, December 11, 2009,

¹¹⁵ Associated Press, "Sonangol to buy Marathon Angola stake for \$1.3 billion, blocking sale to CNOOC and Sinopec," Minneapolis-St. Paul Star Tribune, December 11, 2009,

¹¹⁶ Africa-Asia Confidential, "Luanda Diversifies its Portfolio," September 2009, <http://www.africa-asia-confidential.com/article/id/289/Luanda-diversifies-its-portfolio/>.

3.2.3 Chinese Trade Relations with Zimbabwe

China supported rebel movements in Zimbabwe in the 1960s and during the civil war. During this time, the Chinese relationship with the Soviet Union was deteriorating quickly. Beijing frequently criticized Moscow and sought to oppose Soviet foreign policy.¹¹⁷ In 1961, the leader of the future ZANU met with Chinese representatives in an effort to gain their support and he later visited the country as well. Beijing initially wooed both the ZANU and its rival, ZAPU, though ultimately choose to support ZANU.

The China-Zimbabwe relationship grew through loans, projects, and further visits. Beijing reaped the political capital it had sowed in the 1960s and was invited to construct hospitals and the National Sports Stadium in the 1980s.¹¹⁸ Mugabe traveled to China again in 1985 and received \$55 million in loans. The Tiananmen Square Massacre provided an opportunity for Mugabe to provide much-needed support to Beijing, which he was pleased to provide and which brought him closer with the isolated regime.¹¹⁹ Beijing would later reciprocate and support Mugabe when he was isolated internationally. He traveled again to Beijing in 1993 and an Economic Joint Commission was soon established. While Mugabe desired to “free” Zimbabwe from its traditional Western partners, the country did receive substantial aid from them in the 1980s, including \$417 million from the World Bank, \$204 million from the U.S., and \$156 million from the European Economic Community. And in the 2000s, most of Zimbabwe’s trade, investments, loans, and arms were from its neighbors and the West.¹²⁰

¹¹⁷ Taylor, Ian, *China and Africa: Engagement and Compromise*, Routledge, 2006, pg. 107.

¹¹⁸ Ampiah Kweku and Naidu, Sansusha eds “Crouching Tiger, Hidden Dragon?” University of KwaZulu-National Press, 2008.

¹¹⁹ Mabuse, Nkepile, “Zimbabwe: China’s friend in Need?” CNN, April 26, 2011, <http://edition.cnn.com/2011/BUSINESS/04/26/zimbabwe.china/index.html>.

¹²⁰ Taylor, *China and Africa: Engagement and Compromise*, pg. 123.

Current China-Zimbabwe Relations

China's relationship with Mugabe has continued to grow on the basis of economics. In 2010, the two nations celebrated 30 years of relations and over \$560 million in bilateral trade.¹²¹

Zimbabwe exports slightly more goods to Beijing than it buys from the country. Generally, Harare imports telecommunications equipment and manufactured goods from China and exports raw materials such as tobacco, platinum, chrome, steel, and diamonds. Zimbabweans have come up with a derogatory nickname, *zhing-zhong*, for the cheap Chinese goods in the country.¹²²

Beijing's commercial intentions in Zimbabwe include investing in raw materials, seeking out opportunities for investment, and possibly accessing South Africa's market.¹²³ Chinese companies have taken over Air Zimbabwe, the Zimbabwe Broadcasting Corporation and control 70% of the country's sole electricity generation facilities. Zimbabwe presents a challenge environment for many foreign investors, but Chinese firms have some safety net due to Chinese state support for their investments.

Brautigam points out that China is not focused on giving "aid" to Zimbabwe, but conducts business with the country.¹²⁴ At the same time however, China did provide \$103 million in official development aid from 2004-2009 through grants, concessional loans, contributions to the World Food Program, and construction of two schools and a hospital. Further, the China Export-Import Bank has restructured some loans on terms that are more favorable to Zimbabwe, including reducing the interest rate from 4% and 3% to 2% on two loans totaling \$17.9 million.

¹²¹ Brautigam, Deborah, *The Dragon's Gift*, Oxford University Press, 2009.

¹²² Taylor, *China's New Role in Africa*, pg. 101.

¹²³ Approximately 47% of the population is under 15. Sylvester, Christine McNabb *Zimbabwe: the Terrain of Contradictory Development*. Boulder, Colorado: Westview Press, 1991.

¹²⁴ Brautigam, Deborah, *The Dragon's Gift*, Oxford University Press, 2009.

The “Look East” Policy

In 2003, Mugabe launched his “Look East” policy, which intended to increase investment from Asian countries including Malaysia, Singapore, and China. He declared, “we have turned East, where the sun rises, and given our backs to the West, where the sun sets.” Mugabe took advantage of his speech at the Sino-African Trade Summit that year to engage in a tirade against Britain and the U.S. and praise China. The “Look East” policy was a deliberate turn against Western nations as they had begun to sanction the regime. This policy was also prompted by the government’s need for foreign exchange and investment, especially in light of the young population.

China responded favorably to the “Look East” policy and it was quick to support Mugabe’s controversial decision to raze shantytowns around Harare, known as Operation Murambatsina, or “get rid of the trash.”¹²⁵ The policy began in 2005 and is estimated to have displaced 700,000 people. Although the policy was likely intended to punish urban-based supporters of Mugabe’s opposition and to push rural migrants back to the countryside, it was widely rumored that Mugabe introduced the policy to protect Chinese traders by removing their competition.¹²⁶

China has further supported Mugabe rhetorically and in international organizations. In 2005, Beijing was the only non-African nation to endorse Zimbabwe’s flawed elections.¹²⁷ That same year, the United States and the European Union pursued further sanctions and an arms embargo against Mugabe and his supporters.¹²⁸ In almost a tit-for-tat move, Beijing responded by signing

¹²⁵ U.S. Embassy-Harare, “U.S. Sanctions and Bilateral Trade with Zimbabwe 2001-2010,” harare.usembassy.gov/uploads/pz/tK/.../us_zim_sanctions_trade.pdf

¹²⁶ Eisenman, Joshua, “Zimbabwe: China’s African Ally,” The Jamestown Foundation, [http://www.jamestown.org/single/?no_cache=1&tx_ttnews\[tt_news\]=3877](http://www.jamestown.org/single/?no_cache=1&tx_ttnews[tt_news]=3877).

¹²⁷ A 2010 Xinhua article criticized the international community’s frequent encouragement of power sharing agreements, citing Zimbabwe’s failure to reduce Mugabe’s power. Xinhua, “Do Power-sharing Deals Really Work for Africa?” February 16, 2010.

¹²⁸ Eisenman, Joshua, “Zimbabwe: China’s African Ally,” The Jamestown Foundation, [http://www.jamestown.org/single/?no_cache=1&tx_ttnews\[tt_news\]=3877](http://www.jamestown.org/single/?no_cache=1&tx_ttnews[tt_news]=3877).

eight wide-ranging agreements on irrigation, roads, power plants, telecommunications, and electrical power, estimated to be worth \$1.6 billion.¹²⁹ The agreement was commercially driven. Chinese firms required very large down payments and security in tobacco and platinum exports. Despite the long relationship between Zimbabwe and China, Chinese firms require large down payments because they are operating in a high-risk environment.

While the Zimbabwe-China relationship is strong, it is also unequal.¹³⁰ “For China, Zimbabwe is economic small fry, but for ZANU, China is the only way out of a deep hole.” As Western nations and banks pull out of the country and apply sanctions, China is increasingly one of Mugabe’s few foreign allies and partners.¹³¹ There are still some foreign deals, including a 2006 agreement with a French bank for fuel imports, a 2006 \$100 million deal with a South African mining company for platinum investment, and a 2008 \$400 million chromium mining investment by a British firm.¹³² Here is a table indicating some investments between the two countries over the past decade. Details on many of the projects were difficult to locate.

Figure 3.2: China-Zimbabwe Trade, 2000-2012

Year	Amount (US\$)	Type	Description
2000	\$5.8 million	Concessional loan	Used for investment in a cement plant, later terms were renegotiated
2004	\$240 million	Sale	12 jet fighters and 100 military vehicles
2006	\$25 million	Preferential loan	-
2007	\$200 million	Export credit	Farming inputs
2007	\$200 million	Sale	Sinosteel purchased Zinasco

¹²⁹ Ibid

¹³⁰ Eisenman, Joshua, “Zimbabwe: China’s African Ally,” The Jamestown Foundation, [http://www.jamestown.org/single/?no_cache=1&tx_ttnews\[tt_news\]=3877](http://www.jamestown.org/single/?no_cache=1&tx_ttnews[tt_news]=3877).

¹³¹ Eisenman, Joshua, “Zimbabwe: China’s African Ally,” The Jamestown Foundation, [http://www.jamestown.org/single/?no_cache=1&tx_ttnews\[tt_news\]=3877](http://www.jamestown.org/single/?no_cache=1&tx_ttnews[tt_news]=3877).

¹³² Melville, Chris and Owen, Olly, “China and Africa: a New Era of South-South Cooperation,” Open Democracy, July 7, 2005, http://www.opendemocracy.net/globalization-G8/south_2658.jsp.

2010	\$700 million	Loan	Rejuvenating the agricultural sector
2012	\$180 million	Loan	Airport upgrade, neonatal equipment, economic and technical cooperation

3.3 FDI Effects in African Perspective

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.¹³³ While some scholars see China’s economic growth as a positive development model for the third world, others look more critically at China’s behavior on the continent and sees its parallels to the neo-colonial past. In using the Hood and Young (1981) model that evaluate multinational activity based on social, competitive, trade, etc. criteria.

3.3.1 Trade Effects

There are even more controversial points however. These are related to the trade, commerce, and social areas. According to Kaplinsky and et al., 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. Moreover, African producers cannot compete with Chinese companies even in African markets since Chinese manufacturers have low production cost and market prices.¹³⁴

¹³³ Melville, Chris and Owen, Olly, “China and Africa: a New Era of South-South Cooperation,” Open Democracy, July 7, 2005, http://www.opendemocracy.net/globalization-G8/south_2658.jsp.

¹³⁴ Kaplinsky, R., D. McCormick and M. Morris (2007), *The Impact of China on Sub Saharan Africa, Working Paper 291*, Institute of Development Studies, University of Sussex, Brighton.

3.3.2 Competitive Effects

The use of Chinese labor, rather than local workers in Chinese sponsored projects in Ethiopia, Sudan and Namibia has been criticized locally. De Lorenzo (2007) also reiterates 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. However, South Africa is not affected as much because of temporary bilateral agreements between the governments that limit Chinese imports.

Zweig and Jianhai (2005) stated that “Beijing’s resources-based foreign policy has little room for morality”. After all, some of the very rich resources are found in nations with a history of ineffective governance.

China has established relations with rogue nations, at times mired with violent reactions from the citizens of those nations. Some examples can be found in their experiences in Sudan, Nigeria, Ethiopia, and Zambia. For instance, in Zambia’s copper belt of Chambishi protesting employees were sprayed with gunfire by Chinese supervisors.

3.3.3 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. Another conflict is the quality of Chinese goods which is cheaper and of better quality than locally produced ones.

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.¹³⁵ 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.

3.4 Dunning Eclectic Model and China's African FDI

In an attempt to better explain China's foreign direct investment in Africa, Dunning's eclectic model will be presented. This model was deemed appropriate because it addresses the key aspects of this relationship. According to Dunning (1980), in its original form the eclectic model is based on three sets of advantages considered important by the firms. One, for MNEs to compete by producing in another country must have advantages specific to their ownership. While these advantages are considered competitive or monopolistic, it must be able to compensate for the cost of setting up and operating compared to the local competition. Two, it must be in the best interest of the firms that have ownership advantage to transfer resource within their own firms, rather than sell them or the right of use to foreign based enterprises. The third one is concern is ensuring that location of production is in the best interest of the firm. As pointed by Dunning (1980), "while, in the eclectic paradigm, the advantage or disadvantages of particular locations are treated separately from ownership advantage of particular enterprises, and the market for these advantage are internalized; the decision on where to site a mine, factory

¹³⁵ Kaplinsky, R., D. McCormick and M. Morris (2007), *The Impact of China on Sub Saharan Africa, Working Paper 291*, Institute of Development Studies, University of Sussex, Brighton.

or office, is not independent of the ownership of these assets nor of the route by which they or their rights are transacted".¹³⁶

Additionally, as has been seen above, Chinese foreign policy aims are a critical determinant of its investment and foreign aid, since firms are not necessarily independent of the Chinese government. Investments by Chinese companies in Africa are advantageous to them because they face limited domestic and foreign competitors. But it faces greater risk since the general environmental conditions including political and economic are continuously changing. These factors, in addition to the absence of public goods needed to overcome government and market failure, are creating a unique situation that made it unattractive for other investors (Bartels, Alladina, and Lederer, 2009).

3.5 Impact of the Global Financial Crisis (2008-present)

In light of the above discussion one may contemplate, how the Chinese investment and policy towards Sub-Saharan Africa is affected by the global financial crisis.¹³⁷ It is reasonable to begin this topic with a discussion of the world economy since that is where the ripple effect started. IMF (2009) reports indicate that the current financial crisis is global and the world is facing a deep downturn. The January 2009 report (BBC) on the *World Economic Outlook* projected, world economic growth to slow to less than 3.5 percent in 2008 to about 0.5 percent in 2009 before recovering in 2010. Similarly, growth is expected to fall in China and other emerging market economies from 6.25 percent in 2008 to about 3.25 percent in 2009 because of falling export demand, suppressed capital inflows, and lower commodity prices. Obviously, this

¹³⁶ Kaplinsky, R., D. McCormick and M. Morris (2007), *The Impact of China on Sub Saharan Africa*, Working Paper 291, Institute of Development Studies, University of Sussex, Brighton.

¹³⁷ Kaplinsky, R., D. McCormick and M. Morris (2007), *The Impact of China on Sub Saharan Africa*, Working Paper 291, Institute of Development Studies, University of Sussex, Brighton.

economic climate will have direct impact on African economy considering “China is a major market, financier, investor, contractor, and builder as well as donor” nation.¹³⁸

According to a report from BBC, although African economies were stagnant during the 1990s, during the last three years Africa has sustained steady growth.¹³⁹ This growth has been driven by global demand for oil and raw material. Africa’s output grew by estimated 5.5 percent in 2006 and projected to grow at 5.9 percent in 2007, but falling slightly to 5.7 percent in 2008. UNCTAD reports the global demand for raw materials has shown a twenty-five percent increase in FDI in Africa with \$39 billion invested in 2006 mainly in the extractive sector.¹⁴⁰ In the meantime, Chinese economy grew an average of 9 percent per year in the last 25 years and predicted to reach as high as 13 percent. The two way trade between China and Africa has been growing. Kaplinsky, report that between 2001 and 2006 Africa’s exports to and imports from China grew by an average of 40 percent and 35 percent. In dollar terms the increase was from US\$10 billion to US\$55 billion, making China the third largest trading partner after U.S and the European Union.¹⁴¹

Both China and Africa have to cope with the impact of the global slowdown. Although there are a signs of recovery, some African countries are still vulnerable to the slow economic growth of the developed world. According to the World Bank, the rate of growth in sub-Saharan Africa is projected to be 1.5 percent in 2009 compared to 5.5 in previous year. China is also affected by the crisis. The growth rate was 7.7 in the first quarter of 2009, compared to 8 percent in the

¹³⁸ BBC *World Economic Outlook* (<http://www.bbc.co.uk>)

¹³⁹ Ibid

¹⁴⁰ Kaplinsky, R., D. McCormick and M. Morris (2007), *The Impact of China on Sub Saharan Africa, Working Paper 291*, Institute of Development Studies, University of Sussex, Brighton.

¹⁴¹ Kaplinsky, R., D. McCormick and M. Morris (2007), *The Impact of China on Sub Saharan Africa, Working Paper 291*, Institute of Development Studies, University of Sussex, Brighton.

previous year. Currently, it appears that China is doing better than projected as it reported an 11.5 percent growth rate for the first quarter of 2010.

According to the Forum on China-Africa Cooperation, Beijing Summit in 2006, China promised to increase investment and aids to Africa by three fold. In the words of Premier Jiabao, “whatever change may take place in the world...our policy of supporting Africa’s economic and social development will not change”. Since 2000 China-Africa trade investment grew by rate of 33.5 percent, reaching US\$106.8 billion by 2008 beating the target set by Beijing summit two years ahead of schedule. In fact, the Chinese funding of infrastructure and development in Africa grew to rival lending by World Bank and International Monetary Fund.

3.6 Conclusion

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. 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.

CHAPTER FOUR

CHINA AND KENYA'S COOPERATION IN HISTORICAL PERSPECTIVE

4.1 Introduction

This section looks at China-Kenya trade relations, Chinese Aid to Kenya by exploring on the imports and exports between the two countries and identifies the sectors that have been able to gain from such aid. Few subjects in contemporary international relations cause as much excitement and controversy as the current rise of economic initiatives by the Peoples Republic of China in Africa. The target population comprised of member of staff at the Ministry of Foreign Affairs and International Trade and senior staff at the Chinese embassy in Kenya. The respondents were selected purposely. The data collected was analyzed qualitatively and quantitatively and findings presented using short narrations. Policies developed by two nations have seen the increase in the flow of foreign direct investments although the balance between the two trading partners has not been achieved.

4.2 China and Kenya's Cooperation

According to this paper, China- Kenya relation is subdivided into three historical periods, which are:

1. 1963 – 1978: This is after Kenya attained independence and it's the era of Jomo Kenyatta (the first president of Kenya).¹⁴²
2. 1978 – 2002: During President Moi Era as the President of Kenya.
3. 2002 – Present (2010): During the era of President Mwai Kibaki

¹⁴² Kenya daily nation (<http://www.nation.co.ke>)

1963 – 1978: President Jomo Kenyatta Era: The existing diplomatic corporation between Kenya and China shields a number of issues, for instance the anti-piracy corporation, roads and bridges corporation, oil search corporation, to mention only but a few. This dates back in December 14th 1964 when the People's Republic of China established the diplomatic relations with the Republic of Kenya.¹⁴³ The initial stages saw a fair bilateral ties development, but after 1965, the relation between the two countries was lowered to be at the *chargé d'affaires* level and it was towards the beginning of the 1970s that it gradually returned to the normal.¹⁴⁴

1978 – 2002: President Daniel Arap Moi Era: The year 1978, saw President Daniel Arap Moi in control, and only after then that the relation of the two countries made a quick growth. Following common visits at raised levels, the approachable cooperation has observed due achievements in numerous fields. Several Kenyan leaders have paid China a visit since the establishment of the diplomatic relations between China and Kenya, and they include; Daniel Arap Moi, president of Kenya (September 1980, October 1988 and May 1994), David Okiki Amaye, who was the leader of the Kenya African National Union (September 1986). In October 2000 Kenyan Foreign Minister B. Godana headed an entrustment to attend the Beijing Ministerial Meeting 2000 of the Sino-African Cooperation Forum.¹⁴⁵ The list provided there is just an example for there a number of prominent leaders who have been to China on diplomatic grounds.

Similarly, Chinese leaders and officials also visited Kenya and they include: Vice Premier Ji Pengfei (August 1980); President Jiang Zemin (May 1996); Wang Zhongyu, who is a member and also the secretary-general of the State Council (May 2000); Li Tieying, who is a member of

¹⁴³ Kenya, Ministry of Foreign Affairs (2006) *A Brief Prepared for Institute for Development Studies*, University of Nairobi, SEPTEMBER 2006

¹⁴⁴ Kenya Investment Promotion Center (www.ipckkenya.org).

¹⁴⁵ China- Kenya embassy (<http://www.kenyaembassy.cn>)

the Political Bureau of the CPC Central Committee (2001) and Premier Zhu Rongji (April 2002).¹⁴⁶ 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 Nation of Kenya, Contract on Trade among the People's Republic of China and the Republic of Kenya and so on.¹⁴⁷ Lots of constructions by Chinese and trade relations transpired during Moi's era.

2002 – Present (2013): In December 2002, a new government was molded where Mwai Kibaki was voted the president of Kenya and he articulated to hold a inordinate account of the associations with China, eager to extend and expand the welcoming collaboration between the two countries.

According to Chege,¹⁴⁸ China-Kenya economic relations in the Kibaki era began with high-level political contacts between the two states followed by a series of agreements. President Mwai Kibaki made an official visit to China in August 2005, accompanied by 11 Kenyan trade- and investment-seeking delegations.¹⁴⁹ During this visit President Mwai Kibaki held widespread talks with President Hu Jintao and Chinese government officials which ensued to a five-part contract covering authorized growth help in grants for substructure and energy, extended air services between the two countries, procedural support for assessment and classification of standards in industrial products, and modernization of equipment and training at the state-owned Kenya Broadcasting Corporation.¹⁵⁰ The delegation also paid the obligatory visit to Shanghai. During the visit, discussions with its mayor Han Zheng, on the functioning of special export

¹⁴⁶ Kenya Investment Promotion Center (www.ipckkenya.org).

¹⁴⁷ Kenya daily nation (<http://www.nation.co.ke>)

¹⁴⁸ Chege, M, "China's Soft-Power Diplomacy in Africa," Asia Times, June 23, 2008, Available at: <http://www.atimes.com/atimes/China/HF23Ad01.html>.

¹⁴⁹ Kenya daily nation (<http://www.nation.co.ke>)

¹⁵⁰ Kenya, Ministry of Foreign Affairs (2006) *A Brief Prepared for Institute for Development Studies*, University of Nairobi, SEPTEMBER 2006

industrial zones were held. The same delegation explored prospects in tourism, joint ventures in machinery and power generation. The outcome of this visit was a highly successful Chinese trade exhibition in Nairobi in mid-2006.

High powered persons who have visited Kenya during President Mwai Kibaki era include Wu Bangguo, chairman of the NPC Standing Committee (October 2004) and Vice Premier Zeng Peiyan - February 2005. The list is long and only a few have been cited above. Both countries expressed willingness and commitment to jointly develop bilateral friendly cooperation in all areas.¹⁵¹

In general, the establishment of the diplomatic relations between the two countries has realized a series of aid and assistance provided by China to Kenya which include methane-generating pit, the expansion project of Eldoret hospital and Moi International Sport Center, Teaching Chinese, Confucius Institute at Nairobi University, and Joint Research Work on Vegetables with Egerton University, Road Construction Projects, and the list does not end there.¹⁵²

The two countries signed an agreement for cultural cooperation in September 1980 and a new Cultural Cooperation agreement was recently (May 2009) signed between the Ministry of State for Culture, Permanent Secretary and National Heritage and Vice minister for Culture of China.¹⁵³ The two nations contracted the decorum for the cooperation in higher education, rendering that China provides Egerton University with gears for educating and researches with 2 teachers led over to work there. China would proposition Kenya each year with at least 10 scholarships starting from 1982. In 2002, the Kenyan students studying in China came to 58 in

¹⁵¹ Central Bank of Kenya (2007).

¹⁵² Kenya Investment Promotion Center (www.ipckkenya.org).

¹⁵³ China- Kenya embassy (<http://www.kenyaembassy.cn>)

all. In 1985,¹⁵⁴ China's Xinhua Bulletin Agency set up a general branch office at Nairobi in Africa.¹⁵⁵

4.2.1 Importance of the corporation

Following the information gathered in terms of China-Kenya relations, China views Kenya as an opportunity to the region and it has become a key focus of China's trade and economic strategy in Africa.¹⁵⁶ Kenya is a war-free country with stable political situation and this makes it an ideal regional flat form for Chinese investors to increase their business in Africa. Currently China is offering favorable loans to Kenya, constructing schools and hospitals for less developed areas, has set up malaria prevention and control centers as well as sending volunteers to train the locals.

4.2.2 Gains and Losses for the corporation

China-Kenya cooperation has seen the Kenyan Airways provision of landing rights in several cities in China and is now operating direct flights to Hong Kong (China) and Guangzhou in southern China from Nairobi.¹⁵⁷ In addition to this, since Kenya was granted Preferred Tourist Destination in 2004, arrivals from China have doubled and the number is expected to grow high.¹⁵⁸ Such initiatives will boost the Kenyan economy by enhancing not just the earnings of the Airlines but also earnings for the tourism sector which is one of the leading foreign exchange earner for Kenya. These operations have a likelihood of facilitating the movement of Chinese

¹⁵⁴ Xinhua "China, Kenya seek closer ties, cooperation" February 15, 2011,

¹⁵⁵ Kenya, Ministry of Foreign Affairs (2006) *A Brief Prepared for Institute for Development Studies*, University of Nairobi, SEPTEMBER 2006

¹⁵⁶ Kenya Investment Promotion Center (www.ipckkenya.org).

¹⁵⁷ China- Kenya embassy (<http://www.kenyaembassy.cn>)

¹⁵⁸ Kaplinsky, R., D. McCormick and M. Morris (2007), *The Impact of China on Sub Saharan Africa*, Working Paper 291, Institute of Development Studies, University of Sussex, Brighton.

business people to Kenya, resulting to increased foreign direct investment in Kenya from China.¹⁵⁹

4.3 Investments between Kenya – China

According to Rotberg 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.¹⁶⁰ 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), provides uniforms, supplies equipment, builds barracks, supplies military free power and offers various types of assistance.¹⁶¹ Gadzala 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.¹⁶²

In Kenya, Foreign direct investment (FDI) is defined as investment in foreign assets, such as foreign currency, benefits or property, rights, credits, undertaken by foreign national for the purpose of production of goods and services, which are to be vended in the local market or shipped overseas (Investment Promotion Center Act, Chapter 518).¹⁶³ The records of FDI transactions are kept by the Central Bank of Kenya. Kenya has lately opened the investment atmosphere. An exciting enquiry arises; what are the determinants of FDI inflows? According to

¹⁵⁹ Sutter, Robert G. (2008) *Chinese Foreign Relations* Maryland, Rowman & Littlefield Publishers. P.340-342

¹⁶⁰ Rotberg, R., (2008). *China into Africa: Trade, Aid and Influence*. Brookings Institution Press, Washington, D.C. pp 01

¹⁶¹ Gadzala, A., (2009). Survival of the fittest? Kenya's jua kali and Chinese businesses. Merton College, University of Oxford, UK (*Journal of Eastern African Studies*, Vol. 3, No. 2 July 2009, p. 202 -220)

¹⁶² Ibid

¹⁶³ Central Bank of Kenya (2007).

Kipngetich,¹⁶⁴ there are a number of factors that facilitate the predictability in a country, namely, political stability and FDI inflows, openness of the economy, labour conditions, legal environment, size of the market, infrastructure and other support services availability and degree of globalization in a country. Kipngetich 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, solid and well-organized political economy, incomes, security and diplomatic relations with other nations-external relations.¹⁶⁵ Such conditions if put in place attract FDI. Until 1995, all far-off reserves flowing into the country were theme to endorsement by the Central Bank (Invest Promotion Centre). The Investment Promotion Act of 2004 spells out the government pledge to attracting FDI in Kenya since it was comprehended that the FDI in Kenya was deteriorating during the last decade, whereas it rose in other countries in the region.¹⁶⁶ Why was then Kenya's FDI declining? Kipngetich¹⁶⁷ claims that stormy political surroundings in the last decade stand-off with growth partners especially IMF, corruption low economic growth, and insecurity, poor infrastructure, inefficient public services amongst other reasons made Kenyan FDI go down. According to Assistant Minister for Trade, Hon. James Magara, the existing global economic crises and the post elections violence of 2007, stunned Kenya and investors have been hesitant to bring business back.¹⁶⁸ However, there are claims that have been impending over the last year - 2009. In addition increased competition among African countries in the global FDI also pushed the Kenya government to address the domestic impediments to foreign

¹⁶⁴ Kipngetich, J., (2008). *Kenya's Competitiveness in Business*. Investment Promotion Centre, Nairobi.

¹⁶⁵ Ibid

¹⁶⁶ Central Bank of Kenya (2007).

¹⁶⁷ Kipngetich, J., (2008). *Kenya's Competitiveness in Business*. Investment Promotion Centre, Nairobi.

¹⁶⁸ Central Bank of Kenya (2007).

investments.¹⁶⁹ According to the Investment Act of 2004, foreign possession is only constrained for telecommunication industry, insurance industry, and companies listed on the Nairobi Stock Exchange, to seventy-seven, seventy and seventy-five per cent, respectively. Kenya's FDI influxes and outflows for 2007 and 2008. These stocks have been growing progressively over the years. However, the FDI inflows have been subject of fluctuations particularly in the last decade. 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 keenness is the result of many inter-connected influences such as adverse perception by investors about poor governance, theft, political instability, inadequate infrastructure, insecurity, corruption, crime, and policy instability. Private investment which was increasing at an average of 10% between 1985 and 1989 only grew by 0.4% between 1997 and 2001.¹⁷⁰

4.3.1 Composition of Chinese investment in Kenya

Chinese investment developments in Kenya presently number about 96 with a labor force of approximately 6,700 Kenyans and an investment capital of 52.6 million US dollars (Kenya Investment Authority). Most FDI from China is completed by companies from China which is either solely or somewhat state-owned even though in Kenya they operate as private companies.¹⁷¹ Until the year 2000, the FDI from China stayed very low. The flows from China became remarkable in 2004 – 2006.

¹⁶⁹ Xinhua "China, Kenya seek closer ties, cooperation" February 15, 2011,

¹⁷⁰ Central Bank of Kenya (2007).

¹⁷¹ Kipngetich, J., (2008). *Kenya's Competitiveness in Business*. Investment Promotion Centre, Nairobi.

According to Chege in the year 2001 and 2002, there were 17 Chinese investments reputable in Kenya.¹⁷² In the year 2003, 11 Chinese firms were also started, which were entirely owned by the Chinese, regularly 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 wholly 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.¹⁷³

By 2004, there were about 60 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.¹⁷⁴ Employment was mostly local (97%), averaging 114 per firm and foreign (3%), averaging 4 persons per firm. Onjalla mentions that in 2005, 12 Chinese firms commenced their operations in Kenya and most of the firms were in the manufacturing and services subsectors.¹⁷⁵ More so eight (8) Chinese firms were established in Kenya in 2006, again mostly in the services (63%) and manufacturing (37%) sub-sectors and most of the capital was invested in services sector. The average capital investment amounted to US\$ 636,000, with a bigger share of it going into services investment. Employment averaged 85 persons per firm for locals and 8 persons per firm for foreigners. Table 3 and 4 shows FDI investment from China to Kenya.

Table 3: China’s FDI to Kenya 2006 Sector

	Company name	activity	CAP COST F	CAP COST L	EMP F	EMP L

¹⁷² Chege, M, “China’s Soft-Power Diplomacy in Africa,” Asia Times, June 23, 2008, Available at: <http://www.atimes.com/atimes/China/HF23Ad01.html>.

¹⁷³ Kenya, Ministry of Foreign Affairs (2006) *A Brief Prepared for Institute for Development Studies*, University of Nairobi, SEPTEMBER 2006

¹⁷⁴ Kenya Investment Promotion Center (www.ipckkenya.org).

¹⁷⁵ Onjalla, J., (2008). *A Scoping Study on China – Africa Economic Relations: The Case of Kenya*. African Economic Research Consortium (AERC), Nairobi, Kenya (5th March 2008).

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

Source: Invest Promotion Centre (IPC), Kenya Investment Authority (KIA) data sets

NB: MANU = manufacture; SERV = Service; CAPCOST F= capital cost (foreign); CAPCOST L = capital cost (local); EMP F= employment (foreign); EMP L= employment (local)

In addition to the above, sources from Investment promotion Centre and Kenya Investment Authority display that an offshore survey deal was contracted between Kenya Government and China, permitting Chinese oil companies to explore oil in six blocks covering 44 500 sq miles in the north and south of the country.¹⁷⁶ Kenya provided six key oil blocks to Chinese companies (CNOOC) in contradiction of the potential European competitors whereby companies like Cepsa of Spain and Swedish Lundin International wedged grievances as this was seeming as favouritism.¹⁷⁷ Beijing Holley Cotec Pharmaceuticals which is one of the China's major medicinal companies opened a drug supply centre and an East Africa Logistics Centre, in Nairobi and was intended to serve the East and Central African region. The centre allocates anti-malarial medicine to the private and public sectors at less than current market prices.

4.3.2 Kenyan Imports from China

As an outcome of trading chances in the growing economy, Kenya's imports from China were on the increase in 1990s. The Chinese exports to Kenya mainly include , motor and transport vehicles, telecommunication equipment, civil engineering equipment, electrical machinery, motorcycles, household electric appliances, rubber tyres, iron and steel products, textile goods, commodities for daily use, building materials and drugs.¹⁷⁸ In the year 2002 saw the trade value between China and Kenya reach US\$186.37 million, whereby the Chinese export appropriated US\$180.576 million while the importation was US\$5.798 million.¹⁷⁹ There are over 20 Chinese companies doing their businesses in Kenya, for instance Jiangsu International Economic Sichuan International Economic, Technological Cooperation Co and Technological Cooperation Co Ltd

¹⁷⁶ Kipngetich, J., (2008). *Kenya's Competitiveness in Business*. Investment Promotion Centre, Nairobi.

¹⁷⁷ Kenya Investment Promotion Center (www.ipckkenya.org).

¹⁷⁸ Kenya daily nation (<http://www.nation.co.ke>)

¹⁷⁹ Kenya Investment Promotion Center (www.ipckkenya.org).

and China Road Bridge Construction (Group) Corporation and China Import and Export (Group) Corporation for Comprehensive Sets of Gear, etcetera.

Table 6: below shows Kenyan imports from China from 2004 upto 2006;

Item Description	2004		2005		2006	
	Value US \$	% of total	Value US \$	% of total	Value US \$	% of total
Food & live animals	6,946,625	2	4,843,586	2	3,440,786	1
Beverages & tobacco	177,481	n	370,303	n	40	n
Crude materials, inedible, except fuels	1,129,130	1	1,338,276	n	1,799,632	n
Mineral fuels, lubricants & related materials	1,134,536	1	23,737,92 2	8	1,798,928	n
Animal & vegetable oils, fats & waxes	199,226	n	25,335	n	58,097	n
Chemicals & related products, n.e.s	25,063,44 6	13	34,254,27 9	13	45,161,26 4	10
Manufactured goods classified chiefly by material	51,197,79 0	26	87,671,22 4	29	160,275,7 65	35
Machinery & transport equipment	54,993,23 6	28	99,750,70 6	33	181,558,7 51	40

Miscellaneous manufactured articles	58,360,95 1	29	45,837,35 3	15	63,156,84 9	14
Commodities & transactions not classified elsewhere in the s.i.t.c	3,984	n	-	-	60	n
Total imports	199,206,4 05	100	297,828,9 83	100	457,250,1 73	100

Source: Customs Department, Kenya Revenue Authority 2008

N = negligible

The most important imports from China to Kenya are; Machinery and transport equipment which comprise 40 per cent of the value of Chinese imports, manufactured goods classified chiefly by material – 35 per cent, Miscellaneous manufactured articles – 14 per cent and chemicals and related products – 10 per cent.¹⁸⁰

4.3.3 Kenyan exports to China

The main Kenyan exports to China include black tea, sisal fibre, scrap metals (copper and aluminium waste), coffee, fruits and nuts, leather, raw hides and skins and fish (Kenya daily nation, 29th June 2010). According to November 2 2009 news the Kenyan government figures displayed that Kenya exported goods worth 2 billion shillings to inland China in 2008 likened with imports worth 63 billion shillings (Reuters Africa). In 2008, overall trade was \$106.8 billion

¹⁸⁰ Kenya daily nation (<http://www.nation.co.ke>)

which is 45.1 percent on 2007.¹⁸¹ "While Kenya's exports to China increased from Sh1.2 billion in 2005 to Sh2.5 billion in 2009, its imports rose to Sh74.5 billion from Sh19.4 billion in 2005, because most of the imports are capital goods or goods for industrial use" (Kenya Daily Nation, 29th 2010). This shows that the Kenya imports more from China than it exports here.

In relation to imports there has been a gain where Chinese goods have gained inroads into African markets including Kenya. There are huge quantities of cheap Chinese products available in Kenyan markets. However, there has been some experiences of losses due competition from Chinese imports which has hurt the local textile and other local manufacturing sector.¹⁸² On the side of exports, there have been losses because Chinese have duplicated the local goods and have been trading with them. From the BBC interview, Nicholas Makombi expressed the following; „they used to come here and take photos of our products. Then they go and produce almost the same designs and they sell it at a cheaper price“.¹⁸³

4.4 Chinese Aid to Kenya

According to Kiely,¹⁸⁴ Aid is a loan to a country at concessional or nil rates of interest. Moyo¹⁸⁵ categorizes aid into three extensive categories, specifically, Charity-based aid, humanitarian or emergency aid and methodical aid.¹⁸⁶ This study paper paths on systematic aid which is the type

¹⁸¹ Kenya Investment Promotion Center (www.ipckkenya.org).

¹⁸² Onjalla, J., (2008). *A Scoping Study on China – Africa Economic Relations: The Case of Kenya*. African Economic Research Consortium (AERC), Nairobi, Kenya (5th March 2008).

¹⁸³ Kenya daily nation (<http://www.nation.co.ke>)

¹⁸⁴ Kiely, R., (2007). *The New Political Economy of Development: Globalization, Imperialism and Hegemony*. Palgrave Macmillan.

¹⁸⁵ Moyo, D., (2009). *Dead Aid: why Aid is Not Working and How There is Another Way for Africa*. Penguin books Ltd.

¹⁸⁶ Ibid

of aid payments that is made straight to governments and in this case it is the official growth assistance from Chinese government to Kenya.

The development aid Kenya obtains from China differs significantly from that originating from Western donors. In the first instant the adjustment captures the terms and conditions¹⁸⁷ imposed, and secondly, on the aspect of ‘tying’.¹⁸⁷ China is not so much concerned about the issues of human rights, internal governance and democracy in Kenya like the donors from the West. Besides subscribing to the ‘*One China Policy*’, in the case of China, there is no any other conditionality imposed on the recipient country.¹⁸⁸ China’ aid is ‘tied’ to using Chinese companies and procurement of materials in China, but nonetheless, most government officials believe that China is perhaps one of the most price-competitive sources whether its development aid is ‘tied’ or not.¹⁸⁹ In respect to scholarships and technical training, decisions are made by the relevant Ministry in Kenya. China is considered to be much more flexible than the Western donors in accepting domestic constraints. It does not change its reporting and accounting procedures like the Western donors once aid has been disbursed. According to China’s African Policy, China will provide assistance “with no political strings attached”. The single radical ailment China provides for the establishment of its relations with African countries is the ‘one China’ principle, i.e. not to give formal recognition to Taiwan.¹⁹⁰

Chinese aid varies from monetary and monetary aid packages which cover grants and loans for equipment, infrastructure, plant and training opportunities, scholarships, and technical

¹⁸⁷ McCormick, D., (2008). China & India as Africa’s new Donors: The Impact of Aid on Development. (Review of *African Political Economy Journal*, March 2008, Vol. 35, 115. P. 73-92)

¹⁸⁸ Kiely, R., (2007). *The New Political Economy of Development: Globalization, Imperialism and Hegemony*. Palgrave Macmillan.

¹⁸⁹ Onjalla, J., (2008). *A Scoping Study on China – Africa Economic Relations: The Case of Kenya*. African Economic Research Consortium (AERC), Nairobi, Kenya (5th March 2008).

¹⁹⁰ Pere, G., (2006). *China in Africa: mercantilist predator, or partner in development?*. Institute for Global Dialogue Midrand, South Africa.

assistance.¹⁹¹ McCormick notes that monetary aid from China is tied to the use of Chinese goods and services and the only adherence required is the "One China" policy but not "good governance" as the conditionalities that currently characterize the western donors. This suggests that Chinese aid and trade are intertwined in many ways and is hard to separate the two.¹⁹²

Kenya is among the beneficiary countries of Chinese aid, but the sources of information do not specify if the companies are state owned or private sector firms. However the assistance from China to Kenya is project based though in diverse ways.¹⁹³ Since the establishment of the political associations, the projects of aid and support delivered by China to Kenya mainly include: Confucius Institute at Nairobi University, methane-generating pit and the expansion project of Eldoret hospital, Moi International Sport Center, Teaching Chinese and Joint Research Work on Vegetables with Egerton University, Road Construction Projects, and so on.¹⁹⁴ The two countries signed the protocol for the cooperation in higher education, according to which China provides Egerton University with gears for teaching and researches with 2 teachers sent over to work there. Starting from 1982, China would provide Kenya every year with at least 10 scholarships and the new number has been increased up to 20 yearly. The table below shows the type of Aid Kenya has received from China from 2003 up to 2007.

Table 7: Main Types of Aid Given by China to Kenya 2003-2007

Type of Aid	Purpose	Year				
		2003	2004	2005	2006	2007
Loans	Gambogi Serem	3,100.00				

¹⁹¹ McCormick, D., (2008). China & India as Africa's new Donors: The Impact of Aid on Development. (Review of *African Political Economy Journal*, March 2008, Vol. 35, 115. P. 73-92)

¹⁹² Moyo, D., (2009). *Dead Aid: why Aid is Not Working and How There is Another Way for Africa*. Penguin books Ltd.

¹⁹³ Onjalla, J., (2008). *A Scoping Study on China – Africa Economic Relations: The Case of Kenya*. African Economic Research Consortium (AERC), Nairobi, Kenya (5th March 2008).

¹⁹⁴ China- Kenya embassy (<http://www.kenyaembassy.cn>)

	Road					
Loans	Kipsigak-Shamkhokho Road	3,000.00				
Grants	Kasarani Sports Ground Maintenance	39.00	3, 620.00			43,846.15
Grants	Various Training Courses in China	300.00				
Loans	Purchase of Tractors	66.00				
Grants	Government Office Equipment		120.00			
Grants	Maize Flour Processing Project in Bomet and Drought hit Areas		3,330.00			1,766.00
Grants	Tsunami Relief Kenya			442.00		
Grants	Economic and Technical Cooperation Kenya			10,387.00		
Loans	Rural Telecommunications Development Programme Project			24,500.00		14,583.20
Loans	Kenya Power Distribution System Modernization and Strengthening Project			20,130.00		6,600.00

Grants	Rehabilitation of Nairobi Roads and Street Lighting Project					21,538.46
Grants	Technical Training courses to government officials			548.00		
Total		6,505.00	7,070.00	56,007.00	0.00	88,333.81

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

Most of China’s development aid to Kenya went into a rural telecommunications project that linked Kenya’s administration units, with Chinese equipment of course; the controversial “tying of aid” to donor suppliers is still part of China’s aid policy.¹⁹⁵ In the same period, other projects included rural and urban roads and additional maintenance at the Kasarani Sports Complex. There is Nairobi roads project, now in progress, which is a fine example of the “China way” of doing development, and it has earned China’s aid the popularity referred to earlier – because the roads are being undertaken by Chinese companies.¹⁹⁶ The economic boom since 2003 has seen an increase in number of personal and business vehicles, mostly around Nairobi and Kenya on average registered an average of 5, 000 vehicles per month in 2007 and the trend appears to

¹⁹⁵ China- Kenya embassy (<http://www.kenyaembassy.cn>)

¹⁹⁶ Chege, M, “China’s Soft-Power Diplomacy in Africa,” Asia Times, June 23, 2008, Available at: <http://www.atimes.com/atimes/China/HF23Ad01.html>.

remain. This is a share of the likeness in the development in business and partly an example of emerging middle class in personal cars from East Asia.¹⁹⁷

The obvious benefit from the types of aid given to Kenya by China are in terms of infrastructural development and market development and these are the most recipient sectors (manufacturing & service) based on the analysis.¹⁹⁸ However, if the main issue in respect to China's aid is the move to access raw materials and markets in Kenya, then this will hurt Kenya's economy in the long run by undermining the ability of the local firms to exploit the same markets and resources.¹⁹⁹ The rapid expansion of China's Aid to Kenya and the lack of aid conditionalities, may result to overshadowing of the aid from many traditional Western donors.

¹⁹⁷ Moyo, D., (2009). *Dead Aid: why Aid is Not Working and How There is Another Way for Africa*. Penguin books Ltd.

¹⁹⁸ China- Kenya embassy (<http://www.kenyaembassy.cn>)

¹⁹⁹ Moyo, D., (2009). *Dead Aid: why Aid is Not Working and How There is Another Way for Africa*. Penguin books Ltd.

CHAPTER FIVE

SUMMARY OF FINDINGS CONCLUSIONS AND RECOMMENDATION

5.1 Introduction

This chapter presents summary of finding according to objectives of the study, conclusions and recommendation of the study.

5.2 Summary of Findings according to objectives

China's phenomenal economic growth is driving the diplomatic, impressive trade, and aid relations with Africa, and the important commitment causes miscellaneous reactions in diplomacy and the Western media, which speculate about the nature of the China's interests in the continent. If looking inside the story, we can observe that, in the past, the joint relationships were formed by the China's anti-hegemony strategy, collective with the existing competition with Taiwan. At the moment, realistic motives based primarily on national interests have taken the place of philosophy to guide the Sino-African ties. From the economic viewpoint, China and Africa have commercial needs and harmonizing economic. Africa is a continent with rich-resources but with poor capital shortage and deprived manufacturing base. They rely on imports, as well as in basic goods. In contrast, China has enough capital, a entrenched manufacturing export base, but they depend on external resource suppliers. The cooperation between the two is in accordance with the economic theory of comparative advantages, and undoubtedly both benefit from it. Based on the diplomatic perspective, China views Africa as a key partner for harmonization in the process of international rules formulation. China's claim of the uniqueness of a developing country means that it is viewed by the African countries as a reliable spokesman and champion to ensure the shared interests in international organizations like the UN.

Moving to the strategies that China applies to the African case, there are three major policies that help to win the favour of the majority of countries: the policy of mutual respect without asking any political concessions of the counterparts; recurrent high-level visits shows the world how significant the continent means to China, diplomacy, which eventually raises the political value of Africa; and remarkably, economic diplomacy. Chinese investments are always accompanied by linked infrastructure debt relief, assistance in public health and agriculture, contracts, offering zero-tariff treatment for some African exports to China, and building schools. All these are warmly welcomed by the governments and the ordinary people. 'China has vowed to set up between three to five special economic zones, and institute a \$5 billion development fund to encourage Chinese reserves in Africa. Furthermore, 100 schools will be built and upto 16,000 professionals will be educated.

However, my reservation concerns the non-interference policy, which has almost become the label of Chinese foreign policy. The foundation of *the Five Principle of Coexistence*, being the foundation of China's diplomacy, is joint respect and non-interference in each other's interior affairs. Though to advise the complement, to alter would not be at the cost of the commercial benefits and bilateral friendships. By offering substitute channel of financial and diplomacy, China's contribution does deteriorate the pressure of others that are trying to endorse better admiration for human rights. Explanations, such that China has human rights troubles so that China has no jurisdiction to blame other countries, otherwise each nation has different understanding over human rights, cannot please the Western public. On the other hand, as China's influence in the international society increases, it is improper to carry on the non-interference policy, and more prominently, this is not in harmony to the likeness of 'a

responsible state' that China wants to shape. As a result, Chinese authority may have to take some actions to win the acceptance of the international community in some scenarios.

5.3 Conclusion

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

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

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

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 intended for both consumer and manufacturer goods, which provides inexpensive goods in spite of 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.

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