

University of Nairobi
Institute of Diplomacy and International Studies

**THE IMPACT OF CHINA ON SOCIAL AND ECONOMIC DEVELOPMENT IN
SUB-SAHARAN AFRICA: THE CASE STUDY OF KENYA**

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R52/80613/2012

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**A Project Paper Presented to the Institute of Diplomacy and International Studies,
University of Nairobi in Partial Fulfillment of the Requirements for Master of Arts Degree
in International Conflict Management**

2015

DECLARATION

This Project Paper is my original work and has not been presented for a degree in any other university.

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DEDICATION

I dedicate this research project to my family for their unconditional support during this process. I will remain forever grateful.

ACKNOWLEDGEMENT

First of all I would like to thank God Almighty who has brought me this far by providing me with strength, resilience, knowledge and vitality to make this Project a reality. Secondly, I would wish to thank my family for moral and financial support, encouragement and understanding during the period I was working on this Project; I wouldn't have made it this far without them. My sincere gratitude also goes to my supervisor, Dr. Kizito Sabala, and the faculty of the Institute of Diplomacy and International Studies, University of Nairobi, for their support and assistance. I am deeply indebted to my lecturers. God bless you all.

ABSTRACT

The emergence of China as a global economic power introduces new opportunities and challenges to the developing world. China's fast economic advance has continued to have an impact on Africa socially and economically. Generally, this study is about the impact of China on social and economic development in sub-Saharan Africa and examines the social and economic role of China in Kenya and the rest of Africa. The study set out with two hypotheses namely; there is a significant impact of Chinese policies on social and economic development in Sub-Saharan Africa and secondly, Chinese policies have an influence on Africa development and political agenda. The study depends largely on secondary data.

The study found out that the social dimensions in the Chinese presence in Kenya include aid and debt relief, education and telecommunications while the economic dimensions include trade, investments, exploration and infrastructure development. Chinese development aid helps to finance infrastructure projects, hydropower stations, stadia, hospitals and schools. This study concludes that Bilateral economic and trade relations have soared and both sides have made rapid headway in cooperation in the areas of electric power, communications, investment and project contracts and have achieved and maintained close consultations and cooperation in international affairs.

Lastly the study has given recommendations for improving the economic and social relationship between Kenya and rest of Africa and China as follows: China needs to build a stronger social basis for Sino-African relations; China should make concrete contributions to African peace and security; and, China must pave the way for future symmetrical interdependence between China and Africa.

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CHAPTER ONE

INTRODUCTION TO THE STUDY

1. Introduction

The emergence of China as a global economic power introduces new opportunities and challenges to the developing world. China's fast economic advance, from the economic periphery of the world into the core group of the world's leading industrial powers and membership of the World Trade Organization (WTO) since December 2001, has and will continue having an impact on Africa socially and economically. In January 2006, China released its first major policy document on its relations with the African continent (China's Africa Policy).¹ With this release, China's aim is to enhance cooperation between China and Africa in the following fields: politics, economics, education, science, culture, health and social aspects and peace and security.

Global high demand for oil and industrial raw materials has encouraged foreign direct investments (FDI) in many of Africa's resource-rich countries, particularly from China and India, the fastest growing developing countries. FDI to Africa grew by 25 per cent to a record \$39 billion in 2006 and went mainly to the extractive sector. FDI flows to developing countries as a whole grew by only 10 per cent to \$368 billion in 2006.² The growth rate in FDI to Africa was the second fastest behind the rate of 55 per cent in South-East Europe and the Commonwealth of Independent States, which received \$62 billion in FDI flows. West Asia attracted \$43 billion in FDI inflows, an increase of 23 per cent over the previous year, and was dominated by Turkey and oil-rich Gulf States, while South, East and South Asia experienced 13 per cent increase in

¹ Ministry of Foreign Affairs of the People's Republic of China
Retrieved from: <http://www.fmprc.gov.cn/eng/zxxx/t230615.htm> (13 Nov. 2007)

² Wright, R. (1956) 'The Color Curtain', in D.J. Muekalia (2004), 'Africa and China's Strategic Partnership', *African Security Studies*, 13 (1): 5–12.

FDI flows to US\$187 billion, with China, Hong Kong, Singapore and India as the largest four recipients.³

China has become a major development partner of Sub-Saharan Africa (SSA), as its trade, investment, and aid ties with the region have increased remarkably in recent years⁴. China's real Gross Domestic Product (GDP) has grown by an average of 10 percent a year in the past decade, and so has its need to import an entire range of products including minerals, farm products, timber, and oil to satisfy the fast pace of domestic investment, which increased fivefold in the same period. Its investment as a share of GDP increased from 34 percent in 2000 to 46 percent in 2012. China is now the largest single trading partner for SSA. Its stock of foreign direct investment (FDI) reached about US\$16 billion in 2011. It also stepped up its financial assistance to the region by announcing a credit line of US\$20 billion to Africa during the latest conference of the Forum on China-Africa Cooperation (FOCAC) in 2012⁵. The increasing role of China in SSA reflects its increasing share as a major player in world trade and its historic reorientation toward new markets that started in the last decade, including toward SSA countries (International monetary fund (IMF), 2011).

2. Statement Problem

That China is having an impact on Sub Saharan Africa (SSA) is very clear. What is not clear is the precise nature of that impact. Despite what, rhetorically at least, seems to be a mutually beneficial relationship, there is growing concern that in reality China's engagement in Africa is unidirectional focusing only on the economic interests of China. This economic focus

³ Snow, P. (1988) *The Star Raft: China's Encounter with Africa*, London: Weidenfeld & Nicolson.

⁴Ademola, O., Abiodun, B. and Adeolu, A. (2009). "China-Africa Trade Relations: Insight from AERC Scoping Studies," *European Journal of Development Research*, 21, (4): 485–505.

⁵Ahuja, A. and Malhar, N. (2012). "Investment-Led Growth in China: Global Spillovers," IMF Working Paper WP/12/267 (Washington: International Monetary Fund).

of China's engagement comes at a time when democratic consolidation and broader issues of democratic governance is high on the agenda of African countries. Specifically, there is growing concern that China's lack of support for, and engagement in issues of democracy and human rights is undermining political accountability on the continent.

There is lack of support for the democratic aspirations of African countries, more so, it is said to be premised on China's policy of non-interference in the internal affairs of other countries. This raises a paradox which this project seeks to address. While at the same time that China's engagement in Kenya is providing much needed investment resources, its lack of support for democracy and human rights threatens to undermine the foundations of Kenya's long term development. This raises critical questions to which this study responds.

Existing literature gives a fair amount of information about the magnitude and effects of trade between China and Kenya. It tells us, for example, that trade between China and Kenya has increased rapidly, especially since 2001. Available databases can be mined to tell us what is traded and by whom. The literature, however, is less clear about how that trade actually affects Kenya. It is also clear that trade is not the only form of interaction between China and Kenya, and that other interactions may also generate positive or negative impacts.

3. Research Objectives

- 3.1 To study the Chinese policies towards influencing African economic development.
- 3.2 To examine the impact of Chinese policies on the social and political agenda in Sub-Saharan Africa.
- 3.3 To examine the impact of Chinese policies on social and economic development in Kenya
- 3.4 To give recommendation on improvement of policies to impact on social and economic development in Sub-Saharan Africa.

4. Research Questions

- 4.1 How do the Chinese policies influence African development and political agenda?
- 4.2 What is the impact of Chinese policies on economic development in Sub-Saharan Africa?
- 4.3 What is the impact of Chinese policies on social and economic development in Kenya?
- 4.4 What are the recommendations on improvement of policies to impact on social and economic development in Sub-Saharan Africa?

5. Hypotheses

- 5.1 There is a significant impact of Chinese policies on social and economic development in Sub-Saharan Africa.
- 5.2 Chinese policies have an influence on Africa's social and political agenda.

6. Study Justification and Significance

6.1 Academic Justification

There are two major international relations theories for interpreting China's foreign aid policy in Africa: realism and institutionalism. A response based on the realist theory of international relations requires the west to respond with hostility. Such a response would include measures designed to negate Chinese foreign aid policies considered detrimental to West interests. A response within the institutionalism theory on Countries agreeing on ad hoc tariffs may indeed benefit from tricking other countries in any one round of negotiations which becomes detrimental to the west in cases where Kenya enters in to bilateral agreements with China.

The study findings may provide foundation and material for further related research. The result of this study will be invaluable to researchers and scholars, as it will form a basis for further research. The students and academics will use this study as a basis for discussions.

Findings of the study with a case study of the Ministry of Foreign Affairs and International trade and the Chinese Embassy may evaluate whether their own practices are in line with what should be their mandates.

6.2 Policy Justification

Chinese engagement with Kenya has the potential to be either detrimental to West countries interests or highly beneficial⁶. Thus, it is important that US policy makers understand the nature of Sino-Kenya engagement and develop a policy that promotes cooperation with China for Kenya's benefit, and the benefit of both US and China interests⁷. Achieving a win-win-win for all parties will help define the US-China relationship well into the future. A lack of understanding on behalf of the US could lead to ineffective policy and a less than productive relationship with one of the world's developing great powers, China. The China-US relationship will be a central part of future US foreign policy.⁸

Creating wealth in a country is not only an internal activity but also an external activity where different countries exchange resources. Kenya is a beneficiary of this process from other countries. These benefits come through trade, foreign direct investments and Aid. Impact of foreign trade, Foreign Direct Investment and Aid differs from one country to the other. The impacts thus depend on ability of a country to attract robust trade connections, gain competitive edge and therefore have continued investment. This means that countries must have sound policy reforms and clear strategy. Lapse in policy making is detrimental to the gains accrued from trade, FDI and Aid. Loss of such investments such as Foreign Direct Investment (FDI) which is

⁶Tull, D. M. (2006). China's engagement in Africa: scope, significance and consequences. *The Journal of Modern African Studies*, 44(03), 459-479.

⁷Rogers, P. D. (2007). *Dragon with a heart of darkness? Countering Chinese influence in Africa*. National Defense Univ Washington dc inst for National Strategic Studies.

⁸Paulo, S., &Reisen, H. (2010). Eastern donors and western soft law: Towards a DAC donor peer review of China and India?.*Development Policy Review*, 28(5), 535-552.

invested in the manufacturing, agriculture, tourism, financial and business services, telecommunication and others will impact negatively and affect economic growth and subsequent development. At the same time allowing too much external or foreign investment be it in aid, FDI or trade will also harm the local industries and businesses.

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

7. Theoretical Framework

The scope of this study is grounded in the fields of both International Relations (IR) and Global Political Economy (GPE). The theoretical framework therefore draws from theories emanating from both traditions. Some of the theories in International Relations are Marxism, Liberalism, and Realism. These theories are useful for explaining states' behavior in the international system⁹.

In both GPE and IR, Critical Theorists such as Marxists focus on the structure of the international system, particularly the structure of production. From this perspective, market relations are by nature exploitative, and the structure of global capitalism is essentially contradictory since it perpetuates global inequality. Although it may be possible to understand China's involvement in Africa from a critical perspective, especially since the economic

⁹Tull, D. M. (2006). China's engagement in Africa: scope, significance and consequences. *The Journal of Modern African Studies*, 44(03), 459-479.

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

Liberalism, in both GPE and IR, views the international system as essentially cooperative, as a result of interdependence. Thus, Liberals view the international system as governable through the emergence of regimes, manifested in international regulatory organizations, such as the United Nations. From a Liberal perspective, pluralities of actors play equally important roles in the international system¹⁰, and outcomes in international affairs are not only determined by power relations between states, but other factors also play a role. In IR, Liberalism emphasizes morality in international affairs as a way to ensure cooperation and prevent anarchy. Within GPE, Liberals view individuals, rather than states, as key economic actors, and firms are seen as important for the creation of wealth. From this perspective, the role of the state in the market is minimal, since state interference is seen as a distortion of the natural market mechanism, resulting in economic failure.

It will be shown, however, that China’s involvement in Africa can be well explained from a Realist perspective in International Relations, since it is the theory that most aptly explains China’s political stance towards Africa and from the perspective of Political Economy, the theory of Economic Nationalism is most applicable for the explanation and understanding of the political economy of China’s involvement in Africa. According to the great proponent of

¹⁰Paulo, S., & Reisen, H. (2010). Eastern donors and western soft law: Towards a DAC donor peer review of China and India? *Development Policy Review*, 28(5), 535-552

Political Realism, ¹¹Hans Morgenthau, the main aim of states within the international system is the pursuit of their national interests “defined in terms of power”. Thus, due to the structure of the international system, states are inherently self-interested entities, with the main aim of building power so as to gain and maintain an advantage in terms of the balance of power.

8. Research Methodology

This section provides a discussion on the outline of the research methodology that will be used in this study. It focuses on the research design, population of study, data collection methods and makes conclusions based on the data analysis and data presentation methods that will be used in this study¹².

8.1 Case Study

For this study, the research design will be a case study. A case study allows an investigation to retain the holistic and meaningful characteristics of real life events¹³. It involves a careful and complete observation of the impact of China on social and economic development in Sub-Saharan Africa. The case study design is a method of study in depth rather than breadth and places more emphasis on the full analysis of a limited number of events or conditions and other interrelations. Primary data collected from such a study is more reliable and up to date.

¹¹Chisholm, R. M. (1996). *A realistic theory of categories: An essay on ontology* (Vol. 146). Cambridge: Cambridge University Press

¹²Mugenda, O.M and Mugenda A.G. (2003); *Research Methods.Act Press. Nairobi*.pg 32

¹³Saunders, M, Lewis P &Thornhill, A (2009) *Research Methods for Business students*. FT Prentice HQ, India

8.2 Data Collection

This study will draw from both primary and secondary sources of information. Primary data will be derived from interactive interviews and administration of questionnaires from Kenyan Officials in the Ministry of Trade and Foreign Affairs and China's officials at their Embassy in Kenya. Secondary data will be sourced from a collection and review of published and unpublished material, journals, academic papers and periodicals. These will be taken through intensive and critical analysis.

8.3. Data Analysis and Presentation

This includes the process of packaging the collected information, putting it in order and structuring main components in a way that the findings can be easily and effectively communicated.¹⁴ The general approach will be applying content analysis. Content analysis is a technique for making inferences by systematically and objectively identifying specified characteristics of messages and using the same to relate trends. The data will be qualitative in nature, and due to this fact, content analysis will be used to analyze the data.

The findings emerging from the analysis will be used to compile this report. Content analysis will be used in analyzing the open ended questions. Content analysis is defined as a technique for making inferences by systematically and objectively identifying specified characteristics of messages and using the same approach to related trends. The finding of this study will be presented in form of a report.

¹⁴Jankowicz A. D., *Research methods in social science* (6th ed. London: Thomson Learning, 2002) p 87

10. Chapter Outline

Chapter one details the introduction, literature review, conceptual framework, problem statement, objectives of the study, justification of the study, hypothesis and the methodology of this study. Whereas, chapter one gives the background into this study, chapter two looks into the role of China in Kenya. Specifically, the chapter gives the role that China plays in Kenya in the areas of provision of aid, investment in infrastructural projects like roads, information technology and company's establishment and trade. Consequently, chapter three shows the policies that have been established by the two countries in regard to the business relationship between the two countries such as rules of engagement and state bilateral agreements.

Chapter four establishes the implications that China's role in Kenya has on other developing nations in areas of loss of trade and measures the states are taking not to lose trade with Kenya. In conclusion chapter five gives the study's findings and gives recommendations for further research. It brings together the findings from previous chapters and derives conclusions on the study from the analysis of the findings.

CHAPTER TWO

SOCIAL AND ECONOMIC ROLE OF CHINA IN KENYA AND THE REST OF AFRICA

2.0 Introduction

This Chapter looks at the social and economic role of China in Kenya and the rest of Africa. Specifically it focuses on why the African states need China in their economic and social development. It also examines China's engagement with Africa in areas that include aid and debt relief, volume of trade, Composition of trade, investments, exploration and development rights, infrastructure development as well as Telecommunications.

2.1. Literature Review

2.1.1 China's influence on economic development of Sub-Saharan Africa

China's trade with Africa has risen sharply, from \$10 billion in 2003 to \$20 billion in 2004 and another 50 percent increase in 2005. Chinese goods are flooding African markets, and not so different from the United States there has been growing concern in Africa about the effect on local industry¹⁵. The primary focus is on textiles where the growth of Chinese exports constitutes a double whammy for Africa¹⁶. Exports of Chinese textiles to Africa are undermining local African industry while the growth of Chinese exports to the United States is shutting down the promising growth of African exports in this field¹⁷.

The impact on African exports comes from the ending of the Multi-Fiber Agreement (MFA), which had allowed countries like the United States to place quotas on clothing and textile imports from particular countries. Under that system, the United States had long put

¹⁵Brautigam, Deborah. *The Dragon's Gift: The Real Story of China in Africa*. Oxford University Press. Oxford, United Kingdom: 2009. Pg. 142

¹⁶Aziz, J & Dunway, S. (2007) 'China's Rebalancing Act', *Finance & Development*, 44(5): 27 – 31.

¹⁷Manning, R. (2006). 'Will 'Emerging Donors' Change the Face of International Co-operation?', *Development Policy Review*, 24 (4):371 – 385.

quotas on China¹⁸. More recently, the United States enacted the Africa Growth and Opportunity Act (AGOA), which gave African countries almost unlimited access to the American market. Textiles was one of the fastest growing exports under AGOA, with rapidly growing industries in Lesotho, Swaziland, Ghana, Uganda, Kenya and elsewhere on the continent. Once the MFA expired in January 2005, however, Chinese exports to the United States soared and African exporters found they could not compete. More than 10 clothing factories in Lesotho closed in 2005, throwing at least 10,000 employees out of work. South Africa's clothing exports to the United States dropped from \$26 million in the first quarter of 2004 to \$12 million for the first quarter of 2005¹⁹.

The impact has been no less in West Africa. In Nigeria, low cost imports have largely devastated the textile and other consumer product industries of Kano and Kaduna. In these largely Muslim cities, one Nigerian parliamentarian described a frightening situation of vast numbers of unemployed youth, a powder keg in Nigeria's already fractured society. Given Nigeria's underdeveloped and unreliable supply of power, which forces most industries to rely on back-up diesel generators, the prospect of Nigeria regaining a competitive edge seems remote.

If China has been forthcoming in aiding and investing in Africa with few strings attached and considerable cash, it has been equally firm in defending its export policies.²⁰ China's Economic and Commercial Counselor in South Africa warned South Africans that unfair and discriminative restrictions will never be accepted by China. China was within its rights under the WTO and had invested carefully during the ten years of the MFA to become efficient and

¹⁸Martin, W., (2008) 'Africa's Futures: from North-South to East-South?', *Third World Quarterly*, 29 (2): 339 – 356.

¹⁹Leseure, M., Hurreeram, D. & Bennett, D, (2009). 'Playing catch-up with China: challenges and strategies for smaller developing countries', *Technology Analysis & Strategic Management*, 21 (5): 617 — 637.

²⁰Brautigam, Deborah. *The Dragon's Gift: The Real Story of China in Africa*. Pg. 146

competitive. The Chinese textiles and clothing industry managed to sharpen its international competitive edge and gained the comparative advantages it now enjoys. If Africa needed to be told of the competition it now faced, and even if African countries placed restrictions on Chinese goods, they would not be able to control the substitute flow of goods from India and Pakistan. The solution, he said, was for South Africa to adopt a “positive attitude”²¹.

It would be easy, but mistaken, to build up the rising role of China in Africa as a new threat to the United States, or even to its interests in Africa, and thus make China an enemy there. What is necessary is to recognize that the rising economy of China, and nearly as significant those of India and other Asian countries, changes the strategic and economic playing field in Africa. It is not dissimilar to the impact of those economies in Latin America where many of the same phenomena are taking place²².

In many ways the economic growth in Asia, and the subsequent growth in demand, is good for Africa. Mineral prices are reaching record highs, reversing a long decline for many of Africa’s major exports over the past few decades. For Africa’s oil producers, there has been a substantial windfall. Nigeria might not have been able to negotiate such a favorable debt relief program from the Paris Club as it has just done, eliminating some \$18 billion in debt, if it had not been in a position, because of recent oil windfalls, to put \$6 billion on the table to clear interest and past arrears as part of the deal. China is also investing in areas that western aid agencies and private investors have long neglected: physical infrastructure, industry, and agriculture. These are areas that the west, recently fixed on social needs in education and health,

²¹Jenkins, R. & Edwards, C. (2006) ‘The economic impacts of China and India on sub-Saharan Africa: Trends and prospects’, *Journal of Asian Economics*, 17(9): 207–225.

²²Kagame, P. (2009) ‘Why Africa welcomes the Chinese’ *The Guardian* [online] (last updated 22.00, 2nd November 2009). Available at: <http://www.guardian.co.uk/commentisfree/2009/nov/02/aid-trade-rwanda-china-west> [accessed on 17/04/2011].

had largely abandoned, and only now again has recognized as essential for Africa's growth. Finally, China offers African nations some competition to the west, emboldening some leaders to take a harder look at the conditionality of the IMF and other institutions, advice that may or may not be the best for their circumstances²³.

2.1.2 China Kenya Economic Cooperation

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

²³Goldstein, A. Pinaud, N., Reisen, H. & McCormick, D. (2009) 'The Asian Drivers and Africa: Learning from Case Studies', *The World Economy*, 32 (11): 1538 – 1542.

2.2 Social Dimension

2.2.1 Aid and Debt Relief

China has pledged continuing development assistance and government-backed FDI to African countries. By December 2006, China had given over US\$5.5bn in aid to African countries. At the 2006 Summit of the Forum on China-Africa Co-operation (FOCAC) in Beijing, China pledged to double aid to Africa by 2009 and to give Africa US\$2 billion in preferential buyers' credits over the next three years. China's Export and Import Bank (Exim Bank), established in 1994, extended its export buyers credit market to Africa in 2005 and by the end of that year had committed US\$800m concessional loans to cover 55 projects in 22 African countries. Chinese aid to Africa has focused on two main areas: infrastructure and human development. Chinese aid provides funding for highly visible and, to many minds, important infrastructure projects, which Western donors have long since stopped financing.²⁴

Chinese human development assistance has focused on training and the provision of health personnel. Through the African Human Resources Development Fund, China awards scholarships to over 4000 students from 51 African countries to study in China every year. The recently launched China-Africa Inter-Governmental Human Resources Development Plan is part of China's strategy to cultivate African elites through training courses and seminars for middle and high ranking African diplomats and economic and management officials. In the next three years, 15000 African professionals will be trained while 10 special agricultural technology centers will be created. China also sends Chinese trainers to Africa to give short-term courses that include malaria prevention and treatment, applied solar energy technology and maize

²⁴Frimpong, S. K. (2012). Research on relationship between China and Ghana: Trade and foreign direct investment (FDI). *Journal of Economics and Sustainable Development*, 3(7), 51-61.

farming. Over the decades, according to the Chinese state run Xinhua News Agency, China has sent nearly 15,000 medical workers to Africa and treated 170 million patients on the continent. At FOCAC 2006, President Hu also pledged to build 30 hospitals in Africa and provide a 300 million yuan grant to fight malaria.²⁵

In recent times, China has added sports development to its assistance to Africa and has sent about 38 coaches to 12 countries. This has included the development of table tennis, and provision of assistance for the construction of sports facilities like the building of stadiums in Ghana, which hosted the Confederation of African Football Cup of Nations competition in 2008. As a result of this, African footballers have begun making appearances in the Chinese league.²⁶

Unlike the Paris Club of donors and the international financial institutions, China exerts no political pressure on African governments for political and economic reforms, although such massive economic and financial assistance cannot avoid having political repercussions. China's only declared condition is the recognition of its "one-China" policy, by which African governments are expected to break off diplomatic relations with Taiwan. One-third of the countries that recognized Taiwan were African, including the regional power, South Africa. In return for development assistance from Beijing, many African countries have severed diplomatic links with Taipei. In spite of Taiwan's reported campaign donations to Mandela's African National Congress in 1994, South Africa was compelled to break ties with Taipei in 1998 after Mandela failed to convince Beijing to agree to a dual recognition policy.²⁷

²⁵Davies, M., Edinger, H., Tay, N., & Naidu, S. (2008). How China delivers development assistance to Africa. *Research paper by the Centre for Chinese Studies, University of Stellenbosch, South Africa.*

²⁶Zhouxiang, L. (2013). From Hongkew Recreation Ground to Bird's Nest: The Past, Present and Future of Large Sports Venues in China. *The International Journal of the History of Sport*, 30(4), 422-442.

²⁷Haggard, S., & Kaufman, R. R. (Eds.). (1992). *The politics of economic adjustment: International constraints, distributive conflicts, and the state.* Princeton University Press.

Other countries including Senegal and Chad have followed South Africa in repudiating Taiwan. 47 of Africa's 53 nations have established diplomatic relations with Beijing, according to the Embassy of the People's Republic of China in the United States. There now remain only a handful of African countries like Sao Tome and Principe that recognize Taiwan, but these are economically and politically insignificant. Even so, China is extending its largesse to these countries to win them over from Taiwan. "China stands ready to establish and develop state-to-state relations with countries that have not yet established diplomatic ties with China on the basis of the one China principle."²⁸

In contrast to other donors, China usually does not offer grants to African countries, but to increase its leverage on borrowing countries, China forgives the debts of borrowers that develop strong political and economic relations with it within an agreed timetable. This is probably what Chinese officials mean in their Africa Policy as being "ready to continue friendly consultation to seek solution to, or reduction of, the debts they owe to China." By December 2006, 10.9 billion yuan (US\$1.4 billion) of debt owed by 31 heavily indebted and least developed African countries had been forgiven, the state-run Xinhua News Agency has reported. It has also been observed that Chinese aid coincides with the award of contracts so that African governments are likely to "cooperate" when Chinese companies bid for Chinese government funded contracts. About 70 per cent of contracts in a US\$2bn Chinese-funded project in Angola in 2004 were reserved for Chinese companies. Following a loan of \$2.5bn from the Chinese government to the Nigerian government primarily for the purposes of railway construction, the China Civil Engineering

²⁸Frimpong, S. K. (2012). Research on relationship between China and Ghana: Trade and foreign direct investment (FDI). *Journal of Economics and Sustainable Development*, 3(7), 51-61.

Construction Corporation (CCECC) was awarded an \$8bn contract for the construction of the Nigerian railway.²⁹

2.2.2 Telecommunications

Africa is one of the fastest growing telecommunications markets in the world. The telecommunications industry in Africa is dominated by Western and South African companies like British Vodafone, France Telecom and South Africa's Vodacom and MTN. In recent times Chinese transnational companies like the Zhong Xing Telecommunication Equipment Company Ltd. (ZTE), China Mobile and the private multinational Huawei have made significant inroads. In Angola, ZTE reached an agreement with the Angolan fixed line telecommunications utility, Mundo Startel, for the purchase of equipment worth \$69m. ZTE also expects to invest \$400m in total for the construction of Angola's telecommunications system, construction of a mobile phone factory, the creation of a telecommunications training institute and a telecommunications research laboratory.³⁰

China Mobile tendered for a \$4m bid for Nasdaq-listed Millicon International, which has subsidiaries in Chad, DRC, Ghana, Mauritius, Senegal, Sierra Leone and Tanzania, while Huawei has introduced telecommunication products at affordable prices to consumers in East Africa. In Kenya, for example, the price of a fixed line has dropped by 65 per cent after Huawei helped Kenya Telecommunications procure Chinese digital equipment

²⁹Reinicke, W. H., Deng, F. M., & Witte, J. M. (2000). *Critical choices: The United Nations, networks, and the future of global governance* (p. 2). Ottawa: International Development Research Centre.

³⁰Esselaar, S., Gillwald, A., & Stork, C. (2006). South African telecommunications sector performance review 2006. *LINK Centre public policy research paper*, (8), 1-64.

There is a huge trade imbalance between Kenya and China with China exporting thirty times more goods to than they are importing from Kenya.³¹ There are also serious allegations that China's trade with the continent has taken a neo-colonial slant with China extracting and exporting raw materials and bringing in (cheap) manufactured goods.³² However, there are counter arguments to these claims. First off, exporting raw materials to China can lead to established trade relations and contacts and can thereby lead to the diversification of exports. Exporting raw materials can be a starting point for exporting other goods.³³

Secondly, although there is a trade imbalance, China has started to take measures to accommodate an increasing number of African imports. They have removed tariff barriers for twenty-five of Africa's poorest nations. When China's commerce minister visited Kenya in 2009, he stated that China is keen to extend their tariff exemption initiative. This is definitely a step in the right direction to leveling the playing field for Sino-African trade.³⁴

China has also been accused of using Africa as a dumping ground for their cheap manufactured goods, but this must be seen within the context of the local consumer. The cheap goods China is exporting are tailored to the African market. The Chinese are simply responding to the demand for affordable everyday goods³⁵. Cheap goods are not intrinsically exploitative, but flooding the market with factory-rejects and counterfeited goods is exploitation.³⁶ The influx of faulty goods will have a detrimental impact on Kenya's economy and it is therefore important

³¹Zafar, A. (2007). The growing relationship between China and Sub-Saharan Africa: Macroeconomic, trade, investment, and aid links. *The World Bank Research Observer*, 22(1), 103-130.

³²Møller, K. The role Kenya's civil society can play in ensuring a mutually beneficial Sino-Kenya engagement.

³³Raine, S. (2011). Beijing's South China Sea Debate. *Survival*, 53(5), 69-88.

³⁴Cieslik, T., Friedman, E., Hsiang, A. C., Hsiang, J. S., Hsiung, J. C., Jia, W., ... & Weber, K. (2009). *Greater China in an era of globalization*. S. Guo, & B. Guo (Eds.). Lexington Books.

³⁵Guerrero, D. G. M., & Manji, F. (Eds.). (2008). *China's new role in Africa and the south: a search for a new perspective*. Fahamu/Pambazuka.

³⁶Møller, K. The role Kenya's civil society can play in ensuring a mutually beneficial Sino-Kenya engagement.

that the Kenyan government takes this issue seriously. Kenya should take note of how Nigeria responded to this issue in 2009 by getting China to sign an agreement that their exports would comply by the terms of the Nigerian Industrial Standards Act.³⁷³⁸ Getting China to sign an agreement would be the first step to curtailing the influx of substandard goods but this would have to be followed up with regular supervision by the government to ensure that China is observing the agreement.

On a positive note, there seems to be a significant shift in the content of Chinese exports to Africa. China is trying to move away from light industrial goods and is focusing on the exports of machinery and technology that will maximize profits.³⁹ The Chinese government wants exports of Chinese machinery and equipment to overtake cheap consumer goods in the export mix, moving up the value chain.⁴⁰ 40% of Chinese imports to Kenya now consist of machinery, transport equipment for agriculture and industrial production, and the service sector. This is a significant opportunity for Kenya as access to advanced technology and machinery is vital if Kenya is to meet its economic and social development goals.⁴¹

2.3 Economic Relations

One of the main components of China's engagement with Kenya is the development of large infrastructure projects. However, considering that the quality of other Chinese manufactured goods, there is the possibility that even these large-scale projects may be

³⁷Ellner, S., & Cicariello-Maher, G. Global Research.

³⁸Chan, K. M. (2000). Towards an integrated model of corruption: opportunities and control in China: Asia and the Pacific basin. *International Journal of Public Administration*, 23(4), 507-551.

³⁹Porter, M. E. (2011). *Competitive advantage of nations: creating and sustaining superior performance*. Simon and Schuster.

⁴⁰Rotberg, R. I. (Ed.). (2009). *China into Africa: Trade, aid, and influence*. Brookings Institution Press.

⁴¹Lall, S., & Pietrobelli, C. (2005). National technology systems in sub-Saharan Africa. *International Journal of Technology and Globalisation*, 1(3), 311-342.

substandard. This was the case in Angola where a newly constructed hospital had to be shut down after a few months when significant cracks were shown in the walls. Yet the reason that Chinese companies are Africa's first choice for infrastructure building is because projects are completed quickly and cheaply with minimal red tape and bureaucracy.⁴² The fear is that what may be a cheap fix in the short term will prove to be expensive in the long run. Having said that, it is in China's interest to ensure their African consumers are satisfied so as to secure further investments.⁴³

There are an estimated 44 Chinese construction firms currently working in Kenya.⁴⁴ China has contributed significantly to addressing Kenya's infrastructure deficit. Roads, railways, power grids, ports etc. are being built at a speed never before imagined.⁴⁵ These projects not only provide Kenyans with a leading source of employment, but the construction of infrastructure at an affordable price, also boosts Kenya's economic performance, thus making them a stronger competitor, regionally and globally.⁴⁶

Infrastructure construction is perhaps the best example of the Chinese promise of a win-win paradigm. Improving Kenya's infrastructure capacity is vital for their aspirations of becoming a newly industrial, middle-income country by the year 2030.⁴⁷

⁴²Taylor, I. (2009). *China's new role in Africa*. Boulder, CO: Lynne Rienner Publishers.

⁴³Halper, S. A. (2010). *The Beijing consensus: how China's authoritarian model will dominate the twenty-first century*. Basic Books.

⁴⁴Chege, M. (2006). 2 Economic Relations between Kenya and China, 1963–2007. *The Guardian (London)*.

⁴⁵Rosenberg, L. (2013). *Exploring the idea of the creative class in an African city: a case study of ICT professionals in Nairobi* (Doctoral dissertation, Stellenbosch: Stellenbosch University).

⁴⁶Onjala, J. (2008). A scoping study on China-Africa economic relations: the case of Kenya. *report prepared for African Economic Research Consortium (5 March)*. See at www.aercafrica.org/documents/china_africa_relations/Kenya.pdf.

⁴⁷Morey, J., Milford, L., Madeira, L., & Stori, V. (2011). Moving climate innovation into the 21st century: emerging lessons from other sectors and options for a new climate innovation initiative. *Prepared for the UK Department of International Development and Department of Energy and Climate Change by Clean Energy Group, Vermont, USA*.

Another common accusation is that Chinese investment does little for Africa's capacity building. The issue being that China imports workers instead of hiring locally. They say this is because Chinese workers have more experience with rapid infrastructure construction and because there is a language and cultural barrier with local workers. However in recent years, this too is starting to change, as African governments are less willing to hand out work permits.⁴⁸ Now it is more common to have a small core of Chinese workers who manage the projects and set the pace while the majority of workers are locally hired. The Chinese are also becoming more aware that since their interests in Africa are long-term, it is mutually beneficial to support capacity building.

Ultimately it is up to African governments to set up regulations to ensure that their people receive employment opportunities from this engagement. For example, the Angolan government has a quota that 70% of all workers must be locally hired. Regulations like these are vital for capacity building and to ensure that a Sino-Africa partnership is mutually beneficial. Yet at this point it is fair to consider that even though local civil servicemen receive training that does not ensure that they will stay with the project. In a country like Kenya, where there is already a serious shortage of skilled manpower, brain drain to international organizations is very common. A skilled Kenyan civil service worker will receive five times more pay if he works for an international aid agency. It is also fair to note that Chinese aid packages also contribute significantly to Africa's capacity building through their training programs, technical assistance in the disciplines of health and agriculture and scholarships and cultural exchange programs.⁴⁹

⁴⁸Chen, C., Goldstein, A., & Orr, R. J. (2009). Local operations of Chinese construction firms in Africa: An empirical survey. *International Journal of Construction Management*, 9(2), 75-89.

⁴⁹Newland, K., & Patrick, E. (2004). Beyond remittances: the role of Diaspora in poverty reduction in their countries of origin, a scoping study by the Migration Policy Institute for the Department of International Development. *Migration Policy Institute*.

2.3.1 Volume of Trade

China has grown by an average of 9 per cent per annum over the last 25 years, the fastest growth rate for any major economy in recorded history. A recent report by The Economist suggests that in the next few years, China's growth rate could reach as high as 13% per annum. Industrial output has also increased by almost 50%, creating industrial overproduction in sectors like electronics, textiles and footwear. Rapid expansion has created the need for both import markets for energy and raw materials and export markets for Chinese manufacturers. Chinese companies have discovered opportunities in Africa's vast resources and untapped markets. In the 1990s Sino-African trade grew by nearly 700 per cent. Since then Sino-African trade has continued to grow at an exponential rate, with China displacing the UK as Africa's third largest trading partner behind the US and France. China accounts for nearly 20 per cent of Africa's total exports and more than half of Africa's exports to Asia.⁵⁰

From 1995 to 2004, Sino-African trade rose from about US\$4bn to US\$28bn. Within a year, trade rose sharply to nearly US\$40bn, more than twice Africa's trade with Japan which stood at US\$18bn for the same year. In 2005, China imported US\$21.1bn worth of goods from Africa while it exported US\$18.7 billion, showing a deficit of US\$2.4bn in its trade with Africa. Chinese officials point to this as indication of its commitment to helping generate surplus revenue to finance African development. But the deficit may largely be explained by China's voracious energy consumption and its emerging dependence on Africa's resources. Apart from a few very resource-rich countries, the majority of African countries have "mounting trade deficits" with China. Chinese exports to Africa also grew by nearly 300per cent from 2003 to

⁵⁰Lee, R. (2003). The demographic transition: three centuries of fundamental change. *The Journal of Economic Perspectives*, 17(4), 167-190.

2005. To ensure secure supplies of resources and export markets China is also keen on negotiating a free trade area with Africa and is already engaged in free trade talks with South Africa. Sino-African trade was expected to reach US\$100bn by 2010. In spite of the exponential growth in Sino-African trade, however, Africa accounts for only 2.3 per cent of total Chinese exports and 2 per cent of total Chinese imports.⁵¹

2.3.2 Composition of Trade

Chinese exports to Africa are composed mainly of machinery, transport equipment, textiles, apparel, footwear, and other manufactured materials while crude oil and raw materials dominate Africa's exports to China.⁵²

Nearly 70 per cent of total African imports are oil (US\$14.6bn), iron ore (US\$741m), cotton (US\$677m), diamonds (US\$502m) and logs (US\$495m) together making up 11.4 per cent. By February 2006, Angola had surpassed Saudi Arabia as China's largest source of crude oil supplies. Other major crude oil exporters to China are Sudan (US\$2.6bn), Congo (US\$2.1bn), Equatorial Guinea (US\$1.4bn) and Libya (US\$0.96).⁵³

China's industrial sector is the largest energy consumer in Asia outside of Japan. China accounted for 9.8 per cent of world energy consumption in 2001 and 14.2 per cent in 2005. In 2006, China produced estimated 3.8m barrels per day while it consumed 7.4 million, representing half a million barrels per day increase from 2005. The huge difference in production and consumption has to be met by imports. Africa supplies nearly 32 per cent of China's oil

⁵¹Bah, A. O., Pahuamba, A. M., & Fuqiang, Z. (2012). The Impact of China Aid and Investment in Africa Development, Opportunities and Challenges. *INNOVATION AND MANAGEMENT*.

⁵²Renard, M. F. (2011). China's Trade and FDI in Africa. *China and Africa: An Emerging Partnership for Development*.

⁵³Frimpong, S. K. (2012). Research on relationship between China and Ghana: Trade and foreign direct investment (FDI). *Journal of Economics and Sustainable Development*, 3(7), 51-61.

imports, second only to the Middle East (46 per cent). Asia Pacific supplies only 5 per cent of China's oil imports.⁵⁴

2.3.3 Investments

Since the 1980s, China has adopted a "going global" strategy that encourages Chinese companies to invest abroad to guarantee access to advanced technology, foreign exchange, energy and raw materials and exports markets. The strategy also seeks to encourage Chinese firms to "cut their teeth" in international markets and enhance China's global power status. In Africa, Chinese state-owned and private companies have entered into a number of joint ventures with African national governments, state-owned corporations and private firms.⁵⁵

Over 700 registered Chinese companies are reported to be operating in Africa. Beijing is encouraging Chinese companies to acquire and develop strategic oil and gas fields in Africa to mitigate anxiety about secure supplies of energy. It is also encouraging Chinese state-owned companies to source their own raw materials abroad, creating a strategic motivation to invest in Africa's resources. Flagship enterprises in energy, construction, engineering and manufacturing sectors receive generous government support in preferential loans and credits through the Chinese Development Bank, the China Construction Bank and the Exim Bank, as well as in tax deductions.⁵⁶

⁵⁷The China Exim Bank supports Chinese companies to expand their presence in Africa. By 2005, the Bank's portfolio had tripled and its commercial operations outstripped those of its

⁵⁴Michael, F. H. (2013). Atlantic International University Honolulu, Hawaii January 2013.

⁵⁵Naidu, S., & Mbazima, D. (2008). China–African relations: A new impulse in a changing continental landscape. *Futures*, 40(8), 748-761.

⁵⁶Bah, A. O., Pahuamba, A. M., & Fuqiang, Z. (2012). The Impact of China Aid and Investment in Africa Development, Opportunities and Challenges. *INNOVATION AND MANAGEMENT*.

⁵⁷Foster, V. (2009). *Building bridges: China's growing role as infrastructure financier for Sub-Saharan Africa* (Vol. 5). World Bank Publications.

counterparts in the US, the UK and Japan. While the largest Chinese operations in Africa are in oil and gas exploration, development and production, there are growing investments in construction and engineering works, telecommunications, textile manufacturing and trading enterprises. At the opening of the 2006 Beijing Summit of the Forum on China-Africa Cooperation, President Hu announced a US\$5bn fund for further investments in Africa.

A significant feature of Chinese investments is that they can be found in countries and in projects considered too risky by Africa's traditional donors and investors. Chinese projects have sprung up in countries like Burundi with significant rebel activities. Conflict-shattered Sierra Leone, Liberia, Rwanda, and the Democratic Republic of Congo have all attracted Chinese investments. So have global pariahs like Sudan and Zimbabwe. The biggest recipients of Chinese investments in Africa have been the largest oil producers on the continent: Nigeria, Angola, Sudan and Equatorial Guinea.⁵⁸

2.3.4 Exploration and Development Rights

2.3.4.1: Oil and Gas

Through the three major state-owned Chinese corporations, the China National Petroleum Corporation (CNPC), the Chinese Petroleum and Chemical Corporation (Sinopec) and the China National Offshore Oil Corporation (CNOOC), China has been securing strategic assets and rights for exploration, development and production in Africa's petroleum industry. The three companies, the result of the reorganization of local state-owned companies in 1998, were initially set up to operate a range of local subsidiaries but have all gone international and become giant transnational corporations with vast resources to acquire overseas assets. In 2005, Sinopec

⁵⁸Caplan, G. L. (2008). *The betrayal of Africa*. Groundwood Books Ltd.

and CNPC ranked 23 and 39 respectively among Global Fortune 500 Companies. Chinese oil companies have acquired stakes in 20 African countries.⁵⁹

In March 2006, Sinopec and Angola's state-owned Sonangol agreed to form Sonangol-Sinopec International (SSI) to develop Angola's second refinery at Lobito. Sinopec is reported to have a 55 per cent stake in the \$3bn project, while the remaining 45 per cent is held by Sonangol. By May 2006, Angola had overtaken Saudi Arabia as the largest exporter of crude oil to China. By late 2006, the Chinese government and CNPC had sunk US\$4bn into investments, development, pipeline building and other operations in Sudan. CNPC has acquired a 40 per cent stake in the Greater Nile Petroleum Operating Company to exploit Sudanese oil deposits in the Muglad Basin. CNPC and the Greater Nile Company have together invested a total of over US\$8 billion for projects in Sudan, including the 1,500 km pipeline to transport oil to the Marsa al-Bashair Harbor terminal near the Port of Sudan on the Red Sea.⁶⁰

In Nigeria, CNOOC has acquired 45 per cent stake in the Akpo field for US\$2.27bn. CNOOC has also acquired 35 per cent of an exploration license for US\$60m. In Gabon, Total-Gabon and Sinopec signed an agreement in 2004 to supply China with one million tons of crude oil a year, making China the third largest consumer of Gabonese crude oil after the US and France. The Chinese petroleum company Zhongyuan Exploration Bureau is also drilling in the Gambella Basin in Western Ethiopia on behalf of Petronas, the Malaysian state-owned oil company, and has other drilling operations in the Ogaden region in Eastern Ethiopia.

⁵⁹Naidu, S., & Davies, M. (2006). China fuels its future with Africa's riches. *South African journal of international affairs*, 13(2), 69-83.a

⁶⁰Bah, A. O., Pahuamba, A. M., & Fuqiang, Z. (2012). The Impact of China Aid and Investment in Africa Development, Opportunities and Challenges. *Innovation and Management*.

2.3.4.2 Non-Oil Resource Extraction

The extraction of non-oil resources like metal ores, essential in the electronics and electrical industries, and timber has also attracted Chinese investments in Africa. Over 60 per cent of Gabon's and a large part of Equatorial Guinea's timber production are purchased by China. This has raised concerns among some quarters on the sustainability and length of life of this valuable rainforest. China is the world's largest consumer of copper and has invested US\$170million in the Zambian copper mining sector. The Chambezi copper mine, which was purchased in 1999, is now its largest Chinese mining operation in Africa. China is also increasing its investments in cobalt and copper mines in the Democratic Republic of Congo and is exploring further supply sources from South Africa and Namibia.⁶¹

2.3.5 Infrastructure Development

Chinese development aid helps to finance infrastructure projects, including road and railway rehabilitation, hydropower stations, stadia, hospitals and schools. By 2005, Chinese companies had been contracted to 722 turn-key projects across Africa. By mid-2006, total China Exim bank concessional and non-concessional loans for infrastructural development in Africa, excluding projects in the petroleum and mining sectors, were US\$12.5bn. Angola, Nigeria, Mozambique, Sudan and Zimbabwe account for over 80 per cent of these loans, and the power sector makes up about 40 per cent of total commitments, followed by "general" or multiple sector commitments (24 per cent), transport (20 per cent), telecom (12 per cent) and water (4 per cent). Concessional loans from the OECD for infrastructural development in Africa amounted to only US\$4bn in

⁶¹Broadman, H. G. (2007). *Africa's silk road: China and India's new economic frontier*. World Bank Publications.

2004, suggesting China may be providing greater support for the development of Africa's infrastructure than are the OECD.⁶²

In 2002, Angola's post-war reconstruction received a boost with a US\$3 billion oil-backed credit line from China to rebuild the war-torn country's shattered infrastructure. The China Road and Bridge Co-operation won the bid to rehabilitate a 371km stretch of road to link Luanda, the capital, to Uige, an agricultural and mining province in the north of the country. The Chinese government is providing a loan of US\$211 million to finance the project. In addition, the China International Fund Ltd based in Hong Kong undertook to rehabilitate the US\$ 300 million Benguela railway line destroyed during the civil war. The railway links Benguela to Luau on the border with DRC and to Lobito, south of the capital, making possible a future extension to Zambia via Lumumbashi and direct transport from the Zambian copper mines to Angolan ports. For a continent with poor infrastructure and limited intra-regional trade, such investments constitute significant development and have the potential to boost trade among African countries.⁶³

In Ghana, Sino-Hydro, one of the largest Chinese hydropower engineering firms, was contracted to build a US\$600m hydropower project financed largely by a Chinese government loan to solve the African country's cyclical power crisis. Following the visit of President Hu in 2006, the Nigerian government reached an agreement with the Chinese government for a \$2.5bn loan to part-finance the construction of a railway line. The project includes a fast rail system between Lagos and Abuja, and a light rail system from Murtala Mohammed International Airport

⁶² Bah, A. O., Pahuamba, A. M., & Fuqiang, Z. (2012). The Impact of China Aid and Investment in Africa Development, Opportunities and Challenges. *INNOVATION AND MANAGEMENT*.

⁶³Corkin, L., Burke, C., & Davies, M. (2008). China's Role in the Development of Africa's Infrastructure. *Documents de travail du SAIS dans African Studies*, (04-08).

to Lagos as well as from Nnamdi Azikiwe International Airport to Abuja. The project is being executed by the state-owned Guangdong Xinguang International Group..⁶⁴

⁶⁴Omwenga, B. G. (2009). *A technology strategy analysis for the deployment of broadband connectivity for economic development in emerging economies: studying the case of Kenya using the CLIOS process* (Doctoral dissertation, Massachusetts Institute of Technology).

CHAPTER THREE

POLICIES BETWEEN KENYA AND CHINA

3.0 Introduction

This chapter explores the policies between China and Kenya. The policies include both economic and social policies. This chapter pays attention to cooperation arrangements between China and Kenya, China's aid policy to Kenya, bilateral trade agreements as well as the sino-Africa relationships.

3.1 Cooperation Arrangements between China and Kenya

The current diplomatic cooperation arrangement between Kenya and China covers several areas. The People's Republic of China established diplomatic relations with the Republic of Kenya on December 14, 1963.⁶⁵ In the initial days of the establishment of relations between the two countries, not much development was seen. After 1965, the relations between the two countries lowered to the chargé d'affaires level until the early 1970s when it gradually returned to normal. In 1978, when President Daniel Arap Moi came in to power, the relations between the two countries grew even more. With frequent mutual high level visits, the friendly cooperation bore outstanding achievements in many fields. By the end of 2002 when a new government was formed, newly elected president Mwai Kibaki expressed great interest in Kenya's relations with China and was willing to further deepen and expand the friendly cooperation between the two countries.⁶⁶

Kenya and China diplomatic trade relations have significant historical dimensions, starting from the Ming Dynasty. Although China embraced communism while Kenya at independence

⁶⁵ Muller, T. C., Overstreet, W. R., Isacoff, J. F., Lansford, T., & CQ Press. (2011). *Political handbook of the world 2011*. Washington, D.C: CQ Press.

⁶⁶ Ibid

adopted a capitalist system, their relations have largely remained cordial. China was the fourth country to recognize Kenya's independence in 1963 when the two countries exchanged diplomatic representations.⁶⁷ The Chinese embassy in Kenya is arguably their largest embassy in Africa both in terms of size and employees. It is strategically located in a relatively high-security area near the Defense Headquarters, Kenya Army Barracks, and closer to Kenya's State House. Similarly, Kenya has an embassy in Beijing which serves China and a few countries in the neighborhood. Kenya, like other countries with diplomatic relations with China, subscribes to the 'One China Policy' which states that "*there is only one China in the world and that Chinese Taipei is one part (a Province) of China*". This means that Kenya does not support Chinese Taipei's calls for independence and reiterates that it is an inalienable part of Chinese territory. The Sino-Kenya relationship, first established in 1964 was centered on promoting trade between the two countries.⁶⁸

The trade component of this relationship was further reinforced in 1978, when under the leadership of Deng Xiaoping, China started implementing trade reforms and outward oriented programs. Since the China-Africa Forum was established in 2000, Kenya has remained an active member of the forum. Different Ministers have represented the Kenyan government in all the Ministerial Conferences of the China-Africa Forum.⁶⁹ The exchange of official high level visits of heads of states, ministers, senior government officials and business delegations has strengthened relations between China and Kenya. Kenya's first high profile delegation to China

⁶⁷ Kamau P. (2007). Kenya: A case study-The Developmental Impact of Asian Drivers on Kenya with Emphasis on Textiles and Clothing Manufacturing. Mimeo.

⁶⁸ Mawdsley, E. (May 01, 2007). China and Africa: Emerging Challenges to the Geographies of Power. *Geography Compass*, 1, 3, 405-421.

⁶⁹ Fantu, C., & Obi, C. I. (2010). *The rise of China and India in Africa: Challenges, opportunities and critical interventions*. London: Zed Books.

was in 1964 led by the then Vice-President Jaramogi Oginga Odinga. In 1980, the then Kenyan President Daniel arap Moi led another high profile delegation to China, followed by others in 1988 and 1994. In August 2005, President Mwai Kibaki led a Kenyan delegation to China which resulted in the signing of several bilateral agreements. In May 1996, the former President of China Jiang Zemin made a state visit to Kenya, which marked the first ever visit to Africa by a Chinese President. In November 2004, Wu Bangguo paid a visit to Kenya heading a Chinese delegation. In April 2006, the Chinese President, Hu Jintao visited Kenya in his tour of five African countries in his capacity as the head of state. In the past five years, over fifteen Kenyan ministers have visited China. Similarly, many other government officials have also made official trips to China.⁷⁰

The entry of nationals of Chinese origin into Kenya is fairly recent and their population is still low. It is only in the last decade or so that the presence of a Chinese community in Kenya became noticeable. The small number of Chinese people and their separation from the rest of the people has, however, contributed to the Chinese community being less visible. They avoid engaging directly with the local people by tactfully employing local human resource managers and accountants to handle local matters.⁷¹ There are however, no official statistics of the number of Chinese nationals living in Kenya. Many of those living in Nairobi have settled in the neighborhood of the Chinese embassy.⁷² Similarly, most of the Chinese companies with operations in Kenya have their national head offices closer to the Chinese embassy and arguably closer to where most of them reside. Most of the Chinese nationals in Kenya engage in trading

⁷⁰ Kenya, (2006) Ministry Of Foreign Affairs. A Brief Prepared for Institute for Development Studies, University of Nairobi.

⁷¹USAID (2005), "Impact of the End of MFA Quotas and COMESA's Textile and Apparel Exports under.

⁷² Adem, S. (2013). *China' diplomacy in Eastern and Southern Africa*.

and manufacturing activities. They are involved in the importation of various products from China which they either distribute to retailers or through their own outlets. Since the year 2000, they have been actively involved in the manufacturing of apparel. More recently, a number of them have ventured into, among others, the motor vehicle industry where they are involved in the importation of auto-spare parts from Asian countries.⁷³

3.2 China's Aid Policy to Kenya

Foreign aid is a broad term describing the help one country gives another through some form of donation. The donors and recipients may be government or non-governmental bodies.⁷⁴ Donations may go directly from the donor to the recipient or through other bodies. The purposes of aid differ, but are commonly grouped into three broad categories: relief, military, and development assistance.⁷⁵ In this study, we track a particular type of aid namely, official development assistance from the Chinese government to Kenya. Until the mid-1990s much of the Chinese development aid went towards liberation movements in Africa.⁷⁶

Kenya first benefited from Chinese development aid in its early years of independence. In 1964, China provided Kenya with military support to counter a Somalian invasion but it declined to provide monetary support for the independent government to purchase former colonial farms.⁷⁷ In the 1990s, China changed its aid policy from liberation to reduction of debts, promotion of investment and assistance in human resource development. Kenya is one of the

⁷³ Tull M. D. (2006) China's engagement in Africa: Scope, Significance and Consequences, *Journal of Modern African Studies*, 44:3, 459-479.

⁷⁴ United States. (2013). *Sub-Saharan Africa: Trends in U.S. and Chinese economic engagement: report to congressional requesters*.

⁷⁵ McCormick Dorothy, Winnie Mitullah, and Eric Manga (2007). Extent and Forms of Donor Proliferation and Coordination in Kenya: The Case of Inclusive industrialization and 48 Governance Reform, 2000-2005. Working Paper, Institute for Development Studies, University of Nairobi.

⁷⁶ McCormick Dorothy (2006). China, India, and African Manufacturing: framework for Understanding the Impact of Aid and Migration. December, 2006.

⁷⁷ *Daily Nation* (2006), *When Kenya Viewed Beijing Suspiciously*, Sunday Nation, April 30 2006, Nairobi.

beneficiaries of Chinese aid, but the sources of information do not indicate whether the companies are state owned corporations or private sector firms. China's assistance to Kenya is exclusively project based. Since the establishment of diplomatic relations, the projects of aid and assistance provided by China to Kenya have been diverse. Projects are mostly part of bigger package deals which include other types of cooperation with Kenya. China currently gives both monetary and non-monetary aid to Kenya. Development aid from China supports investment in infrastructure, equipment and plant; academic training; technical training; human relief; and tariff exemptions.⁷⁸

Over the last decade, China has given Kenya grants and loans for infrastructure, plants and equipment. These have been mainly in road construction projects, modernization of power distribution, rural electrification, water, renovation of international sports centers, medical and drugs for fighting malaria, and construction of a malaria research center. China has for a long time awarded scholarships to Kenyan students wishing to undertake their studies in China in diverse fields. About 100 scholarships are given by the Chinese government to Kenyans each year, twenty of which are in medical related fields. On technical training, approximately 500 people from the public and private sectors benefit every year.⁷⁹ More recently, China has been giving tariff exemptions to various products originating from Kenya with a hope of promoting trade between the two countries. Since 2002, loans and grants from China have increased significantly with China appearing in Kenyan national statistics of bilateral donors whereas before then, it was classified in the category of 'Other donors'. As a ratio of total loans and

⁷⁸ Burnett, P., & Manji, F. (2007). *From the slave trade to 'free' trade: How trade undermines democracy and justice in Africa*. Oxford: Fahamu

⁷⁹ *Daily Nation* (2006), *When Kenya Viewed Beijing Suspiciously*, Sunday Nation, April 30 2006, Nairobi.

grants in Kenya, China accounted for 1.67 per cent in 2002 and 9.98 per cent in 2005.⁸⁰ With the exception of 2004, the grant component of China's loans and grants is relatively high. Kenya was the first African country to receive Chinese financing of educational and cultural exchange programs through the Confucius Chinese and Language Centre, currently hosted by the University of Nairobi in Kenya and Tia Jin Normal University in China. According to Kaplinsky R. et al.,⁸¹ Chinese aid to Sub-Saharan Africa (SSA) can be grouped into six categories. The first is financial assistance for key investments. Linked to this, in recent years, has been a program of limited debt-relief. The third form of aid provided has been a growing training program. China's African Human Resources Development Fund has provided training in China. Fourth, China has provided technical assistance to SSA – more than 600 teachers and more than 15,000 Chinese doctors have worked in 52 SSA countries (including Kenya).⁸² Fifth, in an initiative announced at the second ministerial meeting of the Sino-African Cooperation Forum held at the end of 2003, China has instituted a program of tariff exemption for 25 SSA economies, covering 190 products, including food, textiles, minerals and machinery. The policy took effect at the beginning of 2005. These trade preferences are called for since Chinese tariffs on imports from SSA, although generally lower than Indian tariffs, were significantly higher than those in other Asian economies. Finally, China has in very recent years begun to provide military assistance to Kenya. Even though China's Aid to Kenya has increased substantially in recent years, it still constitutes a very small proportion of the total aid received in Kenya. Aid from China was

⁸⁰ Ibid

⁸¹ 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.

⁸² In Jansen, M., In Sadni-Jallab, M., In Smeets, M., & World Trade Organization. (2014). *connecting to global markets: Challenges and opportunities: case studies presented by WTO chair-holders*.

negligible before the year 2005.⁸³Development aid from China in Kenya differs substantially from that originating from Western donors. First, with regard to ‘terms and conditions’ imposed, and secondly, on the aspect of ‘tying’. China is not concerned about the issues of internal governance, human rights and democracy in Kenya like the Western donors. Besides subscribing to the ‘*One China Policy*’, in the case of China, there is no other conditionality imposed on the recipient country.⁸⁴China ‘ties’ its aid to using Chinese companies and procurement of materials from 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. On scholarships and technical training, decisions are made by the relevant Ministries in Kenya. China does not take part in the donor coordination initiatives and instead prefers to operate independently and is considered much more flexible than the Western donors in accommodating domestic constraints. China does not alter its reporting and accounting procedures like the Western donors once aid has been disbursed. ⁸⁵According to China’s African Policy, China will provide assistance “with no political strings attached”. The one political condition China does have for the establishment of its relations with African countries is the one China principle, i.e. not to give formal recognition to Taiwan. However, China does give assistance to all 53 African countries, not just the 48 it has formal diplomatic ties with. Although China does not push for reforms in recipient countries, tied aid is a type of condition China has, as stated above.⁸⁶

The types of aid given to Kenya by China have obvious benefits in terms of infrastructural development and market development. The recipient sectors are set to gain, given the quality of

⁸³ Ibid

⁸⁴ AGOA (2003): *Can the Sub-Saharan Africa Textile and Apparel Industry Survive and Grow in the Post-MFA World?*” Report prepared for USAID East and Central Africa Global Competitiveness Trade Hub.

⁸⁵ Mawdsley, E. (May 01, 2007). China and Africa: Emerging Challenges to the Geographies of Power. *Geography Compass*, 1, 3, 405-421.

⁸⁶ CHINAFRICA, (2007) Vol.2, No.9.

China's development. However, if the underlying goal of China's aid is the drive to access raw materials and markets in Kenya, it will hurt Kenya's economy in the long run by undermining the ability of the local firms to exploit the same markets and resources. China's rapid expansion of Aid to Kenya and the lack of aid conditionalities may lead to overshadowing of the aid from many traditional Western donors. There is a possibility that Chinese aid to Kenya could create productive capacity which competes with regional countries producers and lowers export prices.⁸⁷

The no political strings attached policy has raised much debate and reactions from external actors. Three general motivations for the principle are given by Chinese stakeholders.⁸⁸ First, the non-interference policy is deeply rooted in China's historical experience of western interference and China is therefore careful not to interfere in African countries. Second, the Chinese government is careful not to interfere as it sees its political problems in Taiwan and Tibet as internal affairs. Third, the principle is based on China's own experience of being able to develop according to its national context without facing conditionalities. The lack of political strings provides a risk that the Chinese policy will: 1) strengthen repressive regimes/elites that are not working in the interest of poor people or development at large, 2) weaken social and environmental standards and not benefit poor people and the environment, 3) weaken efforts to combat corruption and promote good governance in Kenya. The reality of aid conditionalities appears to be different as the aid appears to be very closely linked to strategic and political objectives, perhaps even more so than the aid offered by some European countries and the US.⁸⁹

⁸⁷ Dobler, G. (2005), *South-South Business Relations in Practice: Chinese Merchants in Oshikango, Namibia*, Mimeo.

⁸⁸ Embassy Attaché, Nairobi (2007). Discussion Notes prepared by author during field interview meetings.

⁸⁹ 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,

In general, Chinese aid is closely bundled with infrastructural projects, often linked to the extraction and export of minerals and oil to China. These facts indicate that the aid might hurt Kenya in the long-run.

3.3 Bilateral Trade Agreements

In 1978, agreements on Economic and Technological Co-operation and Trade were signed, followed by an agreement on Promotion and Protection of Investments in 2001. In the third period, (2003–present), the then President, Mwai Kibaki, embraced the Chinese partnership approach. Nairobi and Beijing signed agreements that attracted huge Chinese investments in Kenya, increased Chinese imports and contracted Chinese construction companies to develop projects in Kenya. Over the past decade, China and Kenya have signed many bilateral agreements covering economic, technological, energy, tourism, health, aviation, media, archaeology and education.⁹⁰ For example, in April 2011 the two governments signed 10 agreements, including a concessional loan to finance a proposed Kenyatta University Teaching and Referral hospital; solar energy generation; a malaria treatment project; hydropower station construction and upgrading; educational exchange and co-operation;⁹¹ a Memorandum of Understanding between China State Administration of Radio, Film and Television and Kenya's Ministry of Information and Communication; and a co-operation agreement between China Central Telecoms and Kenya Broadcasting Corporation.⁹² Bilateral relations have been developing smoothly with the traditional friendship continuously deepened and friendly cooperation in all areas increasingly expanded. Bilateral economic and trade relations have

Brighton.

⁹⁰ shinn, D. A. V. I. D. H., & eisenman, j. O. S. H. U. A. (2012). *China and Africa: A Century of Engagement*. PHILADELPHIA: University of Pennsylvania Press, Inc.

⁹¹ Kamau P. (2007). Kenya: A case study-The Developmental Impact of Asian Drivers on Kenya with Emphasis on Textiles and Clothing Manufacturing. Mimeo.

⁹² Ibid

soared and both sides have made rapid headway in cooperation in the areas of electric power, communications, investment and project contracts and have achieved new results in humanities exchanges and maintained close consultations and cooperation in international affairs.⁹³ The bilateral economy and trade agreements signed between China and Kenya include: "Agreement on Economic and Technological Cooperation between the People's Republic of China and the Republic of Kenya", "Agreement on Trade between the People's Republic of China and the Republic of Kenya" (1978) and the agreement on promotion and protection of investments in 2015. The two countries have signed not less than 12 bilateral accords over the past three years which have covered a variety of fields including the economy, technology, energy, tourism, health, aviation, the press, archaeology and education.⁹⁴ In 2006, Kenya and China signed six agreements signaling closer economic and technical cooperation between the two countries during a meeting held at the Great Hall of the People in Beijing between President Kibaki and his host President Hu Jintao. The signed agreements included Economic and Technical Cooperation, agreement on the provision of the concessional loan by China to Kenya and the Air Services Agreement which grants Kenya Airways landing rights in several cities in China. Also signed were agreements on Radio Cooperation between the State Administration of Radio, Film and Television of China and the Ministry of Information and Communications of Kenya and a collaborative agreement between General Administration of Quality Supervision Inspection and Quarantine of China and Kenya's Bureau of Standards. In view of the above developments, Kenya Airways has been operating scheduled flights to China. The Guangzhou City route was

⁹³ Aggarwal, A. (January 01, 2013). Higher Education Collaboration in Kenya: Challenges and Perspectives. *International Journal of Technology and Educational Marketing (ijtem)*, 3, 1, 48-64.

⁹⁴ Centre for Business Information in Kenya (2006), Kenyan International Trade Statistics; CBIK a Division of Export Promotion Council, Nairobi.

introduced due to the increased popularity of China as a business destination. The airline flies to Guangzhou three days a week.⁹⁵

Kenya and China signed a Trade Agreement in 1964 and revised it in 1978. The Ministry of Trade then began consultations to review this agreement to take in changes in the international economic arena and the phenomenal growth of the Chinese economy. To actively implement already-signed bilateral cooperation agreements, China encourages its businesses to import Kenyan goods, expand investment in Kenya, participate in its infrastructure construction and energy and resources exploitation and expand cooperation with Kenya in processing industries and agriculture. China will continue offering economic aid within its available resources and strengthen its assistance to Kenya's human resources development.⁹⁶ The government of the People's Republic of China has set up a special fund to encourage Chinese companies to import some Kenyan products, including coffee beans, rose seeds, black tea and sisal all of which are exported in raw form. Efforts being made at bridging bilateral trade should focus on value addition before export. The Third Economic and Trade Committee meeting between Kenya and China took place on 25th April 2006. The meeting addressed various issues of interest to both countries, including ways of bridging the balance of trade, which remains heavily in favor of China.⁹⁷

In order to expand cooperation in the fields of culture, education, health, tourism, journalism, environmental protection and sport and further build up mutual understanding and friendship between both countries, a number of initiatives are on-going: In order to stimulate Chinese investment in the tourism sector resulting in direct flight connections between China and Kenya

⁹⁵*Business in Africa* (2006), "Unpacking Africa's Great Asian Opportunity", Business in Africa May 2006 Issue, Nairobi.

⁹⁶ Ibid

⁹⁷ World Investment Reports, various issues, United Nations Conference of Trade and Development.

(and a number of African destinations), Kenya and other individual African countries have been granted “Approved Destination Status”. Chinese tourism abroad is strongly regulated.⁹⁸ The popular tourist destinations of Egypt and South Africa were the first countries to be granted such status. Following FOCAC’s Addis Ababa Action Plan, China gave an additional eight countries (Ethiopia, Kenya, Tanzania, Zambia, Mauritius, Seychelles, Zimbabwe and Tunisia) such status. China and Kenya signed a memorandum for setting up the website "Kenya-China Economic and Trade Cooperation" in June 2006. The two sides agreed that China will import more coffee from Kenya and at the same time offered Kenya the most advanced coffee processing equipment. China’s influence is not limited to raw materials. Kenyan universities are developing Chinese language programs (University of Nairobi), Technical Scientific Cooperation (Egerton University), while Ministry of Information officials attend exchange schemes.⁹⁹China views Kenya as a gateway to the region and it has become a key focus of China’s trade and economic strategy in Africa. Being war-free with a stable political situation has made Kenya an ideal regional base for Chinese investors to expand their business in Africa. Currently China offers favorable loans to Kenya, builds hospitals and schools for less developed areas, sets up malaria prevention and control centers as well as sends volunteers to train the locals.¹⁰⁰

Kenya Airways has been granted landing rights in several cities in China and is now operating direct flights to Hong Kong (China) and Guangzhou in southern China from Nairobi. Furthermore, since Kenya was granted Preferred Tourist Destination in 2004, arrivals from

⁹⁸ Kenya, Ministry of Foreign Affairs (2006) A Brief Prepared for Institute for Development Studies, University of Nairobi.

⁹⁹Ibid

¹⁰⁰ Harneit-Sievers, A., Marks, S., & Naidu, S. (2010). *Chinese and African perspectives on China in Africa*. Cape Town: Pambazuka Press.

China have more than doubled and are expected to grow even more.¹⁰¹ These initiatives are likely to boost the Kenyan economy by enhancing not just the earnings of the Airlines but also earnings for the tourism sector which has become a leading foreign exchange earner for Kenya. Moreover, these operations are likely to facilitate the movement of Chinese business persons to Kenya, leading to increased foreign direct investment in Kenya from China. Twelve bilateral trade agreements between China and Kenya were signed between 2004 and 2006 alone.¹⁰² China's emergence as one of the major non-Western sources of development finance to Kenya has not only seen the decline in future prospects for British assistance and relations, but the same has seen the loosening of the political and economic leverage traditionally exerted by Britain. These developments have increasingly thawed Kenyan relations with Western world countries and more so Britain as China increasingly stamps its presence in the region. It is worth mentioning here that China has been accused by Western countries including Britain of dumping counterfeit goods in Africa, claiming the same has strangled multinational and small local companies operations. For instance Eveready East Africa, the British American owned battery company, operating in East Africa has lost 70% of the market share to counterfeit batteries coming from China.¹⁰³

China's entry into Kenya has seen the Chinese government also profit from arms and military trade with Kenya, though Kenya has not turned fully to Chinese-manufactured arms as often as other African nations such as Namibia, Sudan, or Zimbabwe. However, Kenya has begun using China as an alternate arms exporter for its military vehicles and equipment. This

¹⁰¹ 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.

¹⁰² Crilly, Rob *Chinese Seek Resources, Profits in Africa* in *USA Today*. 21 June 2005

¹⁰³ *Daily Nation* (2006), *When Kenya Viewed Beijing Suspiciously*, Sunday Nation, April 30 2006, Nairobi.

includes a fleet of four Chinese made Z9WE attack helicopters which are manufactured by Harbin Aircraft Industry Group, a China Aviation Industry Corporation owned Company.

In April 2006, the Chinese President, Hu Jintao visited Kenya in his tour of five African countries. He made a visit to Nairobi to sign a twenty year, billion-dollar oil exploration deal for drilling near Isiolo (in Northern Kenya) as well as off the northern coast. In the same trip, Hu Jintao donated half a billion shillings towards a malaria prevention program, and gave Kenya a Kshs 1billion grant and a Kshs. 5bn loan facility. Notably in the same year, the Chinese defense Minister Liang Guangli pledged to help modernize the Kenyan army. This development coupled with Chinese policy of mutual economic benefit, the anticipated Chinese sponsored construction of the Lamu Port and construction of the road connecting to Ethiopia to enable interior access to Ethiopia; popularly referred to as the LAPSSET project, has raised Kenya's leverage in the region once again.

Since the establishment of diplomatic relations, the projects of aid and assistance provided by China to Kenya mainly include: Moi International Sports Center, methane-generating pit, the expansion project of Eldoret Hospital and Gambogi-Serem Highway among others. In recent years, the bilateral trade value has increased greatly. The Chinese exports to Kenya mainly include: household electric appliances, industrial and agricultural tools, textile goods, commodities for daily use, building materials and drugs. The imported goods from Kenya mainly cover: black tea, coffee and leather-goods, etc. The year of 2002 saw the trade value between China and Kenya reach US\$186.37 million, of which the Chinese export took up US\$180.576 million while the import was US\$5.798 million. The mutually beneficial cooperation between China and Kenya began in 1985. At present, there are over 20 Chinese companies doing their businesses in Kenya, such as Jiangsu International Economic and Technological Cooperation Co,

Sichuan International Economic and Technological Cooperation Co Ltd and China Road Bridge Construction (Group) Corporation and China Import and Export (Group) Corporation for Complete Sets of Equipment.¹⁰⁴

China and Kenya signed an agreement on cultural cooperation in September 1980. The two countries also signed a protocol on cooperation in higher education which resulted in China providing Egerton University with apparatus for teaching and research together with the posting of two teachers to work in the university. In addition, from 1982, China began to offer at least 10 scholarships every year to Kenyan students. By 2002, the Kenyan students studying in China totaled 58 in number. In 1985, China's Xinhua News Agency set up a general branch office in Nairobi.

In recent years, military exchanges between China and Kenya have been on the increase.¹⁰⁵ In December 1996, General Liu Jingsong, commander of Lanzhou Military Area, headed the first Chinese military delegation to visit Kenya. In October 2000, General Li Jinai, political commissar of the General Equipment Department, headed a friendly delegation to visit Kenya and in December 2001, General Fu Quanyou, chief of the General Staff, headed a delegation to visit Kenya. The Kenyan military visits to China include: Major General Nick Leshan, commander of the Kenyan air force (1997); General Douidi Tonje, chief of the General Staff (1997); Lieutenant General Daniel Opande, president of the Institute for National Defense (1998); and General Joseph Kibwana, chief of the General Staff (2002). In March 1998, Kenya sent its military attaché to its embassy in China.

¹⁰⁴*Business in Africa* (2006), “*Unpacking Africa’s Great Asian Opportunity*”, Business in Africa May 2006 Issue, Nairobi.

¹⁰⁵ United Nation- Economic Commission for Africa (2005) *Compendium of Intra-African and Related Foreign Trade Statistics*, ECA, Addis Ababa

China's aid to Kenya rose in 2002 from .08% of its total external assistance to 13% in 2005. In 2005 China contributed a total sum of about 56 million US dollars of aid assistance to Kenya becoming one of the largest contributors after EU which contributed 60 million US dollars. The significance of Chinese presence in Kenya as a bilateral partner and donor has made western donors unhappy with China.¹⁰⁶ Further, it is worthy to note that development aid assistance from China to Kenya is mainly utilised in infrastructure investment, investment in equipment, academic and technical training, humanitarian relief, and plants. Projects that have been done include road construction projects, construction of a research centre for malaria, electrification in the rural areas, modernisation of power distribution and water.

Kenya is increasingly importing a variety of manufactured Chinese consumer household goods though they are of low quality compared to Chinese exports to other western trade partners. Manufactured Chinese goods imported into Kenya include: electronics, office equipment and medicines. These imports constitute about half of the imports from China. Other imports include transport equipment and machinery mostly for production in the industrial, agricultural and service sectors. These items account for about 40% of Chinese imports to Kenya.¹⁰⁷

Chinese companies import local scrap metal from Kenya with one of the fastest commodities exported by Kenya to china being crude metal.¹⁰⁸ These metals meet China's well-known desire for copper and iron. Kenya also exports its agricultural raw materials to China. China is benefiting from trade and the tapping of natural resources while Kenya depends on

¹⁰⁶ MORRIS, P. (1995) Introduction to P. Morris and A. Sweeting (eds) *Education and Development in East Asia*, New York: Garland Press.

¹⁰⁷Mogire E. (2008) Balancing between Israel and the Arabs: An Analysis of Kenya's Middle East Relations" The Round Table, Volume 97,-Issue 397 August 2008, pages 561–57.

¹⁰⁸ Flynn, D. O., & Giráldez, A. (1997). *Metals and monies in an emerging global economy*. Aldershot, Hampshire, Great Britain: Variorum.

China for exportation of its raw materials and Chinese manufactured products from its own exported raw materials. This clearly demonstrates how Kenya relies on China's technology for the transformation of its crude metal, which on its own could not have been processed to the manufactured stage and would have remained in its natural state for years without any utilization. From the above mentioned, one could say that China is benefiting Kenya by enabling Kenyans enjoy finished products out of their raw materials or natural resources. China has concentrated on providing aid to Kenya because by putting aid ahead, it gets raw materials and natural resources from this country at very cheap prices.¹⁰⁹

The state-owned National Oil Corporation of China (CNOOC) has shown interest to sell off oil blocks it received for free from the Kenyan government. This has sparked controversy as European corporations were not given the option to buy these rights directly from the Kenyan government. Instead Kenya has urged interested parties to form joint ventures with CNOOC. CNOOC controls 28% of Kenya's oil fields. Kenya Pipeline Company (KPC) and the Chinese Petroleum Pipeline Engineering Corporation (CPPEC) have signed a Sh2.9 billion deal to upgrade the Mombasa- Nairobi oil pipeline in Kenya. This upgrade will increase capacity and could expand into Uganda in the future.¹¹⁰

3.4 Sino-Africa Relations.

Like the political dimension, the economic dimension of this relationship also has developed rapidly. Sino-African trade volume increased from \$12 million in 1950, to \$34.74 million in 1955 and to \$250 million in 1965. China has attached great importance to friendly cooperation with African countries since its Open Up and Reform policy at the end of the 1970s, and Sino-African trade has seen

¹⁰⁹ Otenyo E. (2004) "New Terrorism: Toward an explanation of cases in Kenya" *African Security Review Vol. 13 No 3, 2004*

¹¹⁰ Mwega, Francis M. (2011). "Foreign Aid, Monetary Policy and Economic Growth in Kenya," paper Prepared for Kenya Institute for Public Policy Research and Analysis (KIPPRA).

annual growth of 3.6 percent on average.¹¹¹ Bilateral total export and import volume kept growing throughout the 1990s, during this time it was as not unusual to see increases of over 40 percent. In 2000, bilateral trade volume for the first time exceeded \$10 billion, and in 2008 it reached a record \$106.84 billion. While it decreased in 2009 due to the global financial crisis, Sino-Africa trade regained momentum in 2010, with \$126.9 billion in 2010 and then \$166 billion in 2011. It is estimated that the figure may exceed \$200 billion in 2012. In 2008, the number of African countries with which China had more than \$1 billion in trade reached 20. This shows that China's engagement with Africa is broad and extensive.¹¹²

For the last six decades, cultural exchanges have also increased between China and Africa, which has helped to promote cooperation. As of 2005, China entered into 62 inter-governmental agreements on cultural exchanges and cooperation with 45 African countries, under which the two sides have organized over 200 cultural exchange delegations and hosted hundreds of cultural or art exchange events.¹¹³

To summarize, the Sino-Africa relationship has had three phases of development in the past six decades. The first phase ran from the early 1950s to the adoption of the Open up and Reform policy in the late 1970s. During this period, both China and Africa focused on political development because of their newly gained independence. The aim of this bilateral relationship was political mutual support, with anti-colonialism and anti-imperialism as the core.⁶ In addition to providing political and military support, China built Tazara, the railway linking Zambia to

¹¹¹ Albright, D. E. (1980). *Communism in Africa*. Bloomington: Indiana University Press.

¹¹² Whiting, A. S. (1992). *China's foreign relations*. Newbury Park, CA: Sage Publication.

¹¹³ Ibid

Tanzania, which helped free Zambia from its dependence on trade routes to the sea dominated by white-minority ruled Rhodesia.¹¹⁴

The second phase took place in the 1980s. After adopting Open Up and Reform policy at the end of 1970s, China turned to the industrialized developed west for its abundant capital and development experience. China still attached great importance to Africa. For example, the Chinese Premier, Zhao Ziyang embarked on series of diplomatic overtures in December 1982 to eleven African countries, promoting the 'Four Principles' of Chinese cooperation with Africa: equality and mutual benefit, stress on practical results, diversification in form and economic development.¹¹⁵

China shifted its eyes back to Africa after the end of the Cold War. Along with the new thinking of seeking external support for domestic development, China strengthened the economic dimension of this relationship - or in Ian Taylor's words, China began to re-engage actively with the continent 'now on different terms'.¹¹⁶ Sino-Africa trade has grown since this period, as has China's investment in Africa. Investment patterns have had three phases since China began to invest in Africa in the 1980s. Chinese businesses first relied heavily on government-sponsored assistance projects to gain a presence in local markets. Due to the limited strength of Chinese enterprises, most investment projects were small. Between 1979 and 1990, China invested \$51.19 million in 102 projects in Africa, equivalent to \$500,000 per project. In 1990s, China's investment in Africa expanded within the context of improved investment environment in Africa and the emergence of Chinese businesses. Since 2000, China's investment in Africa has entered

¹¹⁴ Rajwar, S. (2014). *China in Africa: With special reference to Zambia*.

¹¹⁵ Taylor, I. (2009). *China's new role in Africa*. Boulder: Lynne Rienner Publishers.

¹¹⁶ Ian Taylor, 'China's Foreign Policy Toward Africa in the 1990s,' *Journal of Modern African Studies* 36/3 (1998), 443-460

a fast track facilitated by both governmental policies and market drivers. China has made a sizeable investment in Africa over the past 30 years.

Africa has become a major investment destination for Chinese enterprises, where over 2,000 Chinese companies have invested in various sectors including electronics, telecommunications and transport. According to the Chinese Ministry of Commerce, China invested \$2.1 billion in Africa in 2010. Chinese investment in Africa represents a small (three to four percent in 2011) yet growing piece of total Chinese outward foreign direct investment (OFDI) worldwide. Africa is the third largest recipient of Chinese OFDI after Asia and Europe. By the end of 2011, the cumulative Chinese direct investment net stock in Africa reached \$14.7 billion (a 60 percent jump from 2009). In short, the Sino-Africa relationship during the past six decades went from imbalanced to balanced in regard to its political, economic and cultural dimensions. Political relations developed quite well in all three periods, economic relations gained momentum largely in the third period and cultural relations eroded with the development of economic ties.

3.4 The Current Sino-Africa Relations

China has gradually upgraded its Africa policy in the 21st Century with the establishment of FOCAC in 2000. Within six years after the formation of FOCAC, the Sino-Africa relationship reached a level where it defined its Africa policy for the first time with four principal guidelines.

- a) Sincerity, friendship and equality (the political dimension)
- b) Mutual benefit, reciprocity and common prosperity (the economic dimension)
- c) Mutual support and close coordination (the international dimension)
- d) Mutual learning and seeking common development (the cultural dimension)¹¹⁷

¹¹⁷ Chinese MOFA, *China's African Policy, 2006*, <http://www.fmprc.gov.cn/eng/zxxx/t230615.htm>

The Sino-Africa relationship gained new momentum under these principles. According to a 2011 report from African Development Bank, ‘China is a valuable trading partner, a source of investment financing, and an important complement to traditional development partners. China is investing massively in infrastructure, which helps alleviate supply bottlenecks and improve competitiveness’.¹¹⁸

Most western analysts believe that the main driving force behind China’s investment in Africa is natural resources hence the reason for its focusing on a few resource rich countries.¹¹⁹ Chinese investments actually reach 49 African countries. The fraction of coverage is about 83 percent (second to Asia and much higher than the average rate of 71 percent). These figures also exceed those of other powers in Africa, including the US, EU, India, Brazil, Turkey and South Korea. For example, in 2010, the top 10 African recipients included South Africa (31.8 percent), Nigeria (9.3 percent), Zambia (7.2 percent), Algeria (7.2 percent), The Democratic Republic of Congo (4.8 percent), Sudan (4.7 percent), Niger (2.9 percent), Ethiopia (2.8 percent), Angola (2.7 percent) and Egypt (2.6 per cent), comprising 76 percent of all Chinese investment in Africa.¹²⁰

In regard to diversification, China has invested in African sectors, including agriculture, mining, manufacturing, service, infrastructure, capability building and human resources. According to a report by the Carnegie Endowment for International Peace, during the period from 1979 to 2000, 46 percent of Chinese investment in Africa went to manufacturing (15 percent to the textile industry), 28 percent to mining, 18 percent to services and seven percent to agriculture. In 2009, only 29 percent of Chinese investment went to mining. In contrast, in 2010,

¹¹⁸ R. Schiere, ‘China and Africa: *An Emerging Partnership for Development? – An overview of issues*,’ Working Paper, No. 125, May 2011, African Development Bank Group, p. 17

¹¹⁹ Perkins, D. H. (2001). *Economics of development*. New York, N.Y: W.W. Norton & Co.

¹²⁰ Alden, C., International African Institute & Royal African Society. (2007). *China in Africa*. London: Zed Books.

56.6 percent of US investment in Africa went to the mining sector, more than 30 percent to services and less than 10 percent to manufacturing and agriculture combined.¹²¹

China has also built platforms to promote its relationship with Africa. The most important one is the FOCAC. Established in 2000, the FOCAC brings together the 51 states that have diplomatic relationships with China.¹²² Since its establishment, FOCAC has gradually become an important platform for collective dialogue and an effective mechanism for enhancing practical cooperation between China and African countries. Since its establishment, FOCAC has held five ministerial conferences (the latest in July 2012) and one summit at the level of heads of state and government (in 2006). It has arguably provided the political umbrella for the boom in bilateral relations.¹²³

China also engages with Africa through multilateral organizations, including the UN, the IMF, the World Bank and the G20. Multilateral organizations give great relevance to the South-South cooperation mechanism, G7+China, the Non-Alignment Movement and BRICS. The latter has great potential in terms of its ability to support African development. The invitation of South Africa to the BRICS and recent discussions on the establishment of a BRICS development bank highlight this, as well as the theme of the most recent BRICS summit ('BRICS and Africa') held in March 2013.

The rapid development of the Sino-Africa relationship shows a trend of diversification of actors and interests. Aside from state actors like the Foreign Ministry, the Ministry of Commerce and other central governmental ministries and agencies, many other actors like state-owned

¹²¹ Nagel, S. S. (1998). *Policy within and across developing nations*. Aldershot: Ashgate Pub.

¹²² Li Anshan, (2012) 'Why the Forum on China-Africa Cooperation-Analysing China's Strategy in Africa,' *Foreign Affairs Review*, 29/3. FOCAC was initiated by African states.

¹²³ UNCTAD, *Economic Development in Africa Report 2010: South-South Cooperation: Africa and the New Forms of Development Partnership* (Geneva: UNCTAD, 2010), 67

companies, provincial agencies, province-owned companies, private companies and even individuals have a role to play. For example, national companies do not dominate China's investment in Africa. Rather, SMEs account for more than 85 percent of the 2000 Chinese companies that operate in Africa.¹²⁴

Many scholars have explored the reasons for the transition behind the Sino-Africa relationship. Some point to China's equal treatment of Africa, embodied in a non-interference principle and no-string-attached assistance. While China has received criticism for instrumentalizing its traditional emphasis on sovereignty and non-interference to carve out economic deals,¹²⁵ most of the other developing countries imitate China in regard to their engagement with Africa.

¹²⁴ Ibid

¹²⁵ J. Holslag, 'China's New Mercantilism in Central Africa,' *African and Asian Studies* 5/2 (2006).

CHAPTER FOUR

IMPLICATIONS OF CHINA'S ROLE IN KENYA AND OTHER DEVELOPING NATIONS

4.0 Introduction

In recent years, China has increased its involvement in Africa, pursuing market opportunities and raw materials for its firms. China has given significant loans to countries such as Ethiopia and has extensive oil interests in Southern Sudan, while Chinese contractors are gaining a dominant position in infrastructural development projects across East Africa. Kenya has not been left behind, despite facing many challenges and lacking the raw materials that attract Chinese companies elsewhere in Africa. Some of the challenges include food insecurity, due to droughts and famine; disasters, such as floods, landslides and fires; high poverty levels; poor sanitation and inadequate medical services; low education levels and high corruption levels. However, for China, Kenya is geographically well placed to become a business hub for East Africa and a gateway to Central African countries.¹²⁶

In 1963, when China established diplomatic relations with Kenya, trade between the two countries was in Kenya's favor at Ksh. 29.2 million. By 2010 China had become the leading source of Kenya's foreign direct investment (FDI), investing KES 2.5 billion into the country's economy.¹²⁷ Currently Chinese firms have a major stake in Kenya's local infrastructure sector through projects such as the expansion of the Jomo Kenyatta International Airport, the construction of the Nairobi–Thika superhighway, the upcoming construction of a second port

¹²⁶*Daily Nation*, (2011). Sinai fire tragedy, Abdullahi AS, 'Recent sad events show State's contempt for the people', <http://www.nation.co.ke/oped/Opinion/Recent+sad+events+show+States+contempt+for+the+people+//440808/1238046/-/view/printVersion/-/y03sy7z/-/index.html>.

¹²⁷ Kenya Investment Authority, (2011). Annual reports <http://www.investmentkenya.com>, publications downloads.

(Lamu Port) and the Southern Sudan–Ethiopia Transport Corridor (LAPSSET) project (an ambitious plan to construct a port, roads, railway and pipeline connecting the corridor), the construction of vehicle assembly plants and oil exploration. Other potential areas of co-operation are manufacturing (whereby Chinese firms set up companies in Kenya) and tourism targeting Chinese travelers. Chinese firms have also invested in Kenya’s pharmaceutical (for example Huawei), technological (for example ZTE Technologies) and media sectors. China Central Telecoms has signed a telecommunications agreement with Kenya Broadcasting Corporation, and recently a Chinese firm won a digital signal tender.

Although the two countries have a good mutual relationship, Kenyans both admire and criticize Chinese firms in almost equal measure. They are admired for their efficiency and speed (compared to local construction firms) and for how they have helped turn around the country’s depleted road network. However, they have drawn criticism from local and other foreign contractors over dubious tender practices and counterfeit products from China, while communities are concerned about the negative environmental effects from project sites. Firms often choose to use Chinese labor rather than indigenous workers and follow unconventional labor practices, which results in friction between Chinese and local workers. Local companies also face stiff competition from Chinese products’ increased penetration in the Kenyan market and a reduced market share. Given these varying perceptions of China in Kenya, it is important to analyze the effectiveness of a broader partnership with Beijing in order to better understand its implications for local businesses, consumers and communities. In particular, what the collateral effects are of Chinese goods and construction firms on their Kenyan counterparts and how

effective the measures taken by Nairobi and the East African Community (EAC) to tackle the negative effects are.¹²⁸

4.2 Loss of Trade

In the East African regional market, the share of Kenya's export of clothing has declined in the recent past. UNECA (2005) estimates that Kenya's export of manufactured products in the region declined by twenty per cent between 1997 and 2003. Moreover, the Centre for Business Information in Kenya (CBIK) estimates that textiles and clothing exports to Uganda and Tanzania declined by fifty-five per cent between 2000 and 2005. Some of domestic firms which previously exported to Uganda and Tanzania had either reduced their sales while others had completely pulled out of these markets. They argued that this was due to imports of relatively cheaper products from China as well as the importation of secondhand clothes.¹²⁹ A major consequence of this decline in exports from the AGOA region was the impact on employment and overall economic activity.¹³⁰

The EU remains Kenya's largest trading partner. In the past decade, exports from the EU, China and India to Kenya have steadily increased, except in 2009 when trade volumes declined due to the 2008 financial crisis. Traditional partners such as the US and Japan have moderate trade volumes with Kenya, while Russia and Brazil are the least significant trading partners. Despite declining marginally in 2009, China's trade has increased steadily. This steady growth has translated into a one-sided trade pattern in China's favor and an increasing trade imbalance that reached a high in 2010. The reason for the higher increase compared to other countries is

¹²⁸Nairobi Star, (2011) 'East Africa: Kenya, China in Sh8 billion university hospital deal', <http://allafrica.com/stories/201104250544.html>.

¹²⁹ Kamau P. (2007). Kenya: A case study-The Developmental Impact of Asian Drivers on Kenya with Emphasis on Textiles and Clothing Manufacturing. Mimeo.

¹³⁰ 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.

that Kenya exports unfinished goods to China, whereas Chinese imports mainly finished manufactured goods into Kenya.¹³¹ Recognizing this widening trade imbalance, the two governments recently agreed to work towards bridging the gap. Some effective short to long-term measures could include EAC countries enacting legislation that ensures value is added to locally produced commodities before exporting, similar to the law in Uganda that requires any extracted oil to be processed before exporting.

Local contractors argue that Chinese companies have increased unhealthy competition in the market, which has led to local companies being unable to compete and having to close down. In Kenya approximately Chinese firms are working on various projects. They include small and medium enterprises that provide auto repairs and maintenance, home furnishings, construction, agricultural machinery and restaurants.¹³² Kenyan contractors have demanded that the government introduce protectionism measures, arguing that infant industries need to be protected so that they can grow and become profitable. However, the government has ‘confidence in Chinese contractors for the good job they have done and continue to do’.

Indeed, compared to other contractors, Chinese firms provide high quality and competitively priced work in the construction sector. The Chinese government helps its companies to be competitive through a number of measures, for instance by providing companies with operating capital, which gives them a competitive edge. The Chinese government also at times negotiates at a government-to government level on behalf of their companies for contracts. In this context, the open and fair procurement process in the awarding of tenders is seen to be

¹³¹ Onjala J, (2010). Impact of China–Africa trade relations, AERC, , https://docs.google.com/viewer?v&q=cache:4yRQqo01kW0J:cloud2.gdnet.org/CMS/getRepoDoc.php?community_group_document_id%3D41+Onjala+J,+Impact+of+China%E2%80%93Africa+trade+relations,+AERC

¹³² *Daily Nation*, (2011), <http://www.nation.co.ke/business/news/China+lends+Kenya+Sh167bn+for+city+roads/-/1006/1281580/-/eu2en8z/-/index.html>.

violated, an argument that the Kenyan government has refuted.¹³³ The increase in cheap Chinese products affects local companies, which have to retrench employees (to cut operation costs) due to declining revenues and loss of market share. Kenyan companies also have higher production costs, as their equipment is often obsolete compared to the modern Chinese factories. However, some companies have benefited through trading with Chinese companies and importing cheap goods from China. Certain producers also gain, albeit in isolation. For example, the Chandarana retail chain reportedly has a factory in China that manufactures products to sell on the Kenyan market. Nevertheless, Kenyan exports face competition from Chinese exports in other developing countries. As more Chinese manufacturers enter the Kenyan market, the manufacturing sector is becoming more labor intensive and attracting workers from the rural areas of Kenya. This development could change rural–urban incomes and population disparities.

However, the downside is that improved technology may result in unskilled workers losing their jobs. In addition, the continued scramble for market share by new actors such as China presents a unique opportunity for Kenya to take greater ownership of and to co-ordinate various donor projects, as well as to set up strong institutions that improve accountability and transparency of foreign companies operating in the domestic economy, ensuring alignment with the country's needs and national development strategy.¹³⁴ For example, in addition to China's role in infrastructure construction, tariff exemption and unconditional aid in Africa, there is room for greater collaboration in general budget support, debt relief, investment in manufacturing plant and equipment, capacity building and technical training.

¹³³Government of Kenya, (2008, 2009), 'The Anti-Counterfeit Bill'.

http://www.kenya law.org/Downloads/Bills/2008/The_Anti-Counterfeit_Bill_2008.pdf.

¹³⁴ Odhiambo A, (2010) 'China steps up control of exports goods quality', *Business Daily*, 4 January 2010, <http://www.businessdailyafrica.com/Corporate+News/-/539550/835952/-/xqlv5g/-/index.html>.

4.3 Counterfeit Goods

According to the Kenya Association of Manufacturers (KAM), China remains the main source of counterfeit goods, and trade in counterfeits results in an annual net loss of \$368 million. In other developing and developed countries, Chinese imports (mainly fast-moving consumer goods) have been red flagged as counterfeit and are subject to stringent import clearance. In Kenya, banned products are mainly imports from China.¹³⁵ Manufacturers feel the impact of counterfeits through brand erosion, loss of sales and market share, the closure of factories and unfair competition. Counterfeits cost the government approximately \$84–490 million in lost taxes every year, and tracking counterfeit activities absorbs valuable resources and discourages innovation in new products, as companies fear unfair competition.

In 2010 the Consumer Federation of Kenya carried out a survey on the counterfeit market. It identified the commodities most likely to be counterfeited, and found that counterfeit consumer goods are often packed in small packages aimed at low-income consumers. The survey also found that 60% of businesses had reservations about whether the government's interventions to curb counterfeits trade were adequate. The report concluded that businesses need more education about the anti-counterfeit laws. Substandard and counterfeit goods also negatively affect the wellbeing of unsuspecting consumers, while the use of counterfeit fertilizers, chemicals and seeds result in decreased agricultural productivity. Counterfeit medicines can have medium-to-long-term health consequences.¹³⁶ In general, Kenyans perceive Chinese products to be of low quality compared to other products in the market.

Nevertheless, most Kenyan consumers across different income groups purchase Chinese

¹³⁵ Kenya Bureau of Standards, (September 2010) 'Banned products', <http://www.kebs.org/?opt=qai&view=banned>.

¹³⁶ Onjala J, (2010), *op. cit.*, and World Health Organization, 'General information on counterfeit medicines', <http://www.who.int/medicines/services/counterfeit/overview/en>.

products occasionally because they are affordable and provide business opportunities to small and medium enterprises. The survey revealed mixed perceptions among Kenyan consumers about Chinese products and their impact on businesses and consumption patterns. Across all income and age groups, the majority of consumers had bought or traded in Chinese products at least once. However, for Nairobi residents with incomes of between KES 20,000 and KES 40,000, 42.3% said they had bought or traded in these products many times, while 53.4% admitted to occasionally purchasing or trading in Chinese products. Among middle-class residents aged 21–40 years, 65.6% indicated that they had bought or traded in such products many times, while 69.1% said occasionally. On consumers' perception of counterfeit products in Kenyan market, the survey reported mixed views on their benefits and costs.

The view that counterfeits from China are of low quality is held by the majority of consumers with an income of between KES 31,000 and KES 40,000 (35.5%) and aged 31–40 years (45.9%). Half of these two groups also believe that the presence of such goods results in loss of business opportunities. However, consumers aged 31–40 years also believe that Chinese products in the Kenya market mean a wider variety of products (38.2%), low prices (39.4%), employment creation (45.0%) and business opportunities (37.3%).

China has started to take measures to accommodate an increasing number of African imports. They have removed tariff barriers for twenty-five of Africa's poorest nations. When China's commerce minister visited Kenya in 2009, he stated that China is keen to extend its tariff exemption initiative. This is definitely a step in the right direction to leveling the playing field for Sino-African trade.¹³⁷ Kenya's exports to China continue to grow exponentially and the compositions of these exports have also started to change. 67% of Kenya's exports now consist

¹³⁷Raine, S. (2011). Beijing's South China Sea Debate. *Survival*, 53(5), 69-88.

of nonfuel materials (recycled metals, soda ash), and more importantly Kenya's manufactured goods are now 15.3% of exports to China.¹³⁸ There are worries that China's export prowess may make it difficult for Africa's attempts to develop its own manufacturing sector however this does not seem to be the case with Kenya. In fact, Kenya's retail trade and manufacturing sector, which had been reinvigorated under Kibaki's rule, continued to grow despite taking in a historic number of Chinese traders.

China has also been accused of using Africa as a dumping ground for their cheap manufactured goods, but this must be seen within the context of the local consumer. The cheap goods China is exporting are tailored to the African market. The Chinese are simply responding to the demand for affordable everyday goods. We must recognize that a lot of critique is disguised protectionism.¹³⁹ Cheap goods are not intrinsically exploitative, but flooding the market with factory-rejects and counterfeited goods is exploitation.¹⁴⁰ The influx of faulty goods will have a detrimental impact on Kenya's economy and it is therefore important that the Kenyan government takes this issue seriously. Kenya should take note of how Nigeria responded to this issue in 2009 by getting China to sign an agreement that their exports would comply by the terms of the Nigerian Industrial Standards Act. Getting China to sign an agreement would be the first step to curtailing the influx of substandard goods but this would have to be followed up with regular supervision by the government to ensure that China is observing the agreement.

On a positive note, there seems to be a significant shift in the content of Chinese exports to Africa. China is trying to move away from light industrial goods and is focusing on the exports

¹³⁸Chege, M. (2006).Economic Relations between Kenya and China, 1963–2007. *The Guardian* (London).

¹³⁹ Economist (2008) _Kenya and China. The sound of silence. The murky role of one of President Mwai Kibaki's closest new allies', 7 February, *The Economist* <http://www.economist.com/node/10653924> [Accessed: 4 March 2012].

¹⁴⁰ Raine, S. (2009) *China's African Challenges*. Oxon: Routledge.

of machinery and technology that will maximize profits.¹⁴¹ The Chinese government *wants* exports of Chinese machinery and equipment to overtake cheap consumer goods in the export mix, moving up the value chain.¹⁴² 40% of Chinese imports to Kenya now consist of machinery, transport equipment for agriculture and industrial production, and the service sector. This is a significant opportunity for Kenya as access to advanced technology and machinery is vital if Kenya is to meet its economic and social development goals. One of the main components of China's engagement with Kenya is the construction of large infrastructure projects.

However, considering that the quality of other Chinese manufactured goods, there is the possibility that even these large-scale projects may be substandard. This was the case in Angola where a newly constructed hospital had to be shut down after a few months when significant cracks were shown in the walls.¹⁴³ Yet the reason that Chinese companies are Africa's first choice for infrastructure building is because projects are completed quickly and cheaply with minimal red tapel and bureaucracy.¹⁴⁴ The fear is that what may be a cheap fix in the short term will prove to be expensive in the long run. Having said that, it is in China's interest to ensure their African consumers are satisfied so as to secure further investments.

There are estimated to be 44 Chinese construction firms currently working in Kenya. China has contributed significantly to addressing Kenya's infrastructure deficit. Roads, railways, power

¹⁴¹ Qiang, Z. (2010) China's Strategic Relations with Africa. In: A. Harniet-Sievers and S. Marks and S. Naidu (eds) *Chinese and African Perspectives on China in Africa*. Oxford: Pambazuka, pp.56-69.

¹⁴² Brautigam, D. (2009) *The Dragon's Gift: The Real Story of China In Africa*. Oxford: Oxford University Press.

¹⁴³ Economist (2008), Kenya and China. The sound of silence. The murky role of one of President Mwai Kibaki's closest new allies', 7 February, *The Economist* <http://www.economist.com/node/10653924> [Accessed: 4 March 2012].

¹⁴⁴ Chege, M. (2007) Economic Relations Between Kenya and China, 1963-2007. In: H.G. Broadman (Ed) *Africa's Silk Road: China and India's New Economic Frontier*. Washington DC: World Bank, pp. 17-38.

grids, ports etc. are being built at a speed never before imagined.¹⁴⁵ These projects not only provide Kenyans with a leading source of employment, but the construction of infrastructure at an affordable price, also boosts Kenya's economic performance, thus making them a stronger competitor. Infrastructure construction is perhaps the best example of the Chinese promise of a win-win paradigm. Improving Kenya's infrastructure capacity is vital for their aspirations of becoming a newly industrial, middle-income country by the year 2030.¹⁴⁶

Another common accusation is that Chinese investment does little for Africa's capacity building. The issue being that China imports workers instead of hiring locally. They say this is because Chinese workers have more experience with rapid infrastructure construction and because there is a language and cultural barrier with local workers. However in recent years, this too is starting to change, as African governments are less willing to hand out work permits. Now it is more common to have a small core of Chinese workers who manage the projects and set the pace while the majority of workers are locally hired.¹⁴⁷ The Chinese are also becoming more aware that since their interests in Africa are long-term, it is mutually beneficial to support capacity building. Ultimately it is up to African governments to set up regulations to ensure that their people receive employment opportunities from this engagement. For example, the Angolan government has a quota that 70% of all workers must be locally hired. Regulations like these are vital for capacity building and to ensure that a Sino-Africa partnership is mutually beneficial. Yet at this point it is fair to consider that even though local civil servicemen receive training that

¹⁴⁵ Onjala, J. (2008) 'A Scoping Study on China-Africa Economic Relations: The Case of Kenya', 5 March, *Institute for Development Studies*, http://www.aercafrica.org/documents/china_africa_relations/Kenya.pdf [Accessed: 26 February 2012].

¹⁴⁶ GOK (2008) 'The Vision', *Government of Kenya*, <http://www.vision2030.go.ke/index.php/vision> [Accessed: 18 February 2012].

¹⁴⁷ Alden, C. (2007) *China in Africa*. London: Zed Books.

does not ensure that they will stay with the project. In a country like Kenya where there is a serious shortage of skilled manpower, a brain drain to international organizations is very common. A skilled Kenyan civil service worker will receive five times more pay if he works for an international aid agency. It is also fair to note that Chinese aid packages also contribute significantly to Africa's capacity building through their training programs, technical assistance in the disciplines of health and agriculture and with their scholarships and cultural exchange programs.¹⁴⁸

In terms of China's impact on Kenya's natural resources, including land, China poses a threat to Kenya's environmental sustainability. Kenya is an outlier in the Sino-Africa engagement because it does not fit the bill of the typical resource rich countries that China is heavily involved with. China has a notorious reputation for its disregard of the environment. Their impressive rapid development has come at a very high price to the environment. It is estimated that each year China loses 9% of its GDP to environmental degradation. There is grave concern that if China cannot protect its own environment at home, it will not be able to do so abroad; especially in developing countries with weak environmental legislation and regulation.¹⁴⁹ In Kenya, it has been widely documented that in instances where Chinese road projects run close to national parks, there has been a rapid increase in poaching. In fact, 90% of those caught smuggling ivory at Jomo Kenyatta Airport are Chinese. This is very worrying not only for

¹⁴⁸ Brautigam, D. (2009) *The Dragon's Gift: The Real Story of China in Africa*. Oxford: Oxford University Press

¹⁴⁹ C. Kabemba (2010) The dragon is not green enough: the potential environmental impact of Chinese investment in the DRC. In: A. Harniet-Sievers and S. Marks and S. Naidu (eds) *Chinese and African Perspectives on China in Africa*. Oxford: Pambazuka, pp.139-162.

Kenya's endangered species, but also because increased poaching may jeopardize Kenya's tourism industry.¹⁵⁰

Although Kenya is not known for its wealth of natural resources, this has not deterred China from signing several deals for the exploration of gas titanium and oil.¹⁵¹ Now, an Anglo-Irish firm has found oil in Northern Kenya.¹⁵² A US ambassador to Kenya predicted that *if* oil was found in Kenya, then China's engagement with Kenya would likely escalate.¹⁵³ China makes no secret of the fact that it is interested in Africa's natural resources. Considering that oil has been found in many East African countries (South Sudan, Ethiopia, Uganda and Somalia, this may well be the real motivation behind China's involvement in building infrastructure projects that will connect these countries.¹⁵⁴ Like that of any other country, China's foreign policy is intended to serve its domestic interests. The Lamu Port-South Sudan-Ethiopia Transport corridor (LAPSSET) project, which China is building, will allow China access to the wider markets of East Africa and it may also give China access to their oil reserves.¹⁵⁵

¹⁵⁰ Shoumatoff, A. (2011) 'Agony and Ivory', 1st August, *Vanity Fair* <http://www.vanityfair.com/culture/features/2011/08/elephants-201108> [Accessed: 17 February 2012].

¹⁵¹¹⁵¹ Economist (2008) 'Kenya and China. The sound of silence. The murky role of one of President Mwai Kibaki's closest new allies', 7 February, *The Economist* <http://www.economist.com/node/10653924> [Accessed: 4 March 2012].

¹⁵² Opiyo, D. (2012) 'Excitement as Tullow strikes oil in the first well in Turkana country', 26 March, *Daily Nation* <http://www.nation.co.ke/News/We+have+found+oil+says+Kibaki+/-/1056/1374314/-/uq5xt2/-/index.html> [Accessed: 29 March 2012].

¹⁵³ Guardian (2010) 'US embassy cables: China providing military and intelligence gathering support to Kenya', 17 February, *the Guardian* <http://www.guardian.co.uk/world/us-embassy-cables-documents/249097> [Accessed: 7 March 2012].

¹⁵⁴ Aron, M. and Okoth, J. (2012) 'Lamu project a boost to recovering economy'. *The Standard*, 4 March 2012. <http://www.standardmedia.co.ke/business/InsidePage.php?id=2000053341&cid=4&> [Accessed: 29 March 2012]

¹⁵⁵ Nyabiage, J. (2011) 'Cash-rich Chinese firms come knocking', 21 November, *The Standard* <http://www.standardmedia.co.ke/InsidePage.php?id=%202000047095&cid=159&story=Cash-rich%20Chinese%20firms%20come%20knocking> [Accessed: 7 March 2012].

Another aspect of the Sino-Africa engagement is the political implications it will have for Africa vis-à-vis external powers.¹⁵⁶ The Chinese stance of non-interference is in sharp contrast to the West's critiques and sanctions. Many African nations have felt patronized by the West and have welcomed China's non-intrusive attitude. Whereas the West has tended to sideline the State preferring to use NGOs to fulfill their objectives, Chinese foreign policy centers on State-to-State relations. Chinese expanding engagement with Africa has challenged the West's view of Africa as welfare dependent and passive actors and has also made the West reconsider Africa's emerging role on the world stage.¹⁵⁷

In the past decade, exports from the EU, China and India to Kenya have steadily increased, except for in 2009 when trade volumes declined due to the 2008 financial crisis. Traditional partners such as the US and Japan have moderate trade volumes with Kenya, while Russia and Brazil are the least significant trading partners. Despite declining marginally in 2009, China's trade has increased steadily. This steady growth has translated into a one-sided trade pattern in China's favor and an increasing trade imbalance that reached a high in 2010. The reason for the higher increase compared to other countries is that Kenya exports unfinished goods to China, whereas Chinese imports mainly finished manufactured goods into Kenya.¹⁵⁸ Recognizing this widening trade imbalance, the two governments recently agreed to work towards bridging the gap. Some effective short to long-term measures could include EAC countries enacting legislation that ensures value is added to locally produced commodities before exporting, similar to the law in Uganda that requires any extracted oil to be processed before exporting. In addition

¹⁵⁶ Large, D. (2009) Conclusion: 'All Over Africa'. In: C. Alden and D. Large, and R. Soares De Oliveira (eds) *China Returns to Africa: A Rising Power and Continent Embrace*. London: Hurst & Company, pp.371-376.

¹⁵⁷ Tull, D.M. (2009) The Political Consequences of China's Return to Africa. In: C. Alden and D.

¹⁵⁸ Chege M, (2010) *op. cit.* articulates the transition of business and investment between the two counties from Kenya's post-independence era through to President Kibaki's administration.

to direct investments, China has also offered diverse development aid to Kenya including package deal projects and humanitarian aid. Most recently, during the famine that struck the larger Horn of Africa, China donated foodstuff worth KES 2 billion to Kenya. Chinese development aid to Kenya supports infrastructure development; improvement of education standards, both academic and technical; human relief and tariff exemptions. Other areas of assistance include the modernization of power distribution; rural electrification, water; renovation of sports facilities; provision of anti-malaria drugs; construction of a malaria research center and the modernization of international airports in Kenya. The impact of Chinese investment and aid to Kenya has been mixed. The low import prices of Chinese consumer and producer goods have reduced monopolistic tendencies among Kenyan enterprises, and yet employees and firms are negatively affected by the influx of cheap products. These effects in turn trickle down to the national economy with both gains and losses.¹⁵⁹

4.4 Government Intervention

In 2010, the Kenyan Parliament enacted the National Construction Authority Act 2010 that established a National Construction Authority mandated to (among others) prescribe the qualification or attributes required for registration as a contractor; promote quality assurance in the construction industry; encourage the standardization and improvement of construction techniques and materials; accredit and register contractors and regulate their professional undertakings; and accredit and certify skilled construction workers and construction site supervisors.¹⁶⁰ The authority is thus entrusted with regulating the construction sector to ensure

¹⁵⁹ Waithaka J, (2011) 'National Construction Authority to help streamline construction sector', *Nairobi Star*, <http://allafrica.com/stories/printable/201106230682.html>.

¹⁶⁰ Parliament of the Republic of Kenya, National Construction Authority Bill, (2011), http://www.parliament.go.ke/index.php?option=com_content&view=article&id=204:bills&catid=46house-business.

fair competition in procurement/tendering processes for both local and foreign contractors. However, it is too early to assess the effectiveness of the Act. The Kenyan Parliament has also enacted the Anti-counterfeit Act of 2008 that took effect from July 2009. The Act set up an Anti-counterfeit Agency to enlighten and inform the public on related matters, combat trade on counterfeit goods, devise and promote training programs to combat counterfeiting, and coordinate with national, regional and international organizations involved in combating counterfeiting.¹⁶¹

However, the Agency's capacity to fight counterfeiting has been questioned and/or hindered on various fronts. Both consumers and producers perceive the Agency as not doing enough in fighting counterfeiting, which could in part be because overlapping agencies with different mandates are involved in implementing the Act. Concerns over stakeholder representation on the Agency's board and the replacing of the Attorney General's prosecution role by a Director of Public Prosecution under the new Constitution have undermined trust in the two bodies. This implies that the office of Director of Public Prosecution, the Kenya Bureau of Standards and the Kenya Revenue Authority, among others, need to work together better to implement the Act.

Furthermore, a case was filed at the Constitutional Court in Kenya, challenging the constitutionality of sections 2.32 and 2.34 of the Act, in particular the definition of generic drugs. The court ruled in favor of the petitioners, arguing that the wording in the Act was vague, which means that the relevant sections will need to be corrected. In the meantime, the Agency's mandate to inspect generic drugs imported and distributed in Kenya is hindered, and the court

¹⁶¹ Government of Kenya, (2008', 2009). 'The Anti-Counterfeit Bill http://www.kenya-law.org/Downloads/Bills/2008/The_Anti-Counterfeit_Bill_2008.pdf.

ruling provides a safe haven to counterfeiters. Despite their limitations, these two laws are regarded as ground breaking within Eastern Africa and represent a possible precedent that other EAC member states could follow.¹⁶²

Poor regional infrastructure is a key obstacle to the EAC's integration objective, and most infrastructure projects focus on national objectives and trade facilitation across borders. China is involved in major infrastructure projects across a number of EAC countries, which will help improve regional infrastructure and thus facilitate trade among member states. However, of concern is the fact that China has not indicated clearly its willingness to involve regional economic communities through the Forum for Co-operation between Africa and China.¹⁶³

Empirical analysis has proved that a positive correlation exists between regional integration and infrastructural development, and so EAC member states need to take greater ownership and encourage China to participate in infrastructural projects that fast track the region's integration process. Nevertheless, increased Chinese competition in the EAC means that local companies in the construction and manufacturing sectors are not able to compete favorably in providing goods and services. Co-ordination is needed within the EAC, spearheaded by the secretariat, to achieve mutually beneficial outcomes for member states in the two sectors.

Interestingly, apart from Kenya, other EAC member states have not taken concrete measures to tackle counterfeiting. Although Burundi, Uganda and Tanzania have laws on anti-

¹⁶² Kiarie J, (2011) 'Counterfeit goods still in the market despite ban', *The Standard*, 24 September 2011, <http://www.standardmedia.co.ke/InsidePage.php?id=2000043453&catid=259&a=1>; and Obura F, 'Anti-counterfeit agency wants more funding', *The Standard*, 2 June 2011, <http://www.standardmedia.co.ke/InsidePage.php?id=2000036377&catid=14&a=1>.

¹⁶³ Grant, C., Dube, M., & Chapman, G. (2010). *How Can African Countries Harness Emerging Partners to Foster Regional and Sub-regional Integration?*, OECD Development Centre, Paris, 2010, <http://www.africaneconomicoutlook.org/en/in-depth/africa-and-its-emerging-partners/references>.

counterfeit goods and intellectual property rights, sound legislation is still needed. The EAC Legislative Assembly is considering an anti-counterfeit, anti-piracy and intellectual property rights Bill. If enacted, member states would be required to harmonize their respective laws with those of the EAC. For an Act to be effective, and given that discussions on the EAC's initiative is still ongoing, the EAC needs to address the weaknesses of Kenya, Tanzania, Uganda and Burundi's laws including defining counterfeit goods; civil versus criminal penalties; the broad scope of anti-counterfeit laws (i.e. intellectual property protection); challenges of implementing intellectual property laws at border stations; international scope of anti-counterfeit laws to incorporate efficient intellectual property rights; in transit shipment of goods; access to generic medicines; civil rights; the burden on government resources of combating counterfeits and revenue loss; excessive penalties and one-sided enforcement mechanism.¹⁶⁴ Debates on these weaknesses of existing anti-counterfeit laws have hindered the enactment of an EAC anti-counterfeit and piracy law.

In particular, stakeholders (including civil society, pharmaceutical manufacturers, and patients' lobby groups) have raised concerns that need to be addressed: definition of counterfeit medicines (as the current definition includes generic medicines); the lack of compatibility with the World Trade Organization's Trade-Related Aspects of Intellectual Property Rights agreement (that restricts counterfeits to trademark goods and pirated copyright with relevant definitional flexibilities on protection of intellectual property) and the proposed names of the anti-counterfeiting agency (for instance, Kenya would have a Commission, Uganda, a National Bureau of Standards and in Tanzania an Interdepartmental Task Force). Consensus is needed on these issues to conclude debate on the bill.

¹⁶⁴ Rosenholtz, D. (2010). Anti-Counterfeiting Laws and Heightened International Intellectual Property Enforcement,

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This study sought to establish the impact of china on social and economic development in sub-Saharan Africa with a focus on Kenya. The study was guided by four objectives namely: To examine the Chinese policies towards influencing African development and political agenda, To examine the impact of Chinese policies social and economic development in Sub-Saharan Africa, To examine the impact of Chinese policies on social and economic development in Kenya, To give recommendation on improvement of policies to impact on social and economic development in Sub-Saharan Africa. Two hypotheses guided the study namely: There is a significant impact of Chinese policies on social and economic development in Sub-Saharan Africa and Chinese policies have an influence on Africa development and political agenda.

5.1 Summary

This paper has shown the plurality of the relationships between Sub-Saharan African countries and China: plurality of modes, channels and impacts, as they involve trade, investment and aid relationships. In contrast with many studies that assert either positive or negative effects, the paper reveals the ambivalence of these impacts because they depend on many factors: these impacts vary across Sub-Saharan African countries due to the diversity of these countries' export structure; they are also specific to the sectors and the types of flows that are considered.

Equally, it has been shown that these relationships both differ and are similar to the relationships between Sub-Saharan African countries and their 'traditional' partners, the European states and the United States. Despite the indisputably beneficial impacts of larger trade and capital flows and the associated additional room for maneuver, it is not likely that trade,

investment and aid relationships between China and Sub-Saharan Africa will induce the latter's structural transformation in the short term, as they maintain its current export structure – commodity-dependence – and rely on a bundling of trade-investment-aid that may create lock-in effects.

Chinese aid flows to Africa are increasingly important, and as such, it may be assumed that they can be beneficial for the continent's development. Their impact may be uncertain, however. Potential lock-in effects are inherent to the bundle structure of the 'Angola model', as it links aid, trade and investment and gives Chinese aid a specific organization – although China's aid may also be channeled outside the contractual modalities of the 'Angola Model'.

Chinese aid includes finance to Chinese companies and subsidized resource-backed infrastructure loans. It represents, however, much less than China Exim Bank export credits. Indeed, while aid was historically a major instrument of China's economic engagement with Africa, with aid flows relative to trade being about 20 percent in the early 1990s, this ratio declined to 3-4% in 2004-05 although exact figures are difficult to find, China Exim Bank firstly supports infrastructure projects in Africa, and the latter's financing is likely to be much larger than aid flows. China, however, created the FOCAC (China-Africa Cooperation Forum) in 2000 and has augmented its aid since then.

According to the government of China's White Paper on foreign aid (China's Information Office, 2011), financial resources provided for foreign aid fall into three types: grants (aid gratis), interest-free loans and concessional loans. The first two come from China's state finances, while concessional loans are provided by the Exim Bank. This highlights the close links between trade, investment and official development assistance. As a donor, China differs from 'traditional' donors by its close ties with the state banks and state enterprises, which are

often involved in the implementation of China's foreign policy vis-à-vis SSA. In addition, China mostly gives aid tied to the delivery of Chinese goods and services (Christensen, 2010).

By the end of 2009, China had provided 38.8 billion US\$ in aid to foreign countries, firstly under the form of grants (Government of the Republic of China White Paper, China's Information Office, 2011). These aid flows go in the first place to Africa (45.7% of total flows).

The rapid development of the Sino-Africa relationship reveals on-going transitions that facilitate the move towards a new strategic partnership. While the relationship has maneuvered well through this trend, there is still an urgent need for longer-term strategic planning to steer and sustain the future development of Sino-African relations.

5.2 Conclusions

Bilateral relations have been developing smoothly with the traditional friendship continuously deepened and friendly cooperation in all areas increasingly expanded. Bilateral economic and trade relations have soared and both sides have made rapid headway in cooperation in the areas of electric power, communications, investment and project contracts and have achieved new results in humanities exchanges and maintained close consultations and cooperation in international affairs.

Further, the failure to use existing policy space well can often be explained by the nature of the country's political structures, which act as internal constraints, even when external constraints are absent. Unfortunately, there is no simple categorization of these constraining political structures. Such is the porosity of political institutions; constraining structures can appear in "democratic" as well as "authoritarian" forms. The issue therefore is not one of insisting on the adoption of particular "democratic" political structures. The issue is about preventing aid from doing harm to the people whom it is intended to assist. Most people oppose

genocide and the abuse of human rights, and acknowledge that these practices are by no means a monopoly of developed nations. By implication, attaching political conditions to offers of aid may be necessary and desirable in the future. Aid conditionality of all kinds cannot be objectionable in principle, if one can conceive of circumstances under which it could be used to achieve something desirable. The complete rejection of aid conditionality seems to be based both on an over-pessimistic estimate of the intentions of Western aid donors, and on an over-romantic view of developing countries, and the economic relations that exist between them. As this paper has tried to show, the romantic view certainly does not apply when the relevant regions are as highly differentiated as China and sub-Saharan Africa are.

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 favorable. China views Kenya as a gateway to East African region and is a focal point in terms of China's trade and economic strategy.

5.3 Recommendations

In order expand cooperation in the fields of culture, education, health, tourism, journalism, environmental protection and sport and further build up mutual understanding and friendship

between both countries, a number of initiatives are on-going: In order to stimulate Chinese investment in the tourism sector resulting in direct flight connections between China and Kenya, Kenya and other individual African countries have been granted “Approved Destination Status”. Chinese tourism abroad is strongly regulated. The popular tourist destinations of Egypt and South Africa were the first countries to be granted such status. Following FOCAC’s Addis Ababa Action Plan, China gave an additional eight countries (Ethiopia, Kenya, Tanzania, Zambia, Mauritius, Seychelles, Zimbabwe and Tunisia) such status. China and Kenya signed a memorandum for setting up the website "Kenya-China Economic and Trade Cooperation" in June 2006. The two sides agreed that China will import more coffee from Kenya and at the same time offered Kenya the most advanced coffee processing equipment. China’s influence is not limited to raw materials. Kenyan universities are developing Chinese language programs (University of Nairobi), Technical Scientific Cooperation (Egerton University), while Ministry of Information officials attend exchange schemes.

China needs to build a stronger social basis for Sino-African relations. Lacking a non-governmental capability, current people-to-people exchanges have more negative than positive contributions. China should strengthen NGOs and civil society groups to nurture these relations, create better platforms for public diplomacy and diversify diplomatic skills and stakeholders. China should make concrete contributions to African peace and security. On the one hand, China now has a blueprint for peace and security cooperation between the two sides without a detailed strategy or plan. On the other hand, initiating peace and security cooperation poses a risk of violating China’s principle of non-interference. Thus, China needs a strategic plan for such an initiative, with multilateral institutions as the main platform.

It is time to inject an overdue dose of realism into the debate on the use of policy conditionality in aid agreements. The claim that policy conditionality has failed is often heard, but that is because it is one of those half-truths with which people of very different persuasions all find it possible to agree. There surely have been failures, owing to incentive incompatibility being designed into the aid contract.

Finally, China must pave the way for future symmetrical interdependence between China and Africa. China needs to adapt, strengthen and protect its relationship, and learn how to build a real friendship between a would-be ‘developed’ country (China) and a real ‘developing’ continent (Africa), how to consolidate the global South and how to be a reliable friend and partner for developing countries. The future is bright, but there is still long way to go.

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