EXTERNAL ENVIRONMENTAL FACTORS INFLUENCING CHINA-KENYA TRADE: A CASE STUDY OF THE MINISTRY OF FOREIGN AFFAIRS AND INTERNATIONAL TRADE AND CHINESE EMBASSY IN KENYA

BY

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DECLARATION

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

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This research project has been submitted for examination with my approval as the University Supervisor.

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DEDICATION

I dedicate this study to my parents. There is no doubt in my mind that this study could not have been without their many years of dedicated support, counsel and above all love. Your faith in me has shaped my character and has made me to have faith in myself. To you I say thank you very much and may God bless you abundantly.

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ABSTRACT

International trade has revolutionized over time with a number of environmental factors forcing the changes in ways trade is conducted. Most of these factors stem down from the effect of globalization. The study aimed at investigating the external environmental factors influencing china-Kenya trade; a case study of the Ministry of Foreign Affairs and International Trade and Chinese Embassy in Kenya. The objective of the study included; to establish the political factors affecting China-Kenya trade; to find out the economic factors affecting China-Kenya trade; to investigate the social factors affecting China-Kenya trade; to establish the technological factors affecting China-Kenya trade; and to find out the environmental and legal factors affecting China-Kenya trade. An analysis of the theories concerning international trade, leads to the conclusion that there is a natural distinction between traditional theory and recent theory. The study was conducted at the Ministry of Foreign Affairs and International Trade and Chinese Embassy in Kenya and case study research design strategies were used. The target population comprised of member of staff at the Ministry of Foreign Affairs and International Trade and senior staff at the Chinese embassy in Kenya. The respondents were selected purposively. The study utilized interview schedule as instrument for data collection. The data collected was analysed qualitatively and findings presented using short narrations. Results of the study revealed that external environmental factors like; political environment, legal environment, economic factors, social cultural factors and technological environment influenced the growth of Sino-Kenya trade. Policies developed by two nations have seen the increase in the flow of foreign direct investments although the balance between the two trading partners has not been achieved. This partnership is of great importance to Kenya in terms of job creation, economic development and promotion of social relations between the two nations. The study recommends that appropriate measures need to be taken into consideration to ensure that the country (Kenya) exploits the China market, the national agencies on counterfeit products need to improve their strategies to ensure that substandard products are not dumped into the country. The Kenyan government need to adopt policies aimed at diversifying the future financing of economic growth.

TABLE OF CONTENTS

ABBREVIATIONS AND ACRONYMS

ASEAN	Association of South East Asian Nations
FDI	Foreign Direct Investment
GAAT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GNP	Gross National Product
IMF	International Monetary Fund
KEBS	Kenya Bureau of Standards
KIPPRA	Kenya Institute of Public Policy Research and Analysis
NAFTA	North America Free Trade Agreement
NEMA	National Environmental Management Authority
WTO	World Trade Organization

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

International business means carrying of business activities beyond national boundaries. It is an extension of domestic business, which includes the transactions of economic resources such as goods, capital and services comprising of technology, skilled labour, transportation among others (Buckley, 2005). It includes not only international trade of goods and services, but also foreign investment. International business has gained wide popularity, because of the growing rate of multinational enterprises. The flows of goods, services, technologies, resources, people, and ideas among markets have major effects on countries and their governments, companies, and individuals (McDonald et al., 2002). At the nation-state level, participation in international business activities helps countries take advantage of national expertise in commerce to deliver goods and services into the international marketplace. It also increases the varieties of goods and services available in national markets and exposes consumers to new lifestyles and ideas. Over time, these exposures affect national cultures including their political and economic institutions, and impact a society's behaviours, attitudes, and lifestyles. Governments have major effects on international business activities in determining how open (or closed) national economies are to external influences such as trade and investment (Grosse, 2005).

For companies, international business increases competition in domestic markets and opens up new opportunities abroad. Global competition forces firms to be more innovative and efficient in their use of resources. For consumers, international business brings increased varieties of goods and services into the world marketplace and enhances living standards. Just as important, open borders means increased exposure to new ideas, technologies, and ways of doing things (Devinney, 2010).

International trade has revolutionized over time with a number of environmental factors forcing the changes in ways trade. Most of these factors stem down from the effect of globalization (Griffin et al., 2010). Other factors that have contributed to these massive changes include: Historical circumstances, such as the end of the cold war and the breakup of the Soviet bloc, helped to generalize the free trade model and increase further the number of States and therefore potential trading partners (Buckley, 2011). This number had already been sharply augmented by the decolonization process in the years 1950 to 1970. The other factor is encouragement or regional integration that gave rise to associations such as ASEAN and NAFTA (Eria 2010). The establishment of the World Trade Organization (WTO) under the 1994 Marrakesh Agreement also signalled a common desire to liberalize trade.

Changes in international trading are, however, brought about solely by environmental factors of different kinds that rapid change the state of matters, as they were previously. Any location with a good political environment tends to favour business and prosperity. A good Economic environment lays an amazing foundation to thrive in international relations, which in turn translates to more business being brought into the country as well as its produce and services being exported to partners and allies (Daniels et al., 1998). Natural environment, which is in many cases categorized under social environment, will allow trade from a wide range of relating counties to conduct business. This is without failing to acknowledge that for all this to run in a smooth and affordable way, the technological infrastructure should also be of top quality (Hill, 2005).

Over the past thirty years, East Asia has been on the forefront in the campaign of having a sustained economic growth. After making strong turnaround from two big economic crises and further strengthening of the economy, East Asia has now truly become the “Factory of the World” (ERIA, 2010). China being one of the nations in East Asia has forged great relations to a number of countries in Africa, Kenya being one of the prime nations. Kenya is widely regarded as the gateway to East and parts of central Africa (Broadman, 2010).Relations between Kenya and China date back to the pre-colonial days (Sassoon, 1978) with much more tighter ties being experienced over the past twenty years (Cheru, 2010).

1.1.1 Concept of international trade

International trade is the exchange of capital, goods, and services across international borders or territories. International trade has grown substantially faster than world income through most of the post war period, and at the same time the share of manufacturing in world trade has increased substantially (WTO, 2007). Globalization has transformed many economies, and some authors have heralded the age of ‘Flat Earth’ (Friedman 2005). Yet international economic interactions remain small relative to interactions that take place within national borders. Trade is choked-off by distance, by borders and by a variety of political and cultural obstacles. Integration into the world economy is widely viewed as one of the key factors underlying the success of the fastest growing economies (Growth Commission, 2008) yet many countries remain isolated and have failed to achieve this integration. Transport costs are one, amongst many, of the factors that shapes these trade patterns.

Trading globally gives consumers and countries the opportunity to be exposed to goods and services not available in their own countries. Almost every kind of product can be found on the international market: food, clothes, spare parts, oil, jewellery, wine, stocks, currencies and water. Services are also traded: tourism, banking, consulting and transportation (Mshomba, 2000). A product that is sold to the global market is an export, and a product that is bought from the global market is an import. Imports and exports are accounted for in a country's current account in the balance of payments. Global trade allows wealthy countries to use their resources - whether labour, technology or capital - more efficiently. Because countries are endowed with different assets and natural resources (land, labour, capital and technology), some countries may produce the same good more efficiently and therefore sell it more cheaply than other countries (Krugman, 2012). If a country cannot efficiently produce an item, it can obtain the item by trading with another country that can. This is known as specialization in international trade.

Traditional trade theory emphasizes the gains from specialization made possible by differences among countries. The main contribution of this strand of thought is that opportunities for mutually beneficial trade exist by virtue of specialization on the basis of relative efficiency – a country does not have to be better at producing something than its trading partners to benefit from trade (absolute advantage). It is sufficient that it is relatively more efficient than its trading partners (comparative advantage). This insight explains why so many more opportunities to gain from trade exist than would be the case if only absolute advantage counted. More recent theories point to other sources of gains from trade not linked to differences among countries, such as economies of scale in production, enhanced competition, improved productivity, access to a broader variety of goods and, potentially, more stable markets and prices. Trade has allowed nations to benefit from specialization and economies to produce at a more efficient scale. It has raised productivity, supported the spread of knowledge and new technologies, and enriched the range of choices available to consumers. The gains from trade are not likely to be evenly distributed, either within or between countries, thus explaining opposition to free trade policies by some parties.

1.1.2 Environmental Factors

The environment of an organization in business is described by Andrews as “the pattern of all the external conditions and influences that affect its life and development” (Minzberg & Quinn, 1992).For the analysis for the macro-environment Johnson and Scholes suggest the PESTEL framework, which is used to categorize environmental influences into six main types: political, economic, social, technological, environmental and legal. Political factors are government stability, taxation policy, foreign trade regulations and social welfare policies. Economic factors are business cycles, GNP trends, interest rates, money supply, inflation, unemployment and disposable income. Socio-cultural factors are population demographics, income distribution, social mobility, lifestyle changes, attitudes towards work and leisure, consumerism and levels of education. Technological factors are government spending on research, government and industry focus and technological effort, new discoveries/development, speed of technology transfer and rates of obsolescence. Environmental factors are environmental protection laws, waste disposal and energy consumption. Legal factors are monopolies legislation, employment law, health and safety and product safety regulations.

1.1.3 Overview of China-Kenya Trade

China is an emerging international market for goods and services and is also a source for alternative technology. Kenya's trade with China is increasing from year to year. International trade has been recognized as an important tool for economic growth and industrialization in Kenya (Morrison et al., 2008). The governments overarching vision for 2030 are to make Kenya globally competitive and prosper the nation with high quality of life. To realize vision 2030, the National Trade Policy vision is "to transform the economy from a supply constrained one into a competitive export led entity responsive to enhanced domestic integration and wider participation in the global economy for national and international trade expansion". China also is changing its approaches to business apart from the Communist approach. Since China joined the WTO it has been respected and feared by other countries for its population of over 1,450,000 people. Some multinational corporations are eying China as a market others see it as a source of cheap goods. China itself sees the world differently. It sees other countries as a source of scarce resources to feed and clotheever increasing population. The business of China is how to improve the standards of people of China.

As a result of trading opportunities in the expanding economy, Kenya's imports from China were on the rise in 1990s. The Chinese exports to Kenya mainly include telecommunication equipment, electrical machinery, civil engineering equipment, motor and transport vehicles, rubber tyres, motorcycles, and iron and steel products, household electric appliances, textile goods, commodities for daily use, building materials and drugs (Kenya daily nation 2010). The main Kenyan exports to China include scrap metals (copper and aluminium waste), fruits and nuts, black tea, coffee, sisal fibre, leather, raw hides and skins and fish (Kenya daily nation, 29th June 2010).In the year 2002 saw the trade value between China and Kenya reach US$186.37 million, whereby the Chinese export took up US$180.576 million while the import was US$5.798 million (Chinese-Kenya Embassy). Chinese companies have in the past five years alone established a strong local presence in Kenya's telecoms infrastructure, automobile, battery, food and beverage markets. Some of these Chinese companies doing their businesses in Kenya include; 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, and so on. Statistics by the Kenya Investment Authority (KIA) showed that at least 18 Chinese companies have set up shop in Nairobi in the past two years targeting diverse markets such as footwear, consumer electronics and beverages with an initial investment cost of over Sh.7 billion.

There are a number of factors that influence trade relations between China and Kenya. Some of these factors are: transportation cost. Studies show that transportation cost increase with respect to distance in between trading countries. International trade policies and also the Kenya's trade policy and it's productive as well as trade –related capacities, including the institutional framework for the promotion of exports to China (Morrison et al., 2008). Barriers (tariff and nontariff) limiting the access of Kenyan products to the Chinese market. With a shift in policy from import-substitution to export-led growth in the late 1980s, the Government of Kenya put measures to stimulate export (NES, 2007). Cost of production in China and exchange and capital control do influence the trade relations.

1.2 Research Problem

The most alarming trend of international trade is the increasing gap between the rich and the poor, the terms of trade are not fair and developed nations seem to be getting all the benefits while the developing nations get the raw deal; it can be termed as modern day imperialism. Countries are today more affected by the trends of other countries e.g. if there is recession, it is likely to be felt across the board, some corporations have taken advantage to relocate businesses to countries with cheap labour and weak environmental laws increasing environmental degradation (World Bank, 2011).

China's "Reform" and "Opening" started in 1978 but its decisive external opening, and with it sweeping industrial and agricultural restructuring, belong more to the post-Tiananmen phase, especially since 1994. China undertook enormous trade and FDI liberalisation during the 1990s -- before WTO accession in 2001 -- followed by another big dose of liberalisation in line with its WTO commitments. Its WTO commitments are very strong. They exceed those of other developing countries by a wide margin. This holds for disciplines on border and non-border restrictions in goods and services (Sally, 2011).

With Africa remaining the last vestige of vast tracts of land pregnant with untapped natural resources, China and the United States of America are locked in a protracted battle to outwit each other and gain access to the resources (Salucka, 2009). Advances have been made by both countries in the past few years or so, with the US mainly suing its military mighty and regime change antics and China mainly using a less physical but aggressive business model. The US has become combative and confrontational where there is an African Government that denies it access to natural resources, imposing sanctions, sponsoring opposition political parties and even intervening militarily. But the Chinese move in swiftly, subtly backing those governments in power and coercing them with long term loans, batter trade deals and so on, never going to war or joining in the conflicts openly (Morrison et al., 2008).

Chege (2008) carried out a research on Chinese economic relations with Africa: Case study, Kenya and the findings were Chinese relation with African countries aims at achieving tangible developmental results and the terms are favourable. China views Kenya as a gateway to East African region and is a focal point in terms of China's trade and economic strategy in Africa. Uchehara (2009) carried out a research on China-Africa Relations in the 21st Century: Engagement, Compromise and Controversy and the findings were that there are a number of reasons why the relationship between China and many African countries is deepening. That is not to say that it is tension free. Indeed, there are signs that like most dynamic relationships, there are points of disagreement. This research project study looked at the external environmental factors influencing China-Kenya trade which have not been carefully looked at by previous researchers. The research project study was guided by the research question: What are the external environmental factors influencing China-Kenya trade?

1.3 Research Objective

The research objective of this study was to determine external environmental factors influencing China-Kenya trade.

1.4 Value of the Study

The findings of this study are expected to produce benefits as follows: This research study will provide useful knowledge in formulation of policies and a regulatory framework for running campaigns of advocating factors affecting the international trade. Researchers and scholars can use this information generated from this study to add to their understanding of the influence of external environmental factors on international trade especially the Sino-African relations.

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 on the impact of external environment on international trade. Findings of the study on external environmental factors influencing the international trade with a case study of the Ministry of Foreign Affairs and International trade and the Chinese Embassy may evaluate whether their own practice accord with what should be the their mandate.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

In this chapter the research discusses literature on theoretical framework and the external environmental factors influencing international trade. The presentation of various scholarly works flows according to the themes and subthemes of the study. The theoretical framework is presented at the end together with research gap. Information contained in this chapter was sourced from books, government articles, past theses and online journals.

2.2 External Environmental Factors Influencing International Trade

It is important to identify the factors that might in turn affect a number of vital variables that are likely to influence the organization’s supply and demand levels and its costs thus it overall trade (Scholes, 1993).

2.2.1 Political Factors

The political environment of international trade includes any national or international political factor that can affect the organization’s operations or its decision making. Politics has come to be recognized as the major factor in many international business decisions, especially in terms of whether to invest and how to develop markets (Grosse, 2005). Politics is intrinsically linked to a government’s attitude to business and the freedom within which it allows firms to operate. Unstable political regimes expose foreign businesses to a variety of risks that they would generally not face in the home market. This often means that the political arena is the most volatile area of international trade (Buckley, 2003).

The tendencies of governments to change regulations can have a profound effect on international strategy, providing both opportunities and threats. The invasions of Afghanistan and Iraq have brought market development opportunities for some but market devastation for others and higher political risk in neighbouring markets for all. The instability in the Middle East and the continued threat of global terrorism have served to heighten firms' awareness of the importance of monitoring political risk factors in the international markets in which they operate. Lesser developed countries and emerging markets pose particularly high political risks, even when they are following reforms to solve the political problems they have. The stringency of such reforms can itself lead to civil disorder and rising opposition to governments, as has been seen recently in Indonesia, Venezuela, Brazil and Argentina. Political risk is defined as a risk due to a sudden or gradual change in a local political environment that is disadvantageous or counterproductive to foreign firms and markets (Lowe, 2008).

The types of action that governments may take which constitute potential political risks to firms fall into three main areas: Operational restrictions. These could be exchange controls, employment policies, insistence on locally shared ownership and particular product Requirements; Discriminatory restrictions. These tend to be imposed on purely foreign firms and, sometimes, only firms from a particular country. The USA has imposed import quotas on Japan in protest at non-tariff barriers which they view as being imposed unfairly on US exporters. They have also imposed bans on imports from Libya and Iran in the past. Such barriers tend to be such things as special taxes and tariffs, compulsory subcontracting, or loss of financial freedom; Physical actions. These actions are direct government interventions such as confiscation without any payment of indemnity, a forced takeover by the government, expropriation, nationalization or even damage to property or personnel through riots and war.

In 2001 the Nigerian government claimed ownership of Shell's equipment and machinery without any prior warning. Investment restrictions are a common way governments interfere politically in international markets by restricting levels of investment, location of facilities, choice of local partners and ownership percentage. When Microsoft opened its Beijing office, it planned to use its Taiwan operations to supply a Mandarin language version of Windows. The government not only wanted such an operating system to be designed in China but also insisted on defining the coding standards for Chinese characters' fonts, something Microsoft had done independently everywhere else in the world. In a flurry of meetings with officials, Bill Gates argued that the marketplace, not the government, should set standards. But the Chinese electronics industry threatened to ban Windows and President Jiang Zemin personally admonished Gates to spend more time in China and 'learn something from 5000 years of Chinese history'. Gates sacked the original management team and promised to cooperate with Beijing (Isobel, 2008).

The World Trade Organization has led negotiations on a series of worldwide agreements to expand quotas, reduce tariffs and introduce a number of innovative measures to encourage trade amongst countries. Together with the formation of regional trading agreements in the European Union, North and South America and Asia, these reforms constitute a move to a more politically stable international trading environment (Lowe, 2008).

2.2.2 Economic Factors

Economic environment includes factors and trends related to income levels and the production of goods and services. Economic conditions affect how easy or how difficult it is to be successful and profitable at any time because they affect both capital availability and cost, and demand (Thompson, 2002). Economic trends affect the purchasing power of these markets. Thus, it is not enough for a population to be large or fast growing, as in many developing countries, to offer good market opportunities; the economy must provide sufficient purchasing power for consumers to satisfy their wants and needs (Linnemann, 1966). Economic trends in different parts of the world can affect trading activities in other parts of the world. For example, changes in interest rates in Germany affect the value of the dollar on world currency markets, which affects the price, and subsequently sales, of American exports and imports (Clay et al., 2005). Market opportunities are a function of both economic size and growth. The gross domestic product (GDP) represents the total size of a country's economy measured in the amount of goods and services produced. Changes in GDP indicate trends in economic activity. The US has the largest economy in the world, followed by Japan, Germany, France, Italy, and Britain. Yet, the US ranks relatively low on in Hong Kong, China, and some countries in Western Europe (Vitullo, 1997).

Another important economic factor is the level of economic activity per person. Per capita data integrate population and economic data to provide an assessment of the purchasing power of individual consumers in a country. The US ranks at the top of the pack in per capita GDP, followed by Switzerland, Canada, Luxembourg, Germany, and Japan. Some smaller countries, such as the United Arab Emirates and Kuwait, have large GDPs relative to their small populations, although their overall level of economic activity is small in comparison to the larger countries. Consumers in these countries may have a lot of purchasing power, but there are not that many of them. These countries typically offer attractive market opportunities for luxury products. Conversely, many developing countries have large populations relative to their economic strength; that is, individual consumers do not have much purchasing power (Clay et al., 2005). However, subgroups within these countries may have substantial purchasing power, or economic growth may offer substantial opportunities in the future. India, for example, has a large and growing population but a low per capita income. Within this relatively poor country, however, are 250 million middle-class consumers. This is larger than the total US market. Coca-Cola, Walt Disney, Kentucky Fried Chicken, Frito-Lay, and many other companies have recently started Indian operations to take advantage of this opportunity (Russow, 2006).

China is an example of a country whose economic growth has been increasing at a rapid pace over the past few years, offering substantial opportunities. As incomes rise in China, so does the demand for consumer products and the heavy machinery, agricultural and medical equipment, power plants, and communication equipment needed by business and government organizations. For example, Benetton plans to have 500 stores in China by 1999. These stores are designed to take advantage of growing demand for consumer products, but will also increase demand for the many organizational products needed to build, maintain, and manage the stores (Martin, 1997)

2.2.3 Socio-Cultural Factors

The socio-cultural environment encapsulates demand and tastes, which vary with fashion, disposable income, and general changes, can again provide both opportunities and threats for particular companies (Lowe, 2008). Over-time most products change from being a novelty to a situation of market saturation, and as this happens pricing and promotion strategies have to change. Similarly, some products and services will sell around the world with little variation, but these are relatively unusual. Organizations should be aware of demographics changes as the structure of the population by ages, affluence, regions, and numbers working and so on can have an important bearing on demand as a whole and on demand for particular products and services. Threats to existing products might be increasing: opportunities for differentiation and market segmentation might be emerging (Robinson, 2005)

The social environment includes all factors and trends related to groups of people, including their number, characteristics, behaviour, and growth projections. Since consumer markets have specific needs and problems, changes in the social environment can affect markets differently. Trends in the social environment might increase the size of some markets, decrease the size of others, or even help to create new markets. The two important components of the social environment: the demographic environment and the cultural environment. The demographic environment refers to the size, distribution, and growth rate of groups of people with different characteristics. The demographic characteristics of interest to marketers relate in some way to purchasing behaviour, because people from different countries, cultures, age groups, or household arrangement often exhibit different purchasing behaviours (Buckley, 2011).

A global perspective requires that traders be familiar with important demographic trends around the world. Population size and growth rates provide one indication of potential market opportunities. There is a tremendous disparity in population size and growth rates across countries. China currently has the largest population, followed by India, with the US a distant third. The rapid growth of the Indian population is expected to make it the world's most populous nation by the year 2100. Other countries with large and growing populations are the developing nations of Indonesia, Brazil, Pakistan, Bangladesh, and Nigeria. (Lowe, 2008)

The cultural environment refers to factors and trends related to how people live and behave. Cultural factors, including the values, ideas, attitudes, beliefs, and activities of specific population subgroups, greatly affect consumers' purchasing behaviour. Thus, marketers must understand important cultural characteristics and trends in different markets. Cultural differences are important in both international and domestic markets. A cultural group's characteristics affect the types of products it desires and how it purchases and uses those products. Different cultural groups in international markets often require marketers to develop strategies specifically for them (Rugimbana, 2003).

2.2.4 Technological Factors

Technology has transformed society at many different levels. But it has had the most remarkable and pervasive effect upon global trade and commerce. From the desktop computer to advanced robotics, from television to satellite communications, technology has connected the world in a way no other innovation has done before. And with the technology, have come problems (Feldman et al., 2008). As companies become more dependent upon computer networks to manage their databases, finances, inventories, etc., they become targets of hackers, saboteurs, and international crime rings. Organizations that engage in E-commerce, reaching out to a global market via the Internet, have become vulnerable to Cyber Crime. Many have found it increasingly found it difficult to protect their products, services, trade secrets, customer base, and personnel from those determined to gain access to privileged information. It is no wonder that information security is one of the fastest growing service areas in today's economy (Egol, 2004).

The emergence of a more open world economy has resulted in an upsurge in international trade, since many countries belong to major trading blocs. Companies of all sizes need to develop skills, ability and knowledge to compete effectively in international markets. Moreover, with the advancement of technology, communications and international transportation become faster and more convenient, and increase opportunities for companies to look beyond their domestic markets and facilitate their engagement in international market operations (Feldman et al., 2008). Technological advancement is an important environmental factor impacting trade. It has accelerated in transportation, communication, manufacturing and computer systems, which may be considered major part of international trading. Advanced technology in transportation can facilitate the distribution of products. It helps companies to better communicate and control their distribution channels. Information technology together with technological skills can create new opportunities for companies to communicate with their target customers (Chirapanda, 2012).

Issues of compatibility, interoperability and connectedness affect communications between an organization and its suppliers. The problem is compounded by the fact that differences in technology from one company or region to another may make it difficult to ensure good communications between suppliers and organizations, and keep consumers happy with the products or services they are purchasing. Likewise, differences in standards and quality control may occur due to the age, obsolescence, or condition of technology used by suppliers in less developed parts of the world (Feldman et al., 2008). Communications may be complicated by language differences. Technological practices and standards may differ as a result of cultural, political or religious factors. Local workforces may be unskilled in the use of technologies and this may affect the quality of the final product. The ability to maintain good communications with suppliers and to monitor compliance with organizational standards and practices is critical to company branding, consumer confidence, and market share (Ball, 2005).

2.2.5 Environmental Factors Influencing International Trade

Applicable regulations regarding environmental protection standards may encompass both the protection of indigenous natural resources as well as bans on the import of goods that may be harmful to the environment, such as large vehicles with excessive emissions that pollute the air, products containing heavy metal compounds such as lead, very noisy vehicles or machines and devices or fuels that may be harmful to the environment (Witkowska, 2004).

The effects of raising environmental protection standards in a given country's foreign trade practices become especially visible in the following sectors of the economy: agriculture, forestry, fishing, transport, as well as in "heavy" industry sectors such as mining, metallurgy and "heavy" chemical production. These effects are usually two-sided; on the one hand the trade of goods harmful to the environment is limited (these goods usually belong to the above-mentioned industrial sectors and are known as "raw material absorbent" - they have a negative impact on the flow of imports and exports taking place between a country and its foreign trade partners), while on the other hand the raising of standards can cause a trend towards cleaner technological production through the reallocation of production resources, which will be closer to meeting international standards (which in turn will translate into more effective competition on foreign markets and an improvement in competition among enterprises in foreign as well as domestic markets, and will in the long run stimulate a rise in exports) (Buckley, 2003).

Goods which may also have a significant impact on the changing face of foreign trade are those which encourage the improvement of the state of the environment, mainly goods and services related to the measurement, prevention and/or moderation of water and air pollution, as well as those that aid in the resolution of problems regarding waste, noise pollution and ecosystems. These encompass cleaning technologies, goods and services that limit environmental risk and lessen the pollution and exhaustion of natural resources, recycling, as well as waste disposal plant, tools and technology (Wysokińska, 2004).

2.2.6 Legal Factors

The global legal environment refers to the legal environment in international business. The legal environment regulates the operations of firms in international markets. Legal systems vary both in content and interpretation. A company is not just bound by the laws of its home country but also by those of its host country and by the growing body of international law. It is sufficient for a firm operating at the domestic level to stick to regulations of the land, but organizations operating in different countries need to know and comply with the laws of the domestic country as well as all the host countries they operate in.

Governments impose laws to protect the home industry from cut- throat global competition (Grosse, 2005). They impose different kinds of tariffs, enter into agreements and sign treaties to protect indigenous industry and promote local trade. When governments feel that the home industry is affected because of dumping, under Article VI of GATT, they can impose heavy anti-dumping duties. To protect domestic industry, they can also impose non-tariff barriers and frame regulations on foreign investments. In international business, disputes and litigation are common. To resolve differences between countries, all member nations of the WTO have established a Dispute Settlement Body. It is the final authority and passes rulings and frames regulations on disputes between/among member countries. WTO members have entered in to agreements and established committees to regulate and govern international trade in information technology products. Laws have also been framed to regulate and bring uniformity to the interpretation of transportation rules among countries (Jayaraj, 2011).

It is important, therefore, for the firm to know the legal environment in each of its markets. These laws constitute the ‘rules of the game’ for business activity. The legal environment in international trade is more complicated than in domestic markets since it has three dimensions: local domestic law; international law; domestic laws in the firm’s home base Law and Policy in (International Business Association, & Georgetown University, 1969). Local domestic laws; the only way to find a route through the legal maze in overseas markets is to use experts on the separate legal systems and laws pertaining in each market targeted. International law; there are a number of international laws that can affect the organization’s activity. Some are international laws covering piracy and hijacking; others are more international conventions and agreements and cover items such as the International Monetary Fund (IMF) and World Trade Organization (WTO) treaties, patents and trademarks legislation and harmonisation of legal systems within regional economic groupings, e.g. the European Union.

Domestic laws in the home country: The organization’s domestic (home market) legal system is important for two reasons. First, there are often export controls which limit the free export of certain goods and services to particular marketplaces, and second, there is the duty of the organisation to act and abide by its national laws in all its activities, whether domestic or international (Doole, 2005).

For many firms, the legal challenges they face in international markets are almost a double-edged sword. Often firms operating internationally face ethical challenges in deciding how to deal with differing cultural perceptions of legal practices (Buckley, 2011). In many mature markets they face quite specific and, sometimes, burdensome regulations. In Germany, for instance, environmental laws mean a firm is responsible for the retrieval and disposal of the packaging waste it creates and must produce packaging which is recyclable, whereas in many emerging markets there may be limited patent and trademark protection, still evolving judicial systems, non-tariff barriers and instability through an ever-evolving reform programme. China earned notoriety in the past for allowing infringements of copyright and blatant piracy. However, this is now changing. Some governments are reluctant to develop and enforce laws protecting intellectual property partly because they believe such actions favor large, rich, multinationals (Lowe, 2008).

2.3 Theoretical Framework

Today, there are number of theories which seek to explain international trade. First of all, these theories should be considered as descriptive theories to explain trade patterns. What circumstances can explain why one country exports one type of goods and another country another type of goods? An analysis of the theories concerning international trade, leads to the conclusion that there is a natural distinction between traditional theory and recent theory. Kragh illustrated theories of international trade from both traditional and recent perspectives, and gave a corresponding comparison with respect to them. Recent theories assume that products are differentiated. They no longer assume constant returns to scale. There may be economies of scale and benefits in connection with product specialization at the firm level. Finally, there may be external economies (Kragh, 2001).

It appears that the evolution of trade theory, from old trade doctrines to the NTT (new trade Theory), has impacted policy at two levels. The first relates to the continuing support of the free trade doctrine to determine policy for developing areas. As is expected, the push comes from the advanced nations, both at the intergovernmental level and at multilateral institutions like the IMF and the WTO. The second impact of trade theory relates to policies pursued by the advanced nations, which relies considerably on the NTT (New Trade Theory) doctrines of strategic trade. The uneven power relations between the rich and poor nations of the world permits a continuation of this asymmetrical combination of policies, to which trade theory unfortunately has contributed much more. Much of the preoccupation of the policymakers with the micro-theoretic formulations of trade theory, both old and new, are related to a total neglect of the macroeconomic issues relating to the national as well as the world economy (Sen, 2010).

The "radical and ongoing changes occurring in society create an uncertain environment and have an impact on the function of the whole organization" (Tsiakkiros, 2002). A number of checklists have been developed as ways of cataloguing the vast number of possible issues that might affect an industry. A PEST analysis is one of them that is merely a framework that categorizes environmental influences as political, economic, social and technological forces. Sometimes two additional factors, environmental and legal, will be added to make a PESTEL analysis, but these themes can easily be subsumed in the others. The analysis examines the impact of each of these factors (and their interplay with each other) on the business (Cooper, 2000). PESTLE also ensures that company's performance is aligned positively with the powerful forces of change that are affecting business environment PEST is useful when a company decides to enter its business operations into new markets and new countries (Porter, 1985).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter provides a discussion of the outline of the research methodology that used in this study. It focuses on the research design, population of the study, sample and sampling techniques, data collection methods and comes to conclusion with the data analysis and presentation methods that used in this study.

3.2 Research Design

This study was conducted through a case study and it is considered suitable as it allows an in-depth study of the subject on external environmental factors influencing China-Kenya trade. According to Mugenda and Mugenda (2003), a case study involves a careful and complete examination of a social unit, institution, family, cultural group or an entire community and embraces depth rather than breath of the study. This is research on external environmental factors influencing China-Kenya trade and this design is most appropriate for a single unit of study because it offers a detailed in depth analysis that gave valuable insights to phenomena.

3.3 Data Collection

The study used primary data, which was collected from key informants. To achieve this, an interview guide was used to collect primary data (see appendix). An interview guide is a set of questions that the interviewer asks when interviewing. The interview was conducted by the researcher personally. Permission was sought from Ministry of Foreign Affairs and International Trade and Chinese Embassy to conduct the research in their organisation through an introductory letter from University of Nairobi School of Business. The respondents interviewed were Foreign Service officer working in the Ministry of Foreign Affairs and International Trade and a manager at the Chinese Embassy in Nairobi. The interview guide has unstructured questions which were used so as to encourage the respondent to give an in-depth response without feeling held back in revealing of any information.

3.4 Data Analysis

The data collected was qualitative in nature, due to this fact; content analysis was used to analyze the data. Nachmias and Nachmias (1996) define content analysis as a technique for making inferences by systematically and objectively identifying specific characteristics of messages and using the related trends. Content analysis is the systematic qualitative description of the composition of the objects or materials of the study (Hsieh and Shannon, 2005). The data was obtained from the management at the Chinese Desk at the Ministry of Foreign Affairs and International Trade and at the Chinese Embassy and compared against each other to get more revelation on the issues under study. The research yielded qualitative data from the interview schedules and analyzed using content analysis because this study seeks to solicit data that is qualitative in nature. Analysis of collected data was compared with the theoretical approaches and documentation cited in the literature review.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter carries out data analysis, results and discussions of the findings. This chapter entails two parts. The first part covers the personal information of the respondents while the second encompasses the external factors influencing the China-Kenya trade. External conditions affect how easy or how difficult it is to be successful and profitable at any time because they affect both capital availability and cost, and demand. This study considered investigating the environmental factors influencing the China-Kenya trade.

4.2 Background Information of the Respondents

The respondents of the interview were the staff of the ministry of foreign affairs and international trade and those of Chinese embassy in Kenya. This study interviewed both low and high ranked employees of these organizations. Majority of the respondents had enough experience in their fields of work. The respondents in the study indicated that international activities carried out included exporting and importing goods and services. The respondents further indicated that Foreign Direct Investments (FDI) was made by citizens of each country to the other. Before presenting the findings of the study, it is better to analyse the policy environment in Kenya and China.

4.2.1 Kenya Approach to Trade and Development

Kenya is the largest economy in East Africa. The three main sectors that spur Kenya economy are: services, agriculture and manufacturing. The overall economic performance has been poor since the early 1980s, after having been generally positive in the first 15 years or so since the country became independent in 1964. However with the adoption of structural adjustment programmes (Early 1990's), Kenya has seen itself regaining its lost glory in the international trade. For example the government since 1990's has stimulated the growth of exports with the introduction of export processing zones (in Athiriver) and fiscal reforms to provide incentives for value addition. The country also joined the World Trade Organisation (WTO) in 1995, have trade agreements with European Union (Cotonou Agreement) and United States of America (AGOA Pact), COMESA, IGAD and EAC. These initiatives have ensured continuous and increased global market access for Kenya products with the current wave of globalization. Through these initiatives, the country's ranking in global competitive index has improved. Now looking at the Sino-Kenya relations, stakeholders are concerned about the country's huge trade deficit with China and recent impact of Chinese export on its industry e.g. textile. It is therefore important that the trade partnerships benefit both partners mutually.

4.2.2 China Approach to Trade and Development

According to statistics from World Bank and International Monetary fund, China is the world sixth biggest economy and second biggest in Asia continent. The ranking of China in the global competitiveness index is higher than that of Kenya but behind India. The economic reforms instituted in 1978 changed the approach to which Chinese government which was tally a socialist and a communist state towards more market based economy. This led to rise of industrial and service sectors and decline in the agricultural sector. The initiatives and policy developments by various governments have led to increased world trade and partnerships between China and African nation. For example currently, the biggest trading partner in Africa is China and US and this has been has been driven by a strong export performance and public investment. In Kenya-China trade, the country expects to boost Kenya tourism sector and this has seen Kenya Airways having direct flights to Beijing, Shanghai, Hon-Kong and Guangzhou. The country has also signed trade pacts for infrastructure development, oil and gas exploration. However, on trade balance has not been achieved between the two nations.

4.3 Political Factors Influencing China-Kenya Trade

In line with the objective of this study, it was found necessary to investigate the political factors influencing the China–Kenya trade. From the interviews, it was found out that political factors influenced the China-Kenya trade. These are factors such as political stability. Safety of investments is a major factor that investors consider when deciding on the location of their investment. Political unrest, coup de tat and instability of the government are a threat to security. Political risk is defined as a risk due to a sudden or gradual change in a local political environment that is disadvantageous or counterproductive to foreign firms and markets. Interview with Ministry of Foreign Affairs and International Trade official disclosed that the government of Kenya is pleased with non – involvement of Chinese government in political scenarios around the country.

The respondents indicated that political stability and policy of non – interference was a factor that affected the China-Kenya trade. The respondents further indicated that trade barriers were not a challenge influencing China-Kenya trade. The study found out from the respondents that there were no specific restrictions to China as opposed to other countries. Politics influences trade by placing barriers and restrictions such as heavy taxes. The government is the determinant of the restrictions placed and the countries they are placed on. Politics is intrinsically linked to a government's attitude to business and the freedom within which it allows firms to operate.

Employment laws were indicated to be a challenge by the respondents in this study. They indicated that the law requires that a certain number of employees in a company have to be from the host country. This influences the trade in human resource services between these countries. Petty trades from China have led to establishment of laws restricting China-Kenya trade. The official from the ministry of foreign affairs disclosed that the government through Kenya Bureau of Standards has instituted public awareness campaign by arresting culprits who sell illegal products from China into the Kenyan market. The officer observed that some manufacturing firms have lost their market share while others have been forced to lay off their workers as a result of cheap products from China being dumped in the Kenyan market. However, the officer blamed KEBS, The Kenya Police Service and National Anti-Counterfeit Agency for the ordeal.

Another political factor that influences the China-Kenya trade is the placement of environmental regulations. The respondents in the study indicated that there were standard regulations regarding participation to environmental conservation and preservation. The study also found from the respondents that there was other trade restriction which bars sub-standard goods from being dumped in the country. The findings indicated that they mainly applied to importation of sub-standard goods. National Environmental Management Authority (NEMA) and Kenya Bureau of Standards (KEBS) have been checking and monitoring entry of goods from other country through the port of Mombasa, airport and border points to restrict entry of illegal and substandard products.

The other political factor affecting China-Kenya trade is the consumer protection and regulation as this study found out. The respondents indicated that consumers were protected from dumping, substandard goods and piracy. The study found that trade of goods deemed to be in this class was regulated to protect consumers. To confirm this, official from Chinese Embassy revealed that they do cooperate with local authorities to apprehend suspects and goods that have been dumped in the Kenyan market from China. The officer further informed that they still do consult with Kenya Association of Manufacturers regarding the bilateral trade between Chinese investors and them. This has led to build up of trust and continuous cooperation between the Chinese chamber of commerce with Kenya chamber of commerce.

4.4 Economic Factors Influencing China-Kenya Trade

The study went further to investigate the economic factors influencing China-Kenya trade. Economic environment includes factors and trends related to income levels and the production of goods and services. Economic conditions affect how easy or how difficult it is to be successful and profitable at any time because they affect both capital availability and cost, and demand. Through the Kenyan ministry correspondents in this research, they admitted that economic policies instituted by both nations in bilateral agreements influences China-Kenya trade growth by a large extent.

The Ministry official disclosed that the two governments have signed various economic policies and partnerships agreements. For example: 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 even the current trip by His Excellency the President of the Republic of Kenya (Uhuru Kenyatta) who met with his Chinese (Xi Jinping) counterpart and signed infrastructural and development loan worth Kshs. 400 billion (approx US$46 million).

As it is understood, economic growth determines the amount of disposable income available. The same determines the purchasing power of the citizens and therefore the market of goods available. The other economic factor noted was that of government spending. Although a closer examination with Kenya Ministry of Foreign Affairs and International trade revealed that despite the mutual relationship that the country shares with China, Kenyan products have less demand in the Chinese market. This is supported by previous findings made by others researchers who observed that Chinese products are cheap thereby creating competition for local manufacturers. However, the Chinese official revealed that despite lack of balance in the trade, Communist Republic of China is still looking at the opportunities through which Kenyan coffee, black tea, and hides and skins could be exported to china through marketing Kenya in their country.

The respondents for the study indicated that government spending affects China-Kenya trade because the government is trying to facilitate investment by the Chinese. Most of the contracted companies end up taking other investments after the end of the contract. There was also another factor of exchange rates that influences China-Kenya trade. The two countries use mostly dollar as opposed to Chinese Yuan and Kenya Shillings. Companies incur costs due to exchange rates. Foreign Direct Investment (FDI) is also another economic factor affecting China-Kenya trade to some extent.

FDI is by government policy since it is a facilitator of development. The respondents further indicated that monetary policy has an influence to the China-Kenya trade. Measures taken by the CBK have influenced exchange rate interests and thereby affect the trade to some extent. Inflation does not influence China-Kenya trade because majority of imports from China are not food stuffs. The respondents indicated that the influence of inflation is therefore very minimal. Most of the imports are machinery whose prices do not vary largely due to inflation. It is believed that the relations and stability between Kenya and china has increased foreign direct investments from the year 2002 up to now due to mutual and developmental cooperation between the two nations. The China Foreign Official noted that because of the peaceful transition from Kibaki government to Jubilee government, both FDI (inflow and outflow) would automatically increase. This is supported by Kipng'etich (2009) analysis that showed that turbulent political environment discourages FDI flow.

Regarding the trade restrictions and tariffs, officials from Kenya and China reiterated that the two governments have significantly reduced trade barriers between the two nations. For example, it takes few days for Kenyans to get Chinese visa and vice versa. However, the official from Chinese embassy indicated that they are still putting up measures and mechanism through which their government will not allow substandard goods to reach the country.

The Kenya-Chinese trade investment has increased in the past decade in Africa including Kenya. According to statistics from World Bank (2012), Kenya is ranked number 3 out of 38 African countries on trade partnership with china. Kenya Institute of Public Analysis and Research found out that Chinese investments in Kenya have doubled and it is projected to increase in the next years to come. Information from Ministry of Foreign Affairs supported this assertion by indicating that issues of economic factors on investments between the Chinese and Kenyan partners have been addressed by both governments. This is because most Chinese companies are fully or partly owned by the government although in Kenya most investments companies are privately owned. Through their investments in infrastructure, education and telecommunication, direct and indirect jobs have been created as such.

4.5 Socio-Cultural Factors Influencing China-Kenya Trade

The study further sought to find out the socio-cultural factors that influence China-Kenya trade as in line with the objective of the study. Over-time most products change from being a novelty to a situation of market saturation, and as this happens pricing and promotion strategies have to change. Similarly, some products and services will sell around the world with little variation, but these are relatively unusual.

The study findings indicated that respondents indicated that age distribution influenced the China-Kenya trade. The respondents indicated that younger individuals prefer Chinese products to the elder people. This means that Chinese products will do well in areas with higher population of young people. Another socio-cultural factor found to be influencing China-Kenya trade is the income distribution.

From the interviews, it was found out that higher income increases the amount spent in the household. The respondents also indicated that the other factor was attitudes to work and leisure. The study found out that respondents thought that Chinese and Kenyan individuals have varying attitudes to work and leisure. Since Chinese are workaholics, they are preferable to take contracts in building and construction. The trade is therefore improved in this manner. Population growth rate is a factor influencing China-Kenya trade with a great extent. The respondents in the study indicated that market for products is attracted by higher population growth rate, and therefore attracts more investment. China has the highest population. The population of Kenya is growing at a high rate; therefore investment is attractive in both countries.

Through the cross-examination with the Chinese embassy official, he disclosed that East Africa (Kenya in particular) have had significant ties in trading activities before the scramble for Africa by Europeans in the 19th century. The officer elaborated that during the T'ang dynasty (618-907 A.D), there existed trade between the China and East African Arabs. The national museums of Kenya still have recordings of coins and other artefacts that confirm indeed that China is not a new comer to Africa. The products that China imported during that period were ivory, rhino horns, tortoise shells and aromatic wood.

The study found out that Kenya and China have signed agreement for socio – cultural corporation 34 years ago (1980). The information from the respondents also revealed that the two countries have signed protocols for the cooperation in science and technology in higher education. For example, the China usually provides 10 scholarships every year for Kenya students who go and study in China universities in the field of medicine, engineering, language among other courses. Egerton University, Jomo Kenyatta University of Science and Technology, Kenyatta University and University of Nairobi have benefited from research grants for apparatus and human resource (teachers) from the Chinese government.

In addition, Kenyatta University and University of Nairobi have introduced departments and faculties for Chinese. Results from the study further showed that despite the Chinese Zinhua News Agency setting up an agency in Nairobi, programmes promoting Kenyan and Chinese culture have increased significantly and are being aired through Kenya Broadcasting Corporation. The Chinese official further disclosed that the government of China will continue and provide necessary support for cultural exchange between the two nations. This is reflected through signing of funding agreement for construction and upgrading of Eldoret Kipchoge Stadium in Eldoret which will provide training and sport facility for the athletes in this region. Despite being renowned worldwide, there are no better facilities for training and sports participation in North Rift.

4.6 Technological Factors Influencing China-Kenya Trade

The respondents in this study were further asked to indicate the technological factors influencing China-Kenya trade. One of the factors indicated was technological incentives. Offering technological incentives creates attraction to investors from either country. The government of Kenya intends to ensure that its citizens are able to reach ICT services. Technological incentives may be a major factor considered when the government hires its services. The respondents also identified research as another crucial factor. The respondents gave an opinion that it is important to research about what the Chinese people prefer and use. The issue of transport was mentioned as a crucial factor. The researcher found out that shipping and airlines are direct, hence reducing travelling costs. The proximity of counties via transport means was observed in the study to influence China-Kenya trade. This study found from the respondents that internet connection also influenced trade. The availability of internet enabled competitive pricing of products. Internet has become a source of information from all fields. Investors can research on markets and sources of cheaper materials.

The study also found out that the high rate of technological change in the country facilitated China-Kenya trade. A large number of these products are imported from China. For example, the respondents knotted that government contracts and projects (installation of CCTV in Nairobi CBD, police surveillance among others) are partially or fully guaranteed by Chinese investors (government in particular). However, the ministry official noted that there is need for remedial actions and process from both government to address dumping of fake and cheap electronic goods in the Kenyan market that not only pollute the environment but affects established industries within the country.

4.7 Environmental and Legal Factors Influencing China-Kenya Trade

This study investigated the environmental and legal factors influencing China-Kenya trade. The respondents were sought for their opinions and the findings presented on this section. Starting on environmental factors, the research showed that weather to some extent influenced China-Kenya trade. Some activities such as building and construction are distracted by harsh weather. Climate change also affects some individuals. Sometimes, Chinese who come to Kenya are affected by tropical diseases such as malaria and therefore influence trade.

On the legal side, the researcher found out that local domestic law influenced China-Kenya trade. Laws such those regulating taxes and laws regarding imports impact on trade a lot. The government wants to prevent counterfeit goods from entering Kenya.
Moreover, the Ministry of Foreign Affairs and International Trade reiterated that the government of Kenya has adopted policies aimed at protecting foreign exchange and investment. This shows that there are no exchange controls. A Chinese investor is free to repatriate his/her capital and after profit (Foreign Investment Protection Act). Furthermore, discussions with the Chinese embassy official showed that both nations have abide the Multi-lateral Investment Guarantee Agency (MIGA) agreement which covers Chinese investors in Kenya against risks involving government acts, war, civil disturbance and transfer restriction.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter discusses a summary, concludes the research study and makes recommendations on external environmental factors influencing China – Kenya trade.

5.2 Summary

The study was informed at finding out whether; political, economic, technological, environmental, legal and social cultural factors influenced china-Kenya trade. The respondents for this study included two representatives from Ministry of Foreign Affairs and International Trade (Kenya) and an official from Chinese embassy in Nairobi, Kenya. The information collected in this research was in qualitative form and therefore was presented in narrative form in chapter four. The summary of findings presented in this sections flows according to various themes that the study intended to address.

At first, political stability within the two nations was found to be significant factor influencing the growth of Sino-Kenya trade. The results of the study showed that the approach that Chinese government take in seeking partnerships with governments is guided by the policy of non – interference with internal wrangles of the country. The Chinese usually embraces the government in power as this is reflected by its continuous cooperation with Sudan despite wide condemnation from western countries on the human rights abuses exhibited by current regime in that country.

It was evident that safety of investments is a major factor that investors consider when deciding on the location of their investment. Political unrest, coup de tat and instability of the government are a threat to security. The peaceful transition that the country experienced after the March 2013 presidential polls increased trade ties between the two nations, the study established. Where there exists political risks, most investors or their governments will not engage in and since Kenya recovered from post-election violence of 2007/2008, this boosted bilateral trade and ties within the two nations.

The information presented in this work showed that political stability influences China-Kenya trade. Politics influences trade by placing barriers and restrictions such as heavy taxes. Politics is intrinsically linked to a government's attitude to business and the freedom within which it allows firms to operate. The findings show that employment laws are a challenge. This influences the trade in human resource services between these countries. Petty trades from China have led to establishment of laws restricting China-Kenya trade. More findings show that another political factor that influences the China-Kenya trade is the placement of environmental regulations. Among the economic factors affecting China-Kenya trade include economic growth. It influences China-Kenya trade by a large extent. Economic growth determines the amount of disposable income available. The other economic factor is government spending since the government is trying to facilitate investment by the Chinese. There is also another factor of exchange rates that influences China-Kenya trade. The two countries use mostly dollar as opposed to Chinese Yuan and Kenya Shillings. Companies incur costs due to exchange rates. Foreign Direct Investment (FDI) is also another economic factor affecting China-Kenya trade to some extent.

On the social-cultural front, it was evident that there were long social and cultural ties that Kenyans and Chinese share in common. For example, the Chinese were found to promote sports through construction of Moi International Sports Centre Kasarani in 1986-87. Students have been granted scholarships every year since 1980 through the Ministry of Higher Education to go and study in prestigious Chinese universities. In addition, selected Kenyan universities have benefited from grants and material support from Chinese government. The signing of mutual and cultural cooperation between the two nations has promoted growth and development of Sino-African culture between the two nations. As of now the current population (youth) prefer Chinese products and Chinese lifestyle to an extent some institutions have started offering Chinese languages and classrooms in Kenya.

On the technological factors, it was noted that one of the factors is technological incentives. Offering technological incentives creates attraction to investors from either country. The government of Kenya intends to ensure that its citizens are able to reach ICT services. Research is also another crucial factor influencing China-Kenya trade. The issue of transport was mentioned as a crucial factor. Shipping and airlines are direct, hence reducing travelling costs. The proximity of counties via transport means is observed in the study to influence China-Kenya trade. This study notes that internet connection also influences trade. The availability of internet enabled competitive pricing of products. Internet has become a source of information from all fields. Investors can research on markets and sources of cheaper materials. The study finds out that the high rate of technological change in the country has facilitated China-Kenya trade. A large number of these products are imported from China.

The study investigated the environmental and legal factors influencing China-Kenya trade. Starting on environmental factors, the research showed that weather to some extent influences China-Kenya trade. Some activities such as building and construction are distracted by harsh weather. Climate change also affects some individuals. Sometimes, Chinese who come to Kenya are affected by tropical diseases such as malaria and therefore influence trade. On the legal side local domestic law influences China-Kenya trade. Laws such those regulating taxes and laws regarding imports impact on trade a lot. The government wants to prevent counterfeit goods from entering Kenya.

5.3 Conclusion

In conclusion, this study notes that external environmental factors influence the China-Kenya trade. It has been observed that politics play a major role in growth and development of international trade between Kenya and china. This is through control of taxes, regulations and offering security. Political instability leads to higher political risk for investors, therefore scaring them away.

China's adoption of new policy to Kenya with closer economic ties has increased Chinese enterprise presence in the country. The adoption of various policies and acts has streamlined mutual cooperation between the Chinese and Kenyan investors. Kenya Airways connects to various destinations in China and this has opened new avenues for Kenyan investors in Far East. However, the balance of export and import is abnormal as little of Kenya products are imported to china although the representative of Chinese embassy suggested that they are now promoting Kenyan tourism, coffee, hides and skills and tea in the country. The use of dollar as a currency of exchange has enabled the two countries to trade well other than using Yuan and Shillings. Legal factors such as domestic laws influence China-Kenya trade. Climatic changes and weather are among environmental factors that influence China-Kenya trade. All investors aim at minimizing losses and maximizing profits. This study concludes that there are external environmental factors that affect income and profits of the investor. Others have been found to increase the investors risk therefore discouraging investors from investing.

5.4 Implication of Results

Since independence, Kenya has maintained cordial diplomatic relations with china. This has led to promotion of bilateral trade within the two countries. Evidence from the study findings has shown that china has a growing interest in Kenya. This is evident through export penetration of china into the Kenya market (construction, mining, wholesale trade and agricultural sector. What is not known are the clear intentions of china in Africa although looking at the results, the intentions that Chinese have towards Kenya are based on uneven levels of development at different capacities. This pronounced inequality in capacity has led to China making greater gains from what is getting from Kenya even if the basis for such undertakings in a fair manner. However the Kenya government through the Ministry of Foreign affairs need to look at the external environmental factors that will not transform the economy of china solely but both partners bearing in mind that the trend has favoured the Chinese investments.

5.5 Recommendations

Based on the findings, this study comes up with the following recommendations; there is need for political stability should be emphasized so as to maintain investors willing to come to Kenya from China. Cases of investors being harassed by local communities and leaders need to be addressed to boost investors' confidence in expanding their investments within the country. The government of the day need to put strategies that will not allow political factors to curtail foreign direct investments.

The study observes that there is need for the Kenya and Chinese government to formulate new regulations to create a win – win situation for all. This will ensure that vast transformation of both economies will be gained by two partners. However, the question remain that will the Chinese investors and government accept the terms and conditions? However, mutual respect, commitment and cooperation between the two governments will remove these doubts.

Investors should ensure that they adopt latest technology so as to have a higher competitive advantage. However, the government agencies should step up measures to avoid dumping and marketing of cheap Chinese goods which is a disadvantage to the local manufactures. Kenya Bureau of Standards and anti – counterfeit agency need to create awareness to the public on buying substandard goods.

The government of Kenya needs to promote Kenyan products in the Kenya market so as to balance the FDIs (Inflow and outflow) between the two nations. the export promotion council needs to conduct fairs in Chinese cities on Kenya products rather than relying on Chinese people to come get our products right here in Kenya. The ministry of foreign affairs and international trade need to establish consulates with able and committed staff who will market Kenya products in the Chinese market.

5.6 Recommendations for Further Study

The study further recommends future researchers in this field to look into these areas. At first, the study suggests that this kind of research need to be conducted through application of mixed methods design (qualitative and quantitative approaches) to determine the factors that limit or improve international trade within Kenya and China. Also the study suggests that further research could be done on the implications of Sino-African trade on growth and development of African continent.

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APPENDICES

Appendix I: School Introduction Letter

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE 24/08/2013

TO WHOM IT MAY CONCERN

The bearer of this letter NGUKU GRACE WANJIRU

Registration No. D61/75539/2012

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
24 AUG 2013
MBA OFFICE
P.O. Box 30197 – 00100, NAIROBI

PATRICK NYABUTO
MBA ADMINISTRATOR
SCHOOL OF BUSINESS

Appendix II: Student Introduction Letter

NGUKU GRACE WANJIRU

P.O BOX 6536, 30100

ELDORET

Dear Sir/Madam,

RE: REQUEST FOR YOUR PARTICIPATION IN MBA RESEARCH PROJECT

I am a student at the University of Nairobi pursuing a Master of Business Administration at the School of Business. As part of my course work, I am required to carry out and submit a research project report on the external environmental factors influencing China-Kenya trade a case study of the Ministry of trade and the Chinese Embassy.

To achieve this objective, I kindly request you to take a few minutes to answer the attached interview questions. Should the findings of this research project be of interest to you or your organization, a copy will be available at the University of Nairobi Library.

Your kind support is deeply appreciated.

Yours faithfully,

Nguku Grace Wanjiru

Appendix III: Interview Guide

The interview guide will seek to achieve the following objective; to determine the external environmental factors influencing China- Kenya trade.

Part A: Background Information on the interviewees.

1. What is your designation?
2. How long have you been working in your present capacity?
3. What are some of the international trade activities that China and Kenya take part?

Part B: External environmental factors influencing China-Kenya trade.

4. To what extent do the following political factors influence China-Kenya trade?

a) Political stability

b) Falling trade barriers

c) Employment laws

d) Environmental regulations

e) Trade restrictions and tariffs

f) Environmental regulation and protection

g) Consumer protection and regulation

5. To what extent do the following economic factors influence China-Kenya trade?

a) Economic system

b) Economic growth

c) Monetary policy

d) Government spending

e) Inflation

f) Foreign Direct Investment (FDI)

g) Portfolio investments

h) Exchange rates

6. To what extent do the following socio-cultural factors influence China-Kenya trade?

a) Religion

b) Cultural factors

c) Health consciousness

d) Population growth rate

e) Age distribution

f) Income distribution

g) Lifestyle changes

h) Attitudes to work and leisure

7. To what extent do the following technological factors influence China-Kenya trade?

a) Internet

b) Telecommunications

c) Transport

d) R & D activities

e) Automation

f) Technology incentives

g) Rate of technological change

8. To what extent do the following environmental factors influence China-Kenya trade?

a) Weather

b) Climate change

c) Growing awareness of climate change

9. To what extent do the following legal factors influence China-Kenya trade?

a) Local domestic law

b) International law

c) Laws protecting intellectual property

Thank you for your cooperation