TRADING FRAMEWORKS BETWEEN KENYA AND CHINA AND THEIR IMPACT ON KENYA'S MANUFACTURING SECTOR (2000-2015)

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DECLARATION

This research is my original work and has not been presented for any academic award in any other university

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

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DEDICATION

This project is dedicated to my family members especially my wife Beatrice and my three children for the moral support all through my time in school and during my study of this research project.

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ABSTRACT

The aim of this study was to investigate the trading frameworks between Kenya and China and how they impact Kenya's manufacturing sector. Specifically, the study sought to: investigate how the trading frameworks between Kenya and China influence growth in Kenya's manufacturing sector; investigate how the type of commodity products traded between Kenya and China influence Kenya's manufacturing sector; and assess how the nature of trade balance between Kenya and China influence Kenya's manufacturing sector. A qualitative research data was used to collect secondary data from Kenya National Bureau of Statistics, Ministry of Industry Trade and Cooperatives, Kenya Revenue Authority – Customs, Kenya Association of Manufacturers (KAM) Export Promotion Centre and Investment Promotion Centre. In-depth open-ended interviews were used as the methods for data collection. Data was analysed using content analysis. The study revealed that the multilateral, regional integration and bilateral trade arrangements currently define the space that Kenya's international trade enjoys. The study found that the accessibility of Chinese products going at competitive prices has been a welcome development for many consumers who find them reasonably priced consequently offering a source of relief for numerous Kenyans who are keen to make a saving. The study recommends the use of negotiations as an important way of engaging in bilateral trade agreements that can open the sphere of Kenya's market and create opportunity for production for foreign markets including China. Kenya's current trade into foreign markets has generally been low, with huge unexploited potential in several sectors. The study recommends the need for promotion of investments aimed at exploiting Kenya's trade potential in the domestic and international market.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

World over, Governments have a role to ensure the wellbeing and prosperity of their own natives, sway of the nation's fringes as well as enhance growth and stability of the economy. To this end, governments are compelled to engage in positive international relations that uphold among other things effective trade policies both in terms of importing locally unavailable natural resources and finished products.

China is no exception and has emerged a key consumer of natural resources and other commodities, as well as a main producer of manufactured goods and services. China like other countries is therefore in search of new export markets for its products as well as supply sources for its natural resource needs. This viewpoint thus defines China's current relationship with the rest of the world especially Africa which is seen by the former as the fertile grounds for resource and ready markets for her continues growth. The trade and investments relationship between China and Africa and for that matter Kenya will help meet these mutual needs. Thus Kenya and China complement each other's needs in the area of socio-economic diplomacy, for instance in the sphere of trading in manufactured goods as well as services. The new found interest of China in Kenya is an important opportunity for the growth of Kenya economy if the two nations are able to position themselves and maximize the outcomes from this relation.

The current discretionary collaboration course of action amongst Kenya and China covers a few zones. The General population's Republic of China built up discretionary relations with the

Republic of Kenya upon the arrival of December 14, 1963. Foundation of the relations between the two nations was for a reasonable improvement for both of them. In 1963, trade between the two countries was in Kenya's favour at KES2 9.2 million. After 1965, the association of the two countries was brought down to be at the chargé d'affaires level and towards the begin of 1970s it gradually returned to the run of the mill. Starting now and into the foreseeable future, different Chinese associations have placed assets into various endeavors, and by 2010 China had transformed into the fundamental wellspring of Kenya's remote direct theory (FDI), putting KES 2.5 billion into the country's economy.

By the end of 2002 with the coming of the NARC administration under the leadership of Kenya's third President Mwai Kibaki, the government expressed intention to further enhance bilateral ties relations with China and was eager to extend and grow the well disposed participation between the two nations. This was additionally educated by the way that China had expanded its inclusion in Africa, seeking after market openings and crude materials for its organizations. This enthusiasm by China proceeds and the Asian nation has made huge advances to nations, for example, Ethiopia and has broad oil interests in Southern Sudan, while Chinese contractual workers are picking up a main position in infrastructural improvement extends crosswise over East Africa. Kenya has not been left behind-despite lacking the raw materials that attract Chinese companies elsewhere in Africa and facing many challenges. For China and other development partners, Kenya is geographically well placed. It's a business hub for East Africa and a gateway to Central Africa countries,

Trade between Kenya and China doubled between 2005 and 2006, with a total amount of $706 million just below Kenya's totals in 2006 with the United States and Britain. And with time, China's activities have increased in areas like building infrastructure such as roads, railways, harbours and barracks for the military, purchasing of oils and minerals in Kenya. There are also scores of Chinese individuals in Kenya occupied with exchanging and assembling exercises. They are incorporated into the importation of various things from China which they either suitable to retailers or through outlets they have opened to offer their things to general society. Since the year 2000, they have been viably required in the amassing of clothing. All the more starting late, different them have meandered into the motor vehicle industry whereby they are incorporated into the importation of auto-additional parts from Asian countries.

1.2 Statement of the Problem

Even as Kenya and China continue to enjoy bilateral ties, most research done on China trade and investment activities in Africa tend to lump Kenya into countries in sub-Saharan Africa despite the fact that these countries are different in many ways. Most of these research does not give specific attention on activities and policies that affect trade like trading frameworks. It is therefore necessary that this study focuses on detailing these trading arrangements in order to come up with data that could be useful in avoiding overgeneralisation in trap conclusion about the impact of Chinese activities on Kenyan economy, diplomacy and politics.

Part of the limited research that has been done also fails to answer questions specifically on how trading arrangements between the two friendly countries could be affecting Kenya's manufacturing sector by failing to indicate the role played by trading frameworks between these two countries in enhancing bilateral trade. Some of the research is speculative, loaded with political overtones which suggests that China's presence in Africa is merely motivated by exploitation of Africa's raw materials and Kenya's manufacturing industry is on the verge of collapse because of Chinese imports without providing evidence making it both shallow and hypothetical.

Other questions include how the International development aspirations and commitments such as Sustainable Development Goals (SDGs) and in addition provincial and worldwide exchange understandings to which Kenya is a signatory have guided how Kenya draws in with her universal accomplices including China. The World Trade Organization (WTO) assentions the East Africa Community (EAC) bargains, EAC-EU Economic Partnership Agreement and the African Caribbean Pacific Cotonou Agreement and Common Market for Eastern and Southern Africa (COMESA). How have these arrangements guided trade between the two countries especially since both China and Kenya are members of the World Trade Organisation? This is an area that has not been fully studied and documented.

1.3 Purpose of the Study

The study general objective was to investigate the trading frameworks between Kenya and China and how they impact Kenya's manufacturing sector.

1.3.1 Specific Objectives

The study was guided by the following specific objectives;

i. To investigate how the trading frameworks between Kenya and China influence growth in Kenya's manufacturing sector.

ii. To investigate how the type of commodity products traded between Kenya and China influence Kenya's manufacturing sector.

iii. To assess how the nature of trade balance between Kenya and China influence Kenya's manufacturing sector.

1.4 Research Questions

Therefore the study was guided by the following research questions;

i. What trade arrangements exist between China and Kenya and how do they impact Kenya's manufacturing sector?

ii. What commodity products are traded between China and Kenya and how do they impact Kenya's manufacturing sector?

iii. To what extent is there trade balance between China and Kenya and how does it impact on Kenya's manufacturing sector?

1.5 Literature Review

This area looked at the contemporary studies that are important to this research. Key texts were identified to understand how scholars have looked at this subject matter to be able to situate the current study within a wider disciplinary conversation. This section presented an analysis of the literature on Kenya - China trade by providing general views on how trading arrangements between Kenya and China impacts the Kenyan manufacturing sector. This section examined the debates emanating from both books, journals, credible newspapers and internet sources. The presentation was as per the specific objectives categorized as per major goods from China and gains and losses to the economy especially the manufacturing sector.

1.5.1 Frameworks Underlying China–Kenya Trade Relations

The current trade arrangements under which Kenya and China are trading include Multilateral Trade Arrangement and Regional Trade Arrangements. Multilateral Trade Arrangement are where China and Kenya, through their commitment under the WTO have subscribed to the multilateral trade arrangements that are defined by various WTO Agreements. To ensure consistency with these commitments, they have policies that are aligned to their commitments to the WTO. This promotes integration of their economy into the global trade arena, especially among the WTO member countries.

Opportunity for enhanced trade in services is abounding as is evidenced in EAC Partner States commitments under the Common Market Protocol. Trade potential in EAC has been limited by factors that include measures that have tariff equivalent effects (such as non-recognition of the EAC Certificate of Origin) and a host of Nontariff Barriers (IFC - EAC Common Market Score card (2014).

C) The Common Market for Eastern and Southern Africa (COMESA) . COMESA is a Territorial Financial People group of 19 nations, which incorporate Kenya. Through the Organized commerce Zone structure, COMESA bears Part Expresses an open door for growing their exchange with the locale as a goal for fares or a hotspot for imports on obligation free premise. In 2014, COMESA represented 16% of Kenya's aggregate fares, whose pattern over the period 2011 - 2014 is portrayed by drowsy and close steady development rate. Over a similar period, COMESA recorded huge development in imports, suggesting presence of exchange potential that should be misused so as to build fares to this provincial alliance. COMESA local joining additionally covers exchange benefit, a part where Kenya is a key player in the REC. COMESA part states have attempted measures to logically change exchange benefits in the area. Part states have recognized four introductory segments to begin advancement. These divisions are tourism, correspondence, budgetary administrations and transport. Extra segments will be recognized to accomplish larger amounts of advancement. The locale subsequently offers open doors for solid development in these segments.

d) Intergovernmental Authority on Development (IGAD) IGAD comprises of Kenya, Djibouti, Somalia, Eritrea, Sudan, Uganda and Ethiopia. IGAD has been changed into a Local Financial People group (REC) and its order extended from dry season and desertification to incorporate a monetary and exchange plan. It therefore provides a regional integration framework through which trade between the seven countries can be expanded using shared commitments in other RECs (such as COMESA) to deepen trade integration. There exists an opportunity to exploit the market potential in these countries through use of the IGAD framework. d) EAC-COMESA/SADC TRIPARTITE FREE TRADE AREA - whose formation is based on the directive of the Heads of State Summit of 22nd October 2008, was eventually launched on 10th June 2015, covering the first phase of integration that includes trade in goods. This is a regional market of 26 countries, to be accessed under a Free Trade Area arrangement.

After the resumption of the diplomatic relations, the Chinese government has been giving assistance to Kenya using a process of bilateral cooperation in industry, agriculture, health, and infrastructure as well as in terms of education. Equally imperative event that seeks to cement and intensify Sino-Kenya relationship with China. Though, the good relation of the Sino-Africa has a long historic root way back to the beginning of the cold war which was based more on political issues. However, there has been a more economic approach in the last two decades.

China in the 1980’s was characterized by economic reforms to address domestic issues, and this laid the foundation for an active involvement of the country in the international economic affairs.

From this perspective, China had to find its own policies concerning domestic and foreign issues in the sense that Chinese has to also influence their institutions and regimes to grow as well. After long years of undergoing isolationism and protectionism, China began to move onto oriented policy and focused much on its direct neighbours. This made the Chinese to become more confident and focused on some of the strong powers in its foreign relations. This then underscores China's evolution as a global financial hub involving in more than 1000 global regimes and groupings .

The discussion in vogue is that the 21st century has just witnessed a flow from the west to the east with the Chinese rising; they are in the process of trying hard to take an active part in the world affairs.   Before the advent and the introduction of the economic reforms and opening up policy of trading in the 1979, China was among one of the poor countries in Asia, left behind the continent as well as being ignored when it comes to economy in the worldwide. But ever since 1979, the country has maintained an average yearly of high gross domestic product (GDP) growth which was around 10%.

China is considered to be the second largest trading nation and the largest manufacturer as well as the largest nation of foreign exchange reserves. In the expressions of Loewenberg, Organization of Economic Cooperation and Development (OECD) have the trust that the Chinese economy will go past that of the United States of America in the upcoming three years. Based on these features of economic growth rate, China is no longer considered to be under-developed country but a developing in the sense that China's role is increasing drastically in the global economic world.

China has firmly registered her presence in Kenya just as it did in other parts of the world via increasing trade, investments and aid. But as a common knowledge that, there cannot be smoke without fire, the Chinese increasing activities and influence in Africa and Kenya had attracted a diverse debate as to whether or not it can enhance Africa's quest for a sustainable development. There are some especially Africa's old development partners who are of the opinion that, the Chinese activities and influence could undermine the latter democratic gains and development. It must however, be pointed out that this will not be the main focus of this research as efforts will rather be made to look at the impact of Chinese manufactured goods in the Kenyan Economy. The Sino-Kenya trade and investment relations and whether it could be a means by which the latter could turn around her developmental challenges.

A number of sound fiscal measures resulted in a burgeoning economic growth of over 8 percent annually for over a decade, resulting in China to be seen as economic giant. The situation came as a result of pragmatic business considerations, propelled by a need to satisfy a developing industrial sector, and seeking new markets for its goods. Chinese firms have sought access to crude materials and markets in Central Asia, Latin America, East Asia, and Sub-Saharan Africa. Besides, within this transformative period, China has equally moved from an oil exporter to oil importer, aid receiver to donor and one of the giants global manufacturing hubs supplying manufacturing goods to industrialised and the unindustrialized world. The Chinese economic growth has therefore caused ripples in the global economy and influenced global trade and finance. One area where China's economic policies continue to have far reaching effects and implications in Kenya is in the area of trade and manufacturing as a result of the agreed policies between the two countries.

1.5.2 Import and Export Comparison

China's imports from Kenya (and Africa in general) are basically primary/unfinished products with minerals products being the highest, contributing 79% of the Chinese total import from Africa in the year 2010 with the least being wood and wood product, which is 2% of the total imports from Africa in the same period. On the contrary, the country's exports to Africa is mostly finished/manufactured products with electrical or machinery as the highest with a percentage of 29 while chemicals and Allied products being the least total exports to Africa with 4%. Still from the diagrammatical point of view and extending it to trade volumes between and among the two partners, Africa's imports from China has been increasing from about 10-165 billion US$ whereas its exports only increases from 5-95 billion US$ in the same period. What this simply means is that, Africa imports more than it exports to China, it is noteworthy that, the former exports more unfinished products whereas its trading partner does the reverse, that is exporting more finished products to Africa.

Additionally, China has increasingly committed itself to large investments in industrial processing zones in a number of Sub-Saharan Africa economies. Nevertheless, the African continent is now seen as a prime region for Chinese wholesale and retail trades, who are actively transacting business on both large and small scale. The import of wicker container from China has been developing at a quick pace. In 2015, the nation imported from China merchandise worth Sh320 billion up from Sh222 billion in 2014, a 44 for each penny development. The respective exchange is vigorously skewed for the world's second biggest economy with Kenya sending out products worth Sh6.5 billion in 2014. It can therefore, be argued that, the nature of Chinese economic involvement is changing thus there are significant amounts of the Chinese FDI going to countries like Kenya into non-extractive sectors.

To turn to the focus area, it can be argued that, Chinese investment in Kenya is not a new phenomenon, but there has been a significant change both in its nature and form. As is typical of the Sub-Saharan Africa experience, Chinese investment inflow into Kenya is not targeted at the extractive sector but rather cut across a whole range of sectors for instance the manufacturing, general trade, services and tourism. The reason is, there are a growing and an active participation of the civil society, the academia and other arms of government in the country's bilateral negotiations and relations with the rest of the world including China.

As an outcome of trading chances in the growing economy, Kenya's imports from China were on the increase in 1990s. The Chinese exports to Kenya mainly include , motor and transport vehicles, telecommunication equipment, civil engineering equipment, electrical machinery, motorcycles, household electric appliances, rubber tyres, iron and steel products, textile goods, commodities for daily use, building materials and drugs. In the year 2002 saw the trade value between China and Kenya reach US$186.37 million, whereby the Chinese export appropriated US$180.576 million while the importation was US$5.798 million. There are over 20 Chinese companies doing their businesses in Kenya, for instance Huawei ZTE technologies, China Wu Yi Cooperation, Jinchuang Mining and Beiqi Foton Motor Corporation Limited. The most imperative imports from China to Kenya are; Hardware and transport gear which involve 40 for each penny of the estimation of Chinese imports, made merchandise ordered mainly by material – 35 for every penny, Incidental fabricated articles – 14 for each penny and chemicals and related items – 10 for every penny.

1.5.3 Trade Balance

Kenya's imports from China primarily consist of manufactured goods, chemicals, and machinery and transport equipment. These imports might have a powerful impact: it is estimated that a percentage point increase in imports from China correlates to a 0.2 percent rise in Kenya's GDP.

Most of the countries in the Sub-Saharan Africa have experienced persistent trade balance deficits on the account of poor economic strategies adopted by these countries. They have also over-relied on certain specific primary products for exports while importing relatively expensive manufactured goods. With a trade-to-GDP ratio of 70.1 % for the period between 2010 and 2012, Kenya heavily relies on international trade. But since early 1970s, the value of Kenya's imports has exceeded that of exports and in recent times the trade balance deficit has risen to alarming levels reaching a high of 20.8 % of Gross Domestic Product (GDP) in 2012. These trade balance deficits have been attributed to rising oil prices and low exports.

The increase of relatively affordable Chinese items influences neighborhood organizations, which need to save workers (to cut operation costs) in view of declining livelihoods and loss of piece of the overall industry. Kenyan organizations likewise have higher creation costs, as their hardware is frequently old contrasted with the advanced Chinese production lines. In any case, a few organizations have profited through exchanging with Chinese organizations and bringing in modest products from China. Certain makers additionally pick up, yet in detachment. For instance, the Chandarana retail chain allegedly has a processing plant in China that fabricates items to offer on the Kenyan market. Also Tile and Carpet has resorted to importing tiles from China .Will the imminent closure of the leading tyre maker Sameer Africa, the company may join the bandwagon by importing directly from China. This improvement could change rural–urban livelihoods and populace variations. In any case, the drawback is that enhanced innovation may bring about untalented specialists losing their occupations.

According to the Ogusanwo, the trade balance deficits are a drag on economic growth, having reduced overall growth rate by 4.1% in 2012. The World Bank further explained that if Kenya had a balanced trade balance position, the country would already be growing at an overall growth rate of 8%. A common policy employed in a bid to improve a trade balance deficit is exchange rate devaluation. Exchange rate decisions represent important policy tools for developing countries and the impact of swapping scale on exchange adjust has been a key region of exact investigations over a drawn out stretch of time. Hypothetically, conversion scale cheapening is required to make a nation's fares less expensive and imports more costly prompting to a change in the exchange adjust. Empirically though, studies have failed to achieve a common finding on whether exchange rate devaluation would fulfil the Marshall-Lerner (M-L) condition.

The M-L condition states that a devaluation or depreciation will only improve trade balance if the absolute sum of imports' and fares' versatilities is more prominent than solidarity. The impact of real exchange rate on the trade balance depends on the price elasticity of demand of both exports and imports. Low export price elasticities of demand are common when the concentration of exports lies within a few primary commodities. Studies exploring the M-L condition are grouped into two; those that use aggregated trade data and those that employ bilateral trade data. Studies that use aggregated data suffer from aggregation bias by assuming that what is true for a group of countries is also true for an individual country thereby ignoring the existence of heterogeneities among economies. This may result into incorrect inferences by policy makers especially if the bilateral trade elasticities for each trading partner are significantly different from the aggregate trade elasticities.

According to Sachs and Warner, a nation's exchange adjust could enhance with one exchanging accomplice and in the meantime break down with another exchanging accomplice while a country's currency could also appreciate against one currency and simultaneously depreciate against another. Therefore aggregated data obscures important bilateral movements such as bilateral exchange rate movements thus yielding an incorrect link between the trade balance and its determinants. Furthermore, Xiyuan and Liping argue that in bilateral trade analysis the absolute values of the coefficients do not give the correct relationship between trade balance and its determinants, rather the relative size of these coefficients offer more clearer understanding of the determinants of trade balance. In this regard, the M-L condition should be examined while taking into account the issue of heterogeneity by capturing vital bilateral information concerning the interaction of variables for both policy applications and empirical analyses.

The legislature of the General population's Republic of China has set up an exceptional store to urge Chinese associations to import some Kenyan things, including coffee beans, rose seeds, dull tea and sisal all of which are exchanged rough casing . Endeavors being made at connecting reciprocal exchange ought to concentrate on esteem expansion before fare. The meeting tended to different issues important to both nations, including methods for crossing over the adjustment of exchange, which remains intense for China .

1.6 Gaps in the Literature

Chinese trade relation both globally and for Africa including its yearning for the latter's natural resources and the need to sustain the economy is a matter of interest. The 'no strings attached' policy that China has applied to African nations since the independence of many of these countries still plays out today. Interestingly, limited academic study has been able to prove China's gains and losses and its perceived intentions for the African continent including its relations with Kenya. There is no substantive literature specifically on trading frameworks or arrangements between China and Kenya and how these arrangements influence the latter's manufacturing sector. What is available mainly shows aspects of Kenya and China's bilateral relationship without specifically delving into the the impact of trade arrangements between the two friendly countries. This study aimed at filling this gap.

1.7 Significance of the Study

The discoveries of this study are relied upon to deliver benefits as takes after: This exploration think about has given helpful learning in detailing of strategies and an administrative system for running effort of pushing elements influencing the reciprocal relations. This study has provided a basis for strengthening choice and approach of diplomatic relation strategies relative to Kenya's development and subsequently enhance academic knowledge on the influence of China in developing countries.

The study discoveries may likewise give establishment and material to assist related research. The consequence of this study is significant to scientists and researchers, as will frame a reason for further research. The understudies and scholastics can utilize this study as a reason for talks on the effect of trade arrangements between China and Kenya Economy and especially on how these arrangements impact the Kenyan manufacturing sector. Findings of the study on commodity products from China on Kenyan manufacturing sector may enable policy makers especially in the on-going formulation of the National Trade Policy by the government of Kenya because there is a strong linkage between trade and economic growth. The government will be able to develop a Trade Policy that goes for improving improvement by encouraging private area drove and all inclusive focused exchange. Specifically, exchange will contribute towards national financial development focus of 10% by making an empowering situation for broadening and extension of fares and expanded local exchange. This is in accordance with the Constitution and national financial development targets set under Kenya Vision 2030.

1.8 Theoretical Framework

It is difficult to get a one-fit- it all one theory to study the trade ties between China and Kenya. Nevertheless, this study is underpinned by the Dependency Theory as it relates well with the topic. Dependency Theory has its roots in Marxism, as such that it looks at the world in terms of class relations. This concept is applied to the world community as such that the individual countries belonging to it are also part of a certain class: the underdeveloped (periphery) countries one the one hand, which supply low-profit primary goods, raw materials and cheap labour to a class of developed nations (core). This group in turn produces high-profit manufactured secondary goods and technology via the means of a highly skilled labour force, and by controlling the necessary capital for their production.

To a large extent, Dependency Theory is a counter reaction to the theoretical themes which dominated the political discussion prior to the First World War (as it does in its form of neoliberalism today). These ideals were composed of the political ideals of classical liberals, economic ideals of classical capitalists, and socially of the ideals of those who were at the time called the Social Darwinists by some. The tenor was a division of the world into a "tropical zone" and a "temperate" one, the latter being considered industrially, creatively and culturally superior, and thus responsible for bringing the higher ideals of humanity, and a higher type of social order to the tropics. While not intended, the active division of the world into classes becomes obvious when one looks at this statement, except the use of different terminology.

This view was challenged after it became increasingly clear that neither economic nor other forms of development were notable in the countries where the "higher ideals" were supposed to be spread. On the contrary, a 1949 report by the Monetary Commission for Latin America (ECLA) headed by Raul Prebisch exhibited that the terms of trade6 had retrogressed to such a degree, that "on the normal, a given amount of essential fares would pay, toward the end of this period [late nineteenth century until the late 1930] for just 60 for each penny of the amount of products which it could purchase toward the start of the period. This was seen as disproving the argument of comparative advantage working to the benefit of all those involved, but on the contrary, it did not operate in favour of the primary producers.

Seeing this argumentation against the prevailing thoughts of trade to benefit all Dependency Theory might best be described not as a consolidated movement or theory, but as a collection of ideas and arguments. These were brought forward to counteract against theoretical constructs which did not bring about the desired changes to lead poor nations into prosperity, but on the contrary lead to a continuation of the status quo and indeed arguably a worsening of the situation. However, according to Samuel there is at least as much disagreement as there is concordance amongst the writers.

1.9 Hypothesis

The study was guided by the following hypothesis

HA1: The framework underlying China–Kenya trade relations was ad hoc.

HA2: The trade between the two countries was leading to depressing activities of the manufacturing sector in Kenya

HA3: There was trade balance deficit between China and Kenya thus influencing Kenya's economy in the manufacturing sector

1.10 Methodology

The study used qualitative research data because it was suitable for the kind of study that had been proposed which measured the impact of one variable against another. The study used secondary data as the main source whereas primary data was used to supplement and crosscheck (triangulation purpose). Data collection methods included use of twitter, telephone calls (questions asked using a questionaire), emailing. Data collection methods used included in-depth open- ended interviews which allowed the interviewer to relate well with the interviewees and ask questions in manner that is understandable to both parties. It was also likely to generate clearer answers to questions which are better explained while spoken than when written. These interviews were conducted in a relaxed atmosphere that is likely to generate more answers and questions than was planned in advance and is likely to be more accurate than the questionnaire. The population of interest were; Kenya National Bureau of Statistics, Ministry of Industry Trade and Cooperatives, Kenya Revenue Authority - Customs. Kenya Association of Manufacturers (KAM) Export Promotion Centre, Investment Promotion Centre.

1.11 Chapter Outline

The study paper examined the China-Africa trade relations with special focus on Kenya. The first part was comprised of the study abstract which in a nutshell captures the main issues undertaken in the study.

Chapter one

Chapter one provided the description of the research, research question, study hypothesis and theoretical perspective of the study as well as the methodology. The theoretical perspective of the study was provided.

Chapter two

Chapter two discusses trade policies, trading arrangements between Kenya and China, Legal and institutional frameworks, foreign control frameworks, Laws/Regulations of FDI, sustainability of trade deals and partnerships frameworks type of manufactured commodity products traded between China and Kenya. It provides an overview of trade between Kenya and China.

Chapter three

Chapter three discusses Kenya –China trade, types of imported manufactured goods from China to Kenya and Kenya's exports to China.

Chapter four

Chapter four discusses nature of trade balance between Kenya and China, Commodity Prices, enhanced market access, intellectual property rights and Counterfeiting and construction sector imbalance.

Chapter five

Chapter five highlights the summary of findings, conclusion and recommendations.

CHAPTER TWO: THE TRADING FRAMEWORKS BETWEEN CHINA AND KENYA

2.1 Introduction

Kenya has had an impressive trade policy reform since independence. The country’s exchange advancement activities can be followed back to the Sessional Paper No. 10 of 1965 on African Socialism and its Application to Planning in Kenya. This chapter discusses trade policies and trade arrangements between Kenya and China, Legal and Institutional frameworks and the Challenges Facing Frameworks Underlying Trading of Goods between China and Kenya.

2.2 Trade Policies

Universal exchange arrangements are turning out to be progressively vital in a quickly evolving world, and outside issues and worldwide issues among different states have turned out to be more clear inside the global framework . Outside exchange has existed for quite a while, even much sooner than genuine cash appeared. It's monetary, social, and political significance has expanded in late hundreds of years, predominantly due to industrialization, propelled transportation and globalization. Globalization is frequently used to allude to financial globalization which is the mix of national economies through exchange, Foreign Direct Investment (FDI), capital streams, relocation and the spread of innovation .

International trade provides opportunity for agricultural and industrial development through export opportunities for agricultural produce and industrial products. It has, therefore contributed towards attainment of the Government’s socio-economic goal of poverty reduction through enhancement of employment opportunities and income generation in the sectors that have been producing for the export market .

International trade has offered a platform for enhancing the country's competitiveness through opportunity for importation of raw material, intermediate products and capital goods that are much needed by the productive sectors but which are either in short supply or completely unavailable in the country .

Price stability and food security are other very critical areas of our economy that have been impacted upon by international trade. By affording Kenya an opportunity to import products that are in short supply, international trade has helped the country to realize two key objectives; stopping prices increases for products in short supply through meeting domestic shortfall and food security by availing opportunity for importation of such products. The opportunity for production for the global market, which is availed in the economy by international trade, remains the single most powerful incentive for increased investments - domestic or foreign direct investment.

A few universal association have ascended in light of globalization, many attempting to control what happens in the worldwide society. With regards to worldwide exchange, World Trade Organization (WTO) assumes a key part, meddling, for instance, with Free Trade Agreements (FTA) which have turned out to be such an imperative device for nations to enhance their positions in the universal exchange . As per World Trade Organization (WTO), specialized controls, benchmarks and methods for deciding congruity can have both positive and inconvenient impacts on rivalry and global exchange. These measures guarantee shopper security, increment the straightforwardness of item data and similarity of items and serve different objectives . The Agreement perceives that nations have the privilege to set up assurance levels that they consider suitable, for instance, to shield human, creature or vegetation or wellbeing or the earth. In that capacity, the Agreement does not keep countries from taking measures critical to ensure that these levels of affirmation are met. Least made and making countries acknowledge remarkable and differential treatment yet need to hold up under at the highest point of the need list that delivering to benchmarks lower than those of whatever is left of the world makes it harder for them to send out.

There are somewhere in the range of 230 territorial exchange assentions (RTAs) in drive comprehensively, with practically every nation being a gathering to at least one understandings. The slowing down of multilateral exchange arrangements in the WTO has brought about an expanding concentrate on regionalism and RTAs. All in all, RTAs are seen to be either hindrances or building obstructs for further worldwide exchange advancement. They may lessen welfare when exchange redirection is more prominent than exchange creation; in any case, defenders contend that the exchange preoccupation impacts have a tendency to be littler than the exchange creation impacts and those RTAs are more reasonable than multilateral game plans .

In September 2001, China finished its multilateral arrangements with the WTO Working Gathering taking care of its promotion application and achieved an exchange concurrence with Mexico, the remainder of the first 37 WTO individuals that asked for a two-sided exchange concurrence with China. China's WTO participation (and in addition that of Taiwan's) was formally endorsed at the WTO Clerical Gathering in Doha, Qatar in November 2001 . China's WTO participation (and in addition that of Taiwan's) was formally endorsed at the WTO Ministerial Conference in Doha, Qatar in November 2001. WTO understanding conferred China to altogether decrease a wide assortment of levy and non-tax boundaries. The principle concern was to guarantee that China completely consents to WTO responsibilities .

Kenya's exchange strategy improvement can be followed back to the Sessional Paper No. 10 of 1965 on African Socialism and its Application to Planning in Kenya . The second significant stage in the development of Kenya's exchange strategy was through the Structural Adjustment Programs (SAPs) presented in the mid 1980's .Along the way, Kenya has continued to engage in trade policy reform. Lack of a harmonised national trade policy has been affecting coordination of trade in the country. Trading policies in Kenya are scattered in different government documents and regulations with absolute lack of a harmonization and coordination mechanism. This omission could have led to conflicting policies, weak policy implementation and inability of the policies to address balance of trade and unexploited trade potential in the domestic economy, regional and global market including China.

Kenya’s international trade policy seeks to exploit the potential in both the trade in goods and trade in services through policy measures that contribute towards “transforming Kenya into a competitive export led economy and a thriving domestic market”. International trade policy is formulated within the framework of Multilateral, Regional and Preferential Tariff Arrangements (PTAs) that Kenya has entered into. These include the WTO, EAC, COMESA, Tripartite FTA (COMESA, EAC and SADC) AGOA and EAC – EU EPA . The fascination of Chinese advancement help lies in its no frills bureaucratic straightforwardness, in contrast with the giver formality that to a limited extent spurred the Paris Declaration toward higher productivity through enhanced coordination between givers. Once concurred on at the political level, it is watched that China-supported activities are finished by Chinese temporary workers more rapidly than others. Kenya's appreciation for Chinese tasks may not in this manner spring from China's propensity for not making inquiries about human rights and majority rule government in African states .

Table 2.1: Estimates of Kenya's Trade Flows (1948-2014). Dependent variable: Kenya's exports

	Poisson Quasi Maximum Likelihood
Constant	−0.93 (0.41)∗
Kenya GDP per capita	0.00 (0.00)∗∗∗
Importer GDP per capita	0.00 (0.00)∗∗∗
Population Kenya	−0.01 (0.01)
Population Importer	0.00 (0.00)∗∗∗
Distance	−0.00 (0.00)∗∗∗
Regional Trade Agreement	1.16 (0.10)∗∗∗
Contiguous	2.30 (0.09)∗∗∗
Common Language	0.19 (0.06)∗∗
GATT Kenya	0.78 (0.23)∗∗∗
GATT importer	1.50 (0.09)∗∗∗
Colonial History	2.53 (0.08)∗∗∗
China dummy	−1.74 (0.42)∗∗∗

Under the Poisson model in table 2.1, the coefficients on importer GDP per capita and distance are significant and have the expected signs: distance reduces trade and a higher GDP per capita of the importer increases trade. Distance deflects Kenya's exports by a factor of 0.18. Kenya's exports increase by a factor of 10.02 to countries that share a common border with Kenya. The China dummy coefficient is -1.74, so Kenya exports less to China by a factor of 0.18 compared to economies of similar size. If Kenya exports one million USD worth of goods to a country similar to China, it only exports 820,000USD worth of goods to China.

2.3 Trading Arrangements between Kenya and China

Kenya, through her commitment under the WTO has subscribed to the multilateral trade arrangements that are defined by various WTO Agreements. To ensure consistency with these commitments, the policy is therefore aligned to the country's commitment at the WTO. This promotes integration of Kenya's economy into the global trade arena, especially among the WTO member countries .

The EAC, whose enrollment contains Kenya, Tanzania, Uganda, Rwanda and Burundi unites the five nations on issues of monetary, social and political participation. The EAC has made an extended market for exchange products and ventures, through the arrangements of the EAC Traditions Union Convention and the Normal Market Convention and additionally other local combination instruments and sectoral procedures and strategies. The EAC takes lead as the goal advertise for Kenya's fares, representing 23% in 2014. Open door for improved exchange in services is abounding as is evidenced in EAC Partner States commitments under the Common Market Protocol.

Trade potential in EAC has been limited by factors that include measures that have tariff equivalent effects (such as non-recognition of the EAC Certificate of Origin) and a host of NonTariff Barriers (IFC - EAC Common Market Score card (2014). The slow pace in implementation of EAC policies also contributes to limitations faced in efforts towards enhancing expansion of exports.

Domestic laws that are not aligned to EAC Partner States commitments pose an immediate challenge that need to be overcome (IFC - EAC Common Market Score card (2014). Prospects for expanding trade in service in the EAC region lie in implementation of the commitments in the Common Market Protocol.

IGAD comprises of the following nations in the horn of Africa - Djibouti, Somalia, Eritrea, Sudan, Ethiopia, Uganda and Kenya. IGAD has been changed into a Regional Economic Community (REC) and its command extended from dry spell and desertification to incorporate a financial and exchange plan. It therefore provides a regional integration framework through which trade between the seven countries can be expanded using shared commitments in other RECs (such as COMESA) to deepen trade integration. There exists an opportunity to exploit the market potential in these countries through use of the IGAD framework.

Kenya together with the other EAC Partner States concluded negotiations of the EPA in October 2014 paving way for the process of signing and ratification. The EPA is the framework that guarantees sustainability of the over 30 years duty free market access trade regime that Kenya's exports have enjoyed in the EU, first under the four successive Lome Conventions, then under the Cotonou Agreement and lastly under the Framework for establishment of EPA (FEPA). The impact of this preferential trade regime has been to open up the EU market, which in 2014 accounted for 22% of Kenya's exports, taking a second position as a destination market for Kenya's exports after the EAC.

2.4 Legal and Institutional frameworks

The absence of a legal framework has been a serious impediment to trade and business development in Kenya. This has therefore resulted into lack of coordination among institutions that are involved in trade development. The critical problems facing trade promotion and development in Kenya include scattered trade related policies as mentioned before, inadequate institutional structure of the Ministry, poor coordination of past and present trade policies, conflicting pronouncements, rules, regulations and practices affecting trade. Others include ineffective coordination of various institutions resulting into duplication of promotional efforts and inefficiencies in resource mobilization and utilization .

2.4.1 The legal framework

Since the governance structure in Kenya is now devolved in, the National Government in consultation with the County Governments have yet to develop a comprehensive trade development law that provides legal basis for the National Trade Policy that articulates Government's aspiration of poverty eradication and sustainable economic development through providing opportunity for expanded markets, income generation and distribution, increased employment and competitiveness.

On the other hand studies indicate that China has laws and regulations promulgated by the Government of the People's Republic of China to govern the conduct of business and investment in China .

The law needs to be developed so as to vest the mandate and provide overall trade leadership, initiation and coordination and to oversight of the synchronization of all activities and strategies of different institutions and agencies relating to trade development in the State Department responsible for trade . Currently different counties are engaging even in international transactions in an uncoordinated fashion.

Therefore a legal framework to empower the State Department or Ministry for trade with sufficient mandate to formulate policy, and give the Ministry an institutional/administrative structure able to drive trade policy reforms and discharge the functions assigned to it through an Act of Parliament.

The legal framework that provides for trade policy formulation and coordination mechanism between National and County Government in line with the provisions of the Kenya Constitution and in accordance with the provisions for the Intergovernmental Relations Act (Cap 5G) is also lacking.

At the heart of any effective business policies is the justice system that protects all parties while transacting business. In recognition of this fundamental right, the legal framework should also factor access justice and fair trial. The Kenya Constitution 2010 provides right to free movement in Kenya. This right is crucial to Kenya's trade development, by guaranteeing any person to move freely in any part of the country and also leave the country in pursuit of trade businesses. To that extent, the National Trade policy legal framework will also factor this fundamental right.

Private sector is pivotal to the development of Kenya's trade. The sector plays this role through the enabling provision of the Kenya Constitution 2010 on freedom of association. This freedom needs to be recognized and upheld in the policy legal framework as a way of entrenching the private sector role in Kenya's trade policy development and implementation.

2.4.2 Institutional framework and FDI

Since Domestic trade is a devolved function, explicit functions on domestic and international trade that are tied are to be implemented in a coordinated way-it's the responsibility of the National and County Government through a coordination mechanism that is in accordance with the provisions of the Intergovernmental Relations Act. The Ministry or department responsible for international trade should be responsible on a day to day basis for implementation of the international trade policy component of the trade policy by undertaking the following functions: formulate program for capacity building of Counties on International Trade Policy issues and implementation; promote Counties as centres of production through visibility of County by Exportable products in the trade portal; coordinate the activities of all export trade development and promotion agencies; support producers to meet international standard compliance to facilitate exports; establish an Export Development Fund (to compound challenges as a result of lack of funds)to promote export diversification and value addition; and establish a framework for service sector negotiations and the development of databases for promotion of export of services, including business process outsourcing.

Additionally, domestic trade policy is lacking in Kenya as much as domestic trade is a devolved function. . The measuring stick to figure out if the deal is discount or not is the sort of clients to whom the deal is made and not the size and volume of offers. Discount exchanging incorporates resale, preparing and from that point deal, mass imports with ex-port/ex-reinforced distribution center business sales and 'Business to Business' (B2B) e-Commerce. Distribution trade also falls under domestic trade and it includes trade of goods and services that is undertaken by a company or an individual on behalf of company that produces the goods or services that are the subject of sale through a distributorship agreement. The Distributors and Wholesalers in the nation can be extensively arranged as merchants in homestead and horticultural deliver; prepared nourishment, refreshment and tobacco; individual and family unit merchandise; petroleum items; and engine vehicle, save parts and extras. Different classifications of merchants and wholesalers incorporate those managing in building material and supplies; woodland items; array; hardware and gear. Conveyance exchange benefits likewise include Commission operators' administrations and diversifying administrations. Commission operators' administrations comprise of offers on an expense or contract premise by a specialist, dealer or salesperson or different wholesalers of products/stock and related subordinated administrations. Item and exchange name diversifying includes the utilization of an exchange name in return for charges or eminences and may incorporate a commitment for restrictive offer of exchange name items, strategy for success, and preparing materials and related subordinated administrations. The conveyance and discount including retail sub division assumes a noteworthy part in the Kenyan economy. The sub-segment right now represents 15.7% of GDP and 10% of formal business. The conveyance and discount exchange especially in horticultural deliver has remained to a great extent casual and portrayed by wasteful and divided inventory network. The organizations taking part in appropriation and discount of agrarian deliver likewise have frail business affiliations . These foundations are to a great extent little and medium measured and primarily situated in the major urban focuses hence making them not effortlessly open to the country based retailers. They go about as representatives between the creators/producers and the retailers regardless of the way that in a few cases they supply stock direct to the last buyers.

Therefore the Ministry responsible for domestic trade should; formulate domestic trade policies in collaboration with County Governments formulate program for capacity building of Counties on Domestic Trade Policy implementation, and knowledge sharing coordinate and harmonize all laws and regulations governing domestic trade in line with provisions of Vision 2030 and collect and disseminate information on products available for domestic and export trade.

Kenya's exchanging accomplice China-has ended up one of the world's biggest outward speculator. A rising collection of writing proposes that China's representing system for outward remote direct venture (OFDI) is a determinant of the nation's rising OFDI.

China's system serves two targets: to build the intensity of Chinese firms universally and to bolster the nation in its improvement work. In following these objectives, the administrative system has advanced from binding, to empowering, to supporting, to boosting OFDI .

Furthermore, China's institutional structure looks to support OFDI that can contribute most to the nation's national improvement. It does this by specifically supporting specific enterprises and occasions in their internationalization through FDI . For the national economy, widening the degree and topography of venture means more choices for monetary (re)structuring (e.g., esteem chain updating and incorporation) and asset distribution enhancement (e.g., lessening the cost of crude materials and work); OFDI consequently gives more assets and chances to financial development . what's more, OFDI gives access to substantial and impalpable assets that are of direct significance to China's advancement exertion, starting with crude materials additionally including innovation, mark names among others. This advancement goal is reflected in the way that OFDI is energized by the administration through different instruments specifically enterprises and exercises that are of unique significance to the improvement exertion.

Nonetheless, the Chinese government forcefully advances interest in Africa (and in Kenya) through concessional advances, business advances, and general and particular fare purchaser's credits. From 2009 to 2012, China gave $10 billion in financing to Africa as "concessional credits.. Beijing empowers government offices and business elements to consolidate remote guide, coordinate speculation, benefit contracts, work collaboration, outside exchange, and fare, which promote shape the contrast amongst help and venture. For instance, China's "tied guide" on framework actually considers Chinese developers and workers, while Chinese credits are much of the time sponsored by African common assets, which would check toward exchange or fare. Whether characterized as help or speculations, Chinese credits to Africa plan to be commonly valuable: characteristic assets and administration contracts for China and financing and framework for Africa .

2.4.3 Foreign Control Framework

It is a typical theory among eyewitnesses that China's authentic insights underreport China's speculation volume in Kenya. Ventures are not caught by China's information on remote direct speculation and might be a critical wellspring of underreporting. Likewise, some little and medium-sized ventures may not enroll their remote direct speculations, which thusly may not be reflected in China's information." The underreporting might not have been a deliberate plan of the Chinese government, yet it reflects some essential inadequacies in its administration of Chinese on-screen characters' business exercises in Kenya .

Figure 2.1: Kenya underperforms in attracting FDI relative to potential. Trend in red (1980-2014)

Source: World Development Indictors World Bank 2015

Kenya performs poorly in attracting foreign direct investment (FDI) given the size of its economy. Despite a larger economy, Kenya attracts even less FDI than Uganda and Tanzania. Figure 2.1 shows Kenya’s net inflows of foreign direct investment (FDI) from 1980 to 2014. Kenya’s investment levels dropped to less than 10 percent of GDP near 2000, but has since returned to levels experienced in the mid-1990s.

Advancement of the Kenyan economy implies there are couple of remote possession or control confinements. In a few businesses remote possession rate is topped; they are: protection (66.7 percent); media communications (80 percent); mining (65 percent); shipping (49 percent); fisheries (49 percent); and the share trading system (75 percent). A large number of these enterprises have a beauty time of quite a long while with which to look for nearby financial specialists. In development proposed tenets may set the base neighborhood share to 30 percent . In the mining part firms considering ventures ought to give careful consideration to the 2013 Mining Bill as of now before parliament, which in addition to other things would give the GOK a free 10% stake in any mining organization looking for licenses in Kenya, and additionally requiring a 20 percent neighborhood stake in the organization inside four years. A survey of the law on outside proprietorship points of confinement is proposed by the Capital Markets Authority in its 10-year all-inclusive strategy (2014-2023). There is no preclusion on securing of Kenyan firms by remote claimed firms nor are there directions confining joint wander courses of action amongst Kenyans and outsiders.

It ought to likewise be noticed that nonnatives can't claim arrive in Kenya, however there are an assortment of land renting game plans with a most extreme residency of 99 years (renewable).

The capacity of nonnatives to rent arrive delegated agrarian is confined by the Land Control Act. Subsequently, the Land Control Act serves as a hindrance to any agribusiness speculation that may require arrive. Exception to the Act can be gained by means of a presidential waiver for which there is no unmistakable direction; the 99 year rent is a result of the 2010 Constitution and can't be exempted.

2.4.4 Sustainability of the Deals

The effect of China's exchange and interest in Kenya might be hard to completely decide. This is incompletely because of the way that China's expanded nearness is moderately later and a legitimate appraisal will take quite a while . Much open deliberation exists over the political inspiration of the credits starting from Beijing. Existing writing demonstrates that a qualification is here and there made between the "Beijing Consensus" and the “Washington Consensus”, the same number of Africans nations incorporating Kenya look for responsibility with China along lines less prohibitive than those forced by European and American accomplices or worldwide associations. A few masterminds contend that this flexibility, in any case, may likewise be hazardous. China might will to fund ventures, for instance in streets foundation that more customary accomplices decline to bolster since they are not economical. One can endeavor to investigate the key considering policymakers in Beijing and drivers of China's remote approach toward the African mainland .

Another real feedback of China's asset for framework arrangements is the poor standard of their foundation ventures Shinn et al. contends that Chinese-assembled streets were washed away by downpours in Zambia. He is similarly reproachful of a $ 5.7 million Koroidua sidestep worked by the China Water and Electricity Company in Ghana which turned blocked a year after it opened because of pits and valleys. Shinn et al . however does not concur with this recommendation. He by the by has a tendency to concur with pundits of Chinese development firms in Kenya and in whatever is left of Africa on claims of repudiation in nearby work laws by Chinese managers, whether contracting their own particular or neighborhood specialists. At one outrageous the organizations are blamed for utilizing jail work which might be to a great extent a myth on the grounds that no proof to that impact has ever turned out in Kenya.

2.4.5 Partnerships Framework

Relations between gatherings in both states are tormented with auxiliary undertakings and a lot of formality in light of the fact that the frameworks of both nations are contrary and supplementary move must be made to permit exercises to occur. For example Kenyans in China are being irritated by the Chinese powers for honing their religion. Because of the causalities this has brought about Kenyans, the legislature needs to attempt particular endeavors to demand that the Chinese government perceive and regard Kenyans ideal to rehearse their religion .

In spite of the fact that there are some social and social likenesses amongst China and Africa at the general levels, these shared traits don't appropriatly stretch out to Kenya. Kenya is socially industrialist and nonconformist, the second part of that engaging is apparently not connected to most African culture. Chinese ventures are vigorously government controlled, Chinese speculations both at home and on board are generally custom fitted by government. The Kenyan partners are typically private people with private ventures, not really controlled by the Kenyan government. There are key contrasts along these lines in the way that both governments approach business and speculation. The part of the Kenyan government in the business dealings of Kenyans is constrained particularly when contrasted with the part that the focal Chinese government plays in Chinese undertaking. The Chinese requirement for government intercession in business relations, is not normal for Kenyan or Western dealings. Government mediation to make concordance and coordinate business understandings and contracts on the size of the Chinese would be viewed as pointless and unnecessary by Kenyans .

These extra strides and extra players increment the cost of the business relationship, the quantity of essential endorsements for activities or contracts can make the business procedure inefficient, regarding time and cash. Kenyans are expanding drawing in with the Chinese due to the accessibility of chances.

Positively, Africa and Kenya are not effectively separated from the West not as a result of globalization; there is a common history and a more profound comprehension and information of the other that will dependably remain an upper hand for western interests in Africa. Notwithstanding, for the West to make utilization of this favorable position it needs to change its way to deal with African nations and to Kenya. Strikingly, taking after the foundation of a formal key organization amongst China and Kenya, late visits to Kenya of abnormal state Western government authorities have looked to do likewise.

2.5 Challenges Facing Frameworks Underlying Trading of Goods between China and Kenya

2.5.1 Internal Bureaucratic Conflicts

Without a fabulous Kenyan procedure to oversee contrasts, the contention between China's financial and political objectives straightforwardly adds to the bureaucratic clashes between the MFA and MOFCOM. The contention is most prominent around China's remote guide to Africa.

To the MFA, remote guide is basically a political instrument for China to fortify two-sided ties and encourage the advancement of African nations. In its view, political contemplations ought to be the most essential criteria in help basic leadership. Financial advantages connected with help ventures, for example, productivity, asset extraction, or procurement benefit contracts for Chinese sellers, ought to just be auxiliary. Be that as it may, MOFCOM has the inverse point of view. In its view, outside guide serves China's general national need, which by definition is monetary development . Along these lines, all parts of help choices ought to reflect wide monetary contemplations. Under this rationale, MOFCOM is actually disposed to apportion the guide spending plan to nations that offer China the best number of business openings and advantages .

Since China's general financial premium is Africa's normal assets, help choices are definitely skewed toward the asset rich nations, (for example, Sudan, Angola and the DRC) while others get less good thought. This practice is hazardous in that a significant number of the asset rich African nations with which China works additionally experience the ill effects of genuine political issues, for example, tyrant political frameworks, poor administration and defilement. At the point when MOFCOM seeks after financial picks up and relates help ventures with asset extraction, it utilizes help bundles to advance business relations. This system specifically adds to the negative observation that China is pouring guide, subsidizing and framework extends to prop up degenerate governments in return for characteristic assets. The MFA contends that China needs to adjust help to different nations to diminish the weight on its remote arrangement and enhance its universal notoriety. Be that as it may, such a political plan is not of much worry to MOFCOM."

2.5.2 Proliferation of Business Actors

The contention between the financial and political parts of China's Kenyan arrangement is exacerbated by the expansion of Chinese performing artists working in Africa, for example, focal level, state-possessed undertakings (SOE), common governments and privately owned businesses. The plan of these on-screen characters is overwhelmingly financial in nature.

Chinese business performing artists in Kenya can be isolated into a few classifications. On the focal level, there are huge SOEs and state-possessed banks, for the most part occupied with extensive scale speculations, framework ventures, mining ventures, benefit contracts and advances. One authority from the China Development Bank watches that these SOEs appreciate close associations with senior African authorities, viably avoiding checking by, and guidance from, the neighborhood Chinese embassy.190 These SOEs are for the most part spurred by business premiums, in spite of the fact that they declare that their objectives are in accordance with Beijing's more extensive destinations, for example, the Going Out procedure.

Governments and SOEs at the common levels (or lower) are additionally expanding their impression in Africa. As the Chinese common governments (particularly those in the seaside territory) make progress toward better monetary execution in the tide of change and opening up, they have gone for abroad ventures and markets with a specific end goal to alleviate the effects of the universal money related emergency and overhaul their work concentrated improvement display. The third class, the most gutsy Chinese players in Kenya and Africa, is the privately owned businesses or individual agents.

2.5.3 Government Deficiencies in Managing Economic Ties

While China excitedly grasps financial ties with Kenya and pushes various Chinese organizations into the landmass to investigate business openings, the bureaucratic framework tragically lingers behind in giving the fundamental emotionally supportive network to secure, direct and deal with these new attempts. Various limit insufficiencies have made or add to the issues China experiences in Africa.

On the national level, China has yet to set up an exhaustive system to make an interpretation of political hazard evaluation into particular administrative/counseling guidance for business basic leadership. Yet, Chinese organizations are progressively understanding the large scale political and monetary situations of various African nations. Given the instability of residential governmental issues in numerous African nations, sound business basic leadership needs an early cautioning framework that consolidates political dangers and financial/social effect concentrates on. Some administration elements are starting to underscore investigations of the general business interest in Africa, for example, the China Development Bank and MOFCOM (through the China Academy of International Trade and Economic Cooperation, a MOFCOM think tank.

With respect to Industry cum nation methodologies, China views Africa as the place where there is new chances at life (possibly due to Africa's inconceivable to a great extent undiscovered characteristic assets) and has a general rule for Chinese organizations to "Go Out", and its operation in Africa needs industry or nation systems. Contemplates show that Beijing has neglected to create methodical, long haul vital wanting to organize financial participation among and inside various businesses or potentially nations. Repetitive speculations and antagonistic rivalry among Chinese organizations are widespread. It has been proposed that administration offices, industry affiliations and research associations ought to create projects to upgrade their coordination and data sharing, and to enhance expansive government approach and individual organization choices. Notwithstanding, such improvement is still at a simple stage .

Besides, notwithstanding quickly expanding interest in Africa, China does not have a methodical supervision instrument to screen and direct abroad Chinese performing artists. Had Beijing a superior supervision framework, the inconsistencies of Chinese organizations, for example, infringement of work rights, defilement, and natural harm, could be moderated. All things considered, given the feeble position of the MFA in Sino-African monetary issues, and MOFCOM's need in exchange/speculation advancement, there has yet to be an administration activity to make such an instrument .

2.6 Conclusion

Chinese financial attacks into Kenya have unmistakably developed quickly in the recent decades, saturating a huge number of various parts with boundless ramifications. These Chinese contracts in Kenya are financed in various ways. Be that as it may, they tend to can be categorized as one of three classifications. The first is immediate Chinese financing (by means of the Export-Import Bank) of Chinese MNCs in Kenya. This is done to guarantee negligible danger of misappropriation of assets. In this procedure, the Exim Bank straightforwardly procures and pays a Chinese claimed organization, for example, China Road and Bridge Corporation or Wu Yi, to direct a development extend. The Kenyan government approves the agreement, and consents to hold duty regarding reimbursing the advance to the Exim Bank.

The Chinese model of interest generally brings monetary development goals and outside arrangement together directing exchange and put choices in Africa alongside "no quid pro quos" money related and specialized help. Chinese offer strongly for resource and improvement wanders using hypothesis and establishment progresses.

CHAPTER THREE: TYPE OF COMMODITY PRODUCTS TRADED BETWEEN CHINA AND KENYA

3.1 Introduction

The World Trade Organisation (WTO) framework and Regional Economic Communities have created opportunity for trade development. Both China and Kenya have taken advantage of these opportunities through participation in trade negotiations at bilateral, multilateral and regional levels. Effective participation in trade negotiation requires a robust negotiation mechanism in the form of an institutional structure and negotiating team with requisite skills. Presently, in Kenya, with exception of the National WTO Committee that is recognized as a permanent national structure for negotiation of the WTO issues, there lacks a Standing Committee to undertake trade negotiations covering regional and bilateral trade negotiations. This chapter discusses the trade that takes place between Kenya and China and the types of the manufactured exports from China.

3.2 Kenya-China Trade

In the period under the study, bilateral trade between China amounted to US$186.37 million in 2002. Chinese exports to Kenya amounted US$180.576 million, whereas Kenya exported US$5.798 million worth of goods to China in the same year. Kenya's exports were mainly black tea, coffee, and leather . It was not until the second 50% of the 1990s that Kenya's imports from China got as exhibited in figure 1. Figure 1: Trends in Kenya's Trade with Mainland China.

IMF, Direction of Trade Statistics Yearbook (Washington, DC: IMF, various years).

From figure 1, there was next to no adjustment in the estimation of Kenya's fares to China somewhere around 1980 and 1993. Kenya's imports from China grabbed, particularly in the second 50% of the 1990s. Figure 1 looks at the patterns in China-Kenya exchange the 1990s. Obviously there was almost no adjustment in the estimation of Kenya's fares to China somewhere around 1980 and 1993. At no time in those years did Kenya's fares to China surpass $5.1 million. Aside from 1983, when they hit an unsurpassed low, Kenya's imports from China went between $12 million and $24 million from 1980 to 1993. The majority of this was a little part of every nation's aggregate exchange.

KENYA IMPORT/EXPORT TRADE STATISTICS

TRADE BY COUNTRY 2016

COUNTRY: CHINA

YEAR	EXPORTS IN KSH	IMPORTS IN KSH	BALANCE OF TRADE
2006	1,554,660,066	29, 721,261,237	-28,166,601,171
2007	1,471,240,200	45,689,137,609	-44,217,897,409
2008	2,030,084,730	64,541,720,655	-62,511,635,925
2009	2,486,990,182	74,524,383,635	-72,037,393,453
2010	2,511,547,048	120,779,759,848	-118,268,212,800
2011	3,802,588,800	143,816,706,151	-140,014,117,352
2012	5,383,879,734	167,206,283,165	-161,822,403,431

2013	4,199,157,644	182,355,612,419	-178,156,454,775
2014	6,597,432,548	248,648,319,783	-242,050,887,235
2015	8,470,738,558	320,815,548,030	-312,344,809,472
AVERAGE VALUES	3,850,831,951	139,809,873,253	-135,959,041,302

Source: Customs Department, Kenya Revenue Authority

Compiled by: Centre for Business Information in Kenya (CBIK)-Export Promotion Authority EPC

The Balance of Trade comprises merely visible imports and exports that is those imports and exports of merchandise- the dissimilarity of imports and exports is termed as Balance of Trade. Therefore if imports are more than exports, it is unfavourable balance of trade and vice-versa.

The table above shows that for the last decade, China-Kenya trade has been largely in favour of China. And below are the top 10 exports in 2015 as follows;

Top 10 Exports for 2015

HS CODE	DESCRIBTION	VALUE IN KSHs
2614	Titanium ores and concentrates	2,398,859,363.50
2615	Niobium, tantalum, vanadium & zirconium ores & concentrates Columbium	1,806,235,791.57
2710	Oil (not crude) from petrol & bituminous minerals etc	880,539,533.02

4104 Leather of bovine or equine,(no hair & not 4108,4109) 586,733,822.62

8430 Pile-drivers & extractors; snowplows & blowers; other moving, grading, leveling, scraping, extracting, boring machines for..earth/minerals/ores 531,210,236.00

5305 Coconut, abaca, ramie & other vegetable fibers, raw, processed, not spun; tow, noils & waste of these fibers (including yarn waste & garnetted stock) 451,744,756.27

1207 Other oil seeds & oleaginous fruits, whether or not broken 437,510,264.00

3915 Waste, parings and scrap, of plastics 234,705,941.40

4106 Leather of goat or kidskin,(no hair & not 4108,4109) 222,643,798.61

902 Tea 207,421,324.44

Source: Customs Department, Kenya Revenue Authority

Compiled by: Centre for Business Information in Kenya (CBIK)-Export Promotion Authority EPC

The extent of Kenyan fares to China somewhere around 2006 and 2015 was under 1 percent of Kenya's reality sends out. As opposed to the slow development in fares to China, Kenya's imports from that point developed step by step from a normal of $10.81 million somewhere around 1980 and 1985 to a normal of $29.3 million somewhere around 2007 and 2015. Exchange then got after 2008 when imports from China added up to five-overlap their 2006 esteem. Not at all like the mid-1960s, has the exchange adjusted now supported China. Also, it was an indication of coming change: add up to exchange 2009 was around four times that of 2000.

As an aftereffect of new speculation and exchanging openings in Kenya's extending economy, Kenya's imports from China kept on ascending along the lines we saw in the 1990s, however this time the pace was much quicker. Imported Chinese products to Kenya ascended by a component of three somewhere around 2001 and 2005, from $139 million to $457 million. Notwithstanding the expansion in esteem, the piece of imports was additionally changing as the breakdown of exchange between the nations in 2006 as observed in Table 1.

Table 1 Composition of Kenya’s Trade with China, 2006 (in thousand U.S. dollars)

Commodities	Domestic Exports	Percent	Imports	Percent
Food	2,981.00	15.70	3,102.00	0.80
Beverages and Tobacco	N	n	n	n
Crude (non-fuel) materials	12,751.00	67.00	1,622.00	0.30
Mineral fuels/lubricants	N	0.00	1,622.00	0.40
Animal/vegetable oils	7.00	0.00	53.00	n
Chemicals	288.00	1.50	40,714.00	10.00
Manufacture Goods	2,902.00	15.30	201,429.00	39.70
Machinery/Transport Equipment	91.00	0.50	163,678.00	39.70
Miscellaneous	0.00	0.00	0.00	0.00

Source: Customs Department, Kenya Revenue Authority, 2008. (n = negligible).

From table 1, which is run of the mill of China-Kenya exchange, it is obvious that notwithstanding volume development, the structure of China-Kenya exchange changed extensively from the time of the 1960s to the 1980s when Kenya sent rural items to China and got bring down end buyer products and materials consequently. In the post-progression period, the estimation of Kenya's customary fares to China (nourishment, drinks and tobacco) added up to about $3 million (16 percent of aggregate fares), a declining offer. The greater part of Kenya's fares to China comprised of two new real ware classes: (i) natural nonfuel materials (principally pop fiery remains and reused metals), which contributed 67 percent of all fares' and (ii) most strangely, made products which represented 15.3 percent.

On the import side, the adjustment in item creation was similarly as emotional. In spite of the fact that the volume of imported Chinese family unit buyer merchandise kept on rising, other fabricated products (hardware, building fittings, office gear, pharmaceutical, furniture, and so forth.) now overwhelmed the assembling class, which all alone represented portion of every one of Kenya's imports from China. In February 2006, the Kenya government evacuated all obligations on PCs and PC parts, in this manner adding another thing to the developing rundown of quickly expanding products from China, which for this situation reinforced a beginning data and correspondences innovation (ICT) division generally in Nairobi and Mombasa.

3.3 The types of the manufactured exports from China

The volume and size of exchange Kenya fares and imports to China have been expanding after some time. Kenya's imports from China were on the upward pattern in 2000s. Kenya imports from China predominantly made media transmission gear, electrical hardware, structural designing hardware, engine and transport vehicles, elastic tires, cruisers, and iron and steel wares, family unit electrical machines, materials, products for day by day utilize, building materials and medications .

Figure 3.1: Kenya imports rubber manufactures from China (2010-2014)

Source: UN Comtrade database 2015

Table 3.1 Top 10 Exports for 2015

HS CODE	DESCRIPTION	VALUE IN KSHS
2614	Titanium ores and concentrates	2,398,859,363.50
2615	Niobium, tantalum, vanadium & zirconium ores & concentrates columbium	1,806,235,791.57
2710	Oil (not crude) from petrol & bituminous minerals etc.	880,539,533.02
4104	Leather of bovine or equine,(no hair & not 4108,4109)	586,733,822.62
8430	Pile-drivers & extractors; snowplows & blowers; other moving, grading, levelling, scraping, extracting, boring machines for earth/minerals/ores	531,210,236.00
5305	Coconut, abaca, ramie & other vegetable fibers, raw, processed, not spun; tow, noils & waste of these fibers (including yarn waste & garnetted stock)	451,744,756.27
1207	Other oil seeds & oleaginous fruits, whether or not broken	437,510,264.00
3915	Waste, parings and scrap, of plastics	234,705,941.40
4106	Leather of goat or kidskin,(no hair & not 4108,4109)	222,643,798.61

0902	Tea	207,421,324.44

As shown in the table above, Kenya's exports are relatively more diverse: it exports metals and plastics, but also vegetable textile fibers and leather raw hide skins, presenting an opportunity to meet the demand for finished and crust leather in the EU and China (Hansen, Moon, Mogollon 2015). China mostly exports rubbers and plastic products to Kenya, suggesting an overspecialization in manufacturing. Its focus on manufacturing has come at the expense of domestic consumption and services.

Essentially, around 40% of Chinese imports to Kenya were made of apparatus and transport hardware, for modern and agrarian generation, and the administration part. In the year 2002 the exchange esteem amongst Kenya and China achieved US$186.37 million, with Chinese fare taking US$ 180.576 million while import totalled US$ 5.798 million . As observed earlier, as a result of increased growth of ICT sector, in early 2006 (February) the government removed all duties on importation of computers. This resulted in the rise of goods from China. There are over 20 Chinese companies doing business in Kenya. They include Jiangsu International Economic and Technological Cooperation Co, Sichuan Co Ltd, China Road and Bridge Construction (Group) Corporation, China Import and Export (Group) among others (China-Kenya embassy) .

3.3.1 Rubber Tyres

Additionally, China has stepped up its shipment of low-priced tyres to Kenya in the review period to serve price-sensitive motorists. According to Morrison , Kenya has imported tyres worth Sh2.8 billion from Beijing in the first half of the year 2016, up from Sh2.5 billion in a similar period of 2015 and Sh1.8 billion in 2013 . While the low-priced tyres have been pocket-friendly to motorists, local manufacturers remain the biggest losers as their margins continue to shrink. Kenyan manufacturers have recently raised the red flag over the uncontrolled flow of Chinese tyres into East Africa, saying the cheaper Asian products undercut them, posing a threat to their business .

Kenya imports a large amount of rubber products because China has a comparative advantage in cheap manufactured goods; its manufacturing sector and infrastructure is also much more integrated in global value chains. The special economic zones for manufacturing in Kenya have poor infrastructure and a weak rule of law, inhibiting its sales and growth. The barriers to production prevent local producers from competing with Chinese goods .

Because of economies of scale and low input costs, China is a much more competitive producer of leather products. Kenya, however, has room to export finished leather products to China and it's the narrative taken by the Kenyan Government of late. China has a limited presence in the high end leather market, giving Kenya a chance to supply more value-added leather products . At the moment, Kenya exports raw hides and semi-processed leather, products that are in high demand in China. Just as Ethiopia, Kenya's neighbour attracted Chinese investment in the leather sector to meet demand, so Kenya can also borrow a leaf and work to bring more investment to footwear manufacturing, lifting exports. Domestic leather demand is also higher than supply; local producers may use the new technology from Chinese firms to meet the growing domestic demand for finished leather

Due to the failure of Kenya to export tyres to China and other countries, the two largest producers of tyres have proclaimed closure. Sameer Africa threatens closing its Yana manufacturing factory in Nairobi because of expanded rivalry from less expensive auto tires from Asian markets, which has seen the firm record its second back to back misfortune.

3.3.2 Textiles

Though Kenya's attire and cowhide items have possessed the capacity to make progress in the global market, they have scarcely left a blemish on the nearby market. This is to a limited extent on account of imports of extraordinary failure cost calfskin footwear (predominantly from China and India), and gave, second-hand footwear (mitumba). The same runs with garments, where imports from China and mitumba have swarmed the market. The low infiltration of Kenyan attire and calfskin items locally is likewise generally a consequence of a culture that tends to support outside brands over home developed brands. This is in array or footwear, as well as in all different subsectors of assembling .

Kenya's material fares are not ready to contend with Chinese fares in Western markets. The administration's cozy association with China and longing for Chinese fund may have implied that Kenyan chairmen seek after a lesser solid line in requesting a superior share of the world market. New market open doors developed especially the USA advertise that offers open doors for fares of array, materials, espresso among others, under the African Growth and Opportunity Act AGOA activity in any case, Kenyan fares of attire to the United States, for instance, lost piece of the pie to China somewhere around 2004 and 2006, and have just as of late recuperated. The assembling part developed gradually at just 3.4 percent in 2014, down from 5.6 percent in 2013, and some stress that slower development could be as indication of an untimely decrease of industry. Without a turnaround in assembling, the development capability of the economy is restricted. The Kenyan material industry has been particularly hard hit the recent decades, starting in the 1990s with the fall in world costs .

3.3.3 Mobile Phones

In 2015, China's phones exports to Kenya rose to Sh2.8 billion, and mobile handsets surpassed the list of items that local traders ordered from China last year, underlining the popularity of the low-priced smartphones despite some concerns about quality . Furthermore, Mishel et al. argued that in 2015, China's mobile phones exports to Kenya grew to Sh80.6 million in the year to June compared to Sh78.5 million. Kenya's appetite for Chinese phone imports hit Sh1 billion for the full year of 2015, meaning the figure could grow even further this year based on the half year quantities. The Asian country also targets local market with cheap mobile phones.

The most imperative sorts of protected innovation encroachment experienced in China with respect to cell phones concern unlawful impersonation of perceived brand items (i.e. duplicating), suggesting copyright, patent and trademark encroachments, and replicating of uses (i.e. 'advanced robbery'). Assembling and offering of shanzhai or shanzhai-ji (truly "scoundrel") cell phones has turned into a blasting bungalow industry in China, particularly since Taiwanese MediaTek began to offer coordinated framework on-chips including both the fundamental equipment and programming in 2004-2005 . Various littler makers now repeat famous cell phone plans – some of the time utilizing segments from an indistinguishable providers from the genuine makers if situated in China and regularly with included elements like double SIM card spaces – and offer them under names, for example, Nckia or Somsung ("dim name" telephones) or essentially without logo (the less harming "white name" telephones) at significantly bring down costs. Shanzhai telephones are likewise sent out to different nations in South East Asia and also to India, the Middle East and Africa, and today constitute an expected 15-20% of the worldwide market as far as units sold and about $9 bn in income . In this way, Shanzhai makers are accepted to have delivered in the region of 170-200 million telephones in 2010 – up 70% from 2008 contrasted with 30% for normal versatile brand deals (iSuppli information). In addition, trade offers of these illegal telephones are accepted to have outsized Chinese household deals as far back as 2008, where the Chinese dark market itself seems to have started to shrivel despite the fact that this is not the case in regards to cell phones.

Particularly Nokia, which customarily has held a solid position in the low-end advertise for cell phones, has been influenced by this new rivalry. This is validated by the patterns which demonstrate that Nokia in the most recent couple of years has encountered development rates at or underneath the worldwide market normal in all districts including Greater China, the Asia Pacific and the Middle East and Africa where Nokia has customarily beated the worldwide market by a critical sum.

3.3.4 Electronics

Electronics and hardware make up around 55% of aggregate fares, articles of clothing record for 13% and development material and gear speak to 7%. Deals to Asia speak to more than 40% of aggregate shipments, while North America and Europe have a fare share of 24% and 23%, separately. In spite of the fact that fares to Africa and South America extended quickly, they represent 8% of aggregate shipments . While sends out contracted forcefully in 2009 because of the downturn in worldwide request, shipments in 2010 and 2011 bounced back firmly taking after the 2008 budgetary emergency. In 2012 and 2013, trade development arrived at the midpoint of 7.8%. In ostensible terms, stock fares hopped from just USD 267 billion in 2001 to

USD 2.2 trillion in 2013, which speaks to yearly normal development of 20.2%. As indicated by Focus Economics Consensus Forecast specialists' projections , Chinese fares are required to ease back to a 6.6% expansion in 2014 after a development of 7.9% in 2013 .

Application engineers on their side see their items hacked and duplicated/converted into Chinese practically as quick as they create them tuned in to the expanding pervasiveness of cell phones among Chinese customers. This can infer copyright encroachments, as well as influence potential patent rights and trademarks.

3.3.5 Construction Materials

Chinese contractors are key players in Kenya's multi-billion shilling infrastructure projects including real estate, the standard gauge railway, highways and ports. The Asian country sold to Kenya Sh2.2 billion worth of the construction materials in the year ending June compared to Sh201.6 million in a similar period of 2015. The Chinese cement import growth comes in a period when prices in Kenya have dropped significantly on increased imports and expansion by established and new players, creating excess supply .

There were 224 extensive scale firms in building and development in 2006, as indicated by the administration overview of mechanical generation, structures, and development . Interest of Chinese firms and resulting importation of development materials from China has been on the bring up in the period under study. However in spite of the fact that Kenya's rising development industry contains an extensive and expanding number of substantial scale players, notwithstanding a plentiful casual area, China's entrance and effect have been raised, as we have seen as for China Road and Construction Company .

3.4 Conclusion

The trade of manufactured goods between China and Kenya has grown fast over the past fifteen years, and exports from China have penetrated the markets in most Kenyan cities. This phenomenon cannot be adequately accounted for as the story of a hegemonic country imposing its own terms on the local population. The expanding, diversifying and deepening trading networks that source goods from China and market them in Kenya are key catalysts for the growth in Sino–African trade. Contrary to the common depiction of Chinese goods simply being ‘dumped’ on the Kenyan markets, the traders who connect Chinese producers and Kenyan consumers must do so skilfully in order to succeed. The different resources possessed by Chinese and Kenya influence their ways of doing business and ability to capture a share of international value chains associated with Sino–African trade, and have led to relationships of competition, complementarity and cooperation between the two groups.

In spite of the fact that the two nations have a decent shared relationship, Kenyans both appreciate and reprimand Chinese firms. They are respected for their effectiveness and speed and for how they have pivoted the nation's drained street arrange. Notwithstanding, they have drawn feedback from neighborhood and other outside temporary workers over questionable delicate practices and fake items from China, while groups are worried about the negative ecological impacts of adjacent venture destinations. Firms frequently utilize Chinese work instead of indigenous specialists and take after eccentric work hones, which brings about rubbing amongst Chinese and nearby laborers. Neighborhood organizations additionally confront solid rivalry from Chinese items' expanded infiltration in the Kenyan market and a diminished piece of the pie.

Since all significant street activities are granted to Chinese organizations, it gives little open door for the improvement of Kenyan development organizations. The same can be said for whatever other industry, whether it be in media communications or asset extraction. The sheer size of the agreements (most sums to billions of shillings) is additionally stressing to Kenyans, who expect that cash and riches are leaving the nation in the pockets of Chinese representatives. The last concern voiced by numerous Kenyans is that Chinese organizations tend to support Chinese workers particularly at the top administration level over their African partners. However Chinese MNCs know about this feedback and, as Huawei, have promised to expand the quantity of Kenyan laborers utilized by their organizations.

CHAPTER FOUR: THE NATURE OF TRADE BALANCE BETWEEN CHINA AND KENYA

4.1 Introduction

Kenya has marked reciprocal exchange and venture concurrences with both created and creating nations. China included to satisfy the accompanying goals: Reciprocal support in displays and exchange fairs and additionally individual nation week limited time occasions; Trade of market knowledge, missions/examines for market information; Encouragement of institutional joint effort, for instance, the Standards Institutions; Chambers of Commerce and Industry, Customs Organizations, Research Institutions among others; Prompt and focused follow up of issues raised in the midst of two-sided social occasions; and Exchange of general and thing specific trade and theory missions. As a result, this chapter looks into details the nature of trade balance between Kenya and China.

4.2 Nature of Trade Balance

The Balance of Trade includes simply obvious imports and fares that is those imports and fares of stock the difference of imports and fares is named as Balance of Trade. In this manner if imports are more than fares, it is unfavorable adjust of exchange and the other way around.

Kenya's exchange adjust has endlessly stayed in shortage aside from two years in the nation's over 50 years of autonomy 1964 and 1977 when it recorded US$ 5.7m and US$ 18.1m in that order .

The confirmation on the immediate exchange joins proposes that, on the fare side, Kenya picks up from China's interest for products, and on the import side, it increases shoddy and suitable purchaser and capital merchandise. Outside of materials, timber and cotton, there seems, by all accounts, to be little exchange amongst China and Kenya in middle of the road products and little joining of China and Kenya into facilitated worldwide esteem chains. Jenkins and Edwards Figure 1 presents Kenya Trade Balance with China since 1997 to 2008.

Figure 2: Kenya Trade Balance with China (1997-2008)

Source: Calculated from Value/Quantity data from UN Comtrade database, March 2010.

China is not the conventional fare goal for Kenya's scrap metal fares. In the most recent 10 years, in any case, the development of Kenya's scrap metal fares to China has been sensational. Copper trade development has risen more than aluminum sends out. Kenya's fish fares to China have been liable to numerous variances. Kenya's fisheries send out items might be popular in China, and along these lines Kenya stands to pick up from rising costs and expanded fare income. By the by, prospects for growing fares of fish filets to China have all the earmarks of being low. This is basically on account of the imperatives forced by the nearby natural conditions and absence of ventures to guarantee manageability of the asset. The fisheries division stays immature while the anglers have stayed ruined.

4.2.1 Trade, Investments and Development Co-operation

The EU remains Kenya's biggest exchanging accomplice. In the previous decade, sends out from the EU, China and India to Kenya have consistently expanded, aside from in 2009 when exchange volumes declined because of the 2008 money related emergency. Customary accomplices, for example, the US and Japan have direct exchange volumes with Kenya, while Russia and Brazil are the minimum noteworthy exchanging accomplices .

Notwithstanding declining imperceptibly in 2009, China's exchange has expanded relentlessly. This unfaltering development has converted into an uneven exchange design to support China and an expanding exchange awkwardness that achieved a high in 2010 . The purpose behind the higher increment contrasted with different nations is that Kenya sends out unfinished products to China, while Chinese fares basically completed made merchandise into Kenya. Perceiving this extending exchange lopsidedness, the two governments as of late consented to work towards crossing over any barrier. Some viable short to long haul measures could incorporate EAC nations authorizing enactment that guarantees esteem is added to privately created items before sending out, like the law in Uganda that requires any extricated oil to be handled before trading .

In the course of recent years, Chinese venture (through advances and gives) in Kenya has dramatically increased. China's speculation ranges from extensive undertakings, for example, the development of streets and wellbeing offices and oil investigation, to independent ventures, for example, Chinese eateries opening in significant urban communities and towns. The loan will cover 85% of the construction costs while the government will meet the balance and the Standard Gauge Railway (SGR) first phase project which estimated to cost Ksh 327 billion. China Exim Bank funding is 90% while Kenya Government will fund 10% .

China’s FDI has created an opportunity for technological transfers and increased competitiveness in key sectors, including retail, tourism, transport, construction, energy and telecommunication. Notwithstanding immediate ventures, China has additionally offered differing improvement help to Kenya including bundle bargains undertakings and compassionate guide. Most as of late, amid the starvation that struck the bigger Horn of Africa, China gave foodstuff worth KES 2 billion to Kenya. Chinese advancement help to Kenya bolsters framework improvement; change of training benchmarks, both scholarly and specialized; human alleviation and tax exclusions.

Different regions of help incorporate the modernisation of force dissemination; provincial charge, water; remodel of games offices; arrangement of hostile to jungle fever drugs; development of an intestinal sickness inquire about focus and the modernisation of global airplane terminals in Kenya. Kenya's FDI flows and stocks are have been increasing gradually over the years. However, the FDI inflows have been subject of fluctuations particularly in the last decade as shown in Figure 2

Figure 3: FDI Inflows and Stocks in Kenya, 1980-2006

Examination in the course of the most recent decade to 2001 demonstrates that Kenya has lost its aggressiveness in pulling in venture. Kenya has likewise lost as far as holding the supply of speculation. The misfortune in Kenya's speculation intensity is the consequence of many between associated variables, for example, negative discernment by financial specialists about political unsteadiness, poor administration, defilement, lacking framework, frailty, wrongdoing, burglary, and strategy flimsiness. Private speculation which was developing at a normal of 10% somewhere around 1985 and 1989, just developed by 0.4% somewhere around 1997 and 2001 .

Chinese speculation extends in Kenya at present number around 96 with a workforce of around 6,700 Kenyans and a venture capital of 52.6 million US dollars.

Table 3: FDI from China in Kenya 2000-2006

Year	Total FDI US$ Mn	China		
		No. of Projects	Capital US$ Mn	Employment
2007	110.90	9.00	4.08	787.00

2008	5.30	12.00	2.79	1,313.00
2009	27.60	6.00	1.67	170.00
2010	81.70	11.00	13.95	493.00
2012	46.10	12.00	9.03	1,414.00
2013	21.20	12.00	3.74	239.00
2014	51.00	8.00	2.51	681.00

Source: Own Calculations based on the Investment Promotion Centre, and Kenya Investment Authority Data Sets

Most FDI from China is by organizations that in China are either entirely or in part state-claimed despite the fact that in Kenya they work as privately owned businesses. Until the year 2000, the FDI from China stayed low. The streams from China got to be exceptional in the last three years as shown in figure 4.

Table 4: Kenya: FDI Flows, China FDI, 1980-2006

4.2.2 Commodity Prices

As underscored by the IMF , numerous nations are presented to vacillations in item costs, and the future flow of ware markets is dubious: the ascent of China and other substantial developing markets may prompt to a basic change in long haul value patterns, and costs may stay high, especially those of metals; it might be contended, be that as it may, that theory has decoupled metals costs from market essentials and that costs will fall back and keep on declining bit by bit in genuine terms, as amid the vast majority of the previous century.

Item costs have dependably been subjected to value cycles, and are somewhat dictated by worldwide and nation level business cycles, for example, transient vacillations of development, mechanical action, genuine livelihoods and request. As indicated by the United States National Bureau of Economic Research, there were 55 cycles somewhere around 1854 and 2009 in the United States (lasting 55 months on average) . The 2000s, be that as it may, saw a breathtaking increment in all ware costs, and the length and size of the cost builds drove a few spectators to depict this advancement as the start of value 'supercycle'.

Oil and metals costs have been helped by solid request development, low costs in the period preceding the mid 2000s, and the rising interest from China, particularly its popularity for metals. Cuddington and Jerrett along these lines distinguish three supercycles in metal costs in the previous 150 years, and consider that the 2000s are the early period of a fourth super cycle, which is generally dictated by the industrialisation of China.

China has been for instance the fundamental supporter to the development in worldwide interest for aluminum, coal and copper : amid 2003–2007, China contributed 66% of the expansion in world utilization of aluminum and copper and all the increment in world utilization of lead, tin, and zinc; its partake in worldwide base metal utilization has multiplied to 40% somewhere around 2000 and 2010, which mirrors the awesome development in its assembling segment in the course of recent decades .

The expansion in modest Chinese items influences neighborhood organizations, which need to conserve representatives (to cut operation costs) because of declining incomes and loss of piece of the overall industry. Kenyan organizations likewise have higher creation costs, as their hardware is frequently outdated contrasted with the cutting edge Chinese production lines. Be that as it may, a few organizations have profited through exchanging with Chinese organizations and bringing in modest products from China. Certain makers likewise pick up, but in segregation. For instance, Tiles and Carpet purportedly has an industrial facility in China that fabricates items to offer on the Kenyan market. In any case, Kenyan fares confront rivalry from Chinese fares in other creating nations .

4.2.3 Enhanced market access

Market access for Kenyan products in the Chinese market are less compared to Chinese products in the Kenyan market. Market access for Kenyan products can be traced to the following constraints and challenges namely; taxes, fees charged, Internal Duties and levies, inputs and services, cesses, distort prices and make products and services uncompetitive. In addition, the multiple taxes are burdensome and cumbersome to the business community, Tariff Peaks and Escalations that consequently ensure that while normal traditions obligations have descended after progressive rounds of transactions, utilization of high levies and levy accelerations by China for esteem included items has continued to restrict Kenyan exports ,and finally Preference Erosion and loss of competitiveness. As a consequence of the disintegration of inclinations emerging from the proceeded with progression under WTO, Kenya confronts the issue of declining fares to China the EU and US markets created by firm rivalry.

China exchange may not just escalate the specialization of item exporters in this example of fare, however China may likewise detrimentally affect existing assembling parts in Kenya. As underscored by an expansive writing, such an impeding effect is not particular to Kenya: it might be all the more destabilizing in Kenya, nonetheless, in perspective of the thinness and delicacy of nearby assembling segments.

As exhibited by Kaplinsky , the section of China into the worldwide market has expanded the interest for some 'hard items' (oil, metals), yet China as an exporter of fabricates may undermine the costs of many produces, which is intensified by the focus in worldwide purchasing.

For Kaplinsky , China may undermine send out situated industrialisation, which might be adverse to Kenya advancement, as fare arranged assembling can constitute a formative way for Kenya, similar to the case for the primary Asian formative states' and China itself. China has turned into a noteworthy worldwide exporter of produces, which makes extreme issues for fare situated development in Kenya. While they can be conceivable initial phases in fare arranged assembling development, Kenya garments and material segments are confronting imperative challenges due to the opposition of China's items. Kenya's dress and material businesses bring about the danger of being avoided from worldwide markets and are debilitated in their household markets.

Kaplinsky . in this manner uncover that the share of Kenya exporters in US dress and materials imports developed somewhere around 2001 and 2004, reflecting particular AGOA exchanging courses of action. The end of the Multifiber Arrangement (MFA) in 2005 put a conclusion to MFA portions, which were restricting Chinese fares, and Kenya exporters encountered a huge fall in their share of the US advertise after amount evacuation. In actuality, the share of China in these item advertises developed fundamentally.

This is additionally appeared by contextual analyses. In Ethiopia for instance, China has uprooted different nations as fare goals for that nation. Imports of Chinese footwear have lessened the exercises of neighborhood firms, and over the long haul hazard swarming out Ethiopia's endeavors to utilize parts, for example, footwear as a reason for industrialisation .

Nearby temporary workers contend that Chinese organizations have expanded unfortunate rivalry in the market, which prompts to neighborhood organizations being not able contend and closing down. In Kenya roughly 44 Chinese firms are taking a shot at different activities . They incorporate little and medium ventures that give auto repairs and support, home furniture, development, farming hardware and eateries. Kenyan contractual workers have requested the legislature present protectionism measures, contending that baby businesses should be ensured with the goal that they can develop and get to be gainful . In any case, the administration has 'trust in Chinese contractual workers for the great job they have done and keep on doing'.

Without a doubt, contrasted with different contractual workers, Chinese firms give high caliber and intensely valued work in the development division. The Chinese government helps its organizations to be aggressive through various measures, for example by giving organizations working capital, which gives them a focused edge. The Chinese government likewise now and again consults at an administration to government level in the interest of their organizations for contracts. In this specific situation, the open and reasonable obtainment prepare in the granting of tenders can be to be abused.

4.2.4 Counterfeit Goods

As indicated by the Kenya Association of Manufacturers (KAM) , China stays one of the principle wellsprings of fake products. Exchange fakes brings about a yearly net loss of $368 million. Makers feel the effect of fakes through brand disintegration, loss of offers and piece of the overall industry, the conclusion of manufacturing plants and uncalled for rivalry. Fakes cost the legislature around $84–490 million in lost assessments consistently, and following fake exercises retains important assets and disheartens advancement in new items, as organizations dread out of line rivalry .

In 2010 the Consumer Federation of Kenya did a review of the fake market. It distinguished the items well on the way to be forged and found that fake buyer products are frequently stuffed in little bundles went for low-pay shoppers. The review additionally found that 60% of organizations had reservations about whether the administration's intercessions to control fakes exchange were sufficient. The report inferred that organizations require more instruction about the counter fake laws .

Substandard and fake merchandise likewise adversely influence the prosperity of clueless buyers, while the utilization of fake composts, chemicals and seeds result in diminished farming profitability. Fake solutions can have medium-to-long haul wellbeing outcomes. When all is said in done, Kenyans see Chinese items to be of low quality contrasted with different items in the market . By the by, most Kenyan shoppers crosswise over various salary bunches buy Chinese items once in a while in light of the fact that they are moderate and give business chances to little and medium undertakings.

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 .

4.2.5 Construction Sector Imbalances

In the late 1960s, Kenya established a National Construction Corporation with the aim of promoting indigenous contractors and ensuring fair competition in the sector. During President Kenyatta's regime, the corporation realised its mandate through promoting the construction by local contractors of some landmark Kenyan government buildings and civil servant houses. However, these gains were short lived and, during President Moi's regime in the 1970s, the corporation collapsed because of the practice of sub-contracting for commission that led to inefficiency, corruption and poor quality work. The collapse of the corporation created a quality-inspection vacuum: projects stalled and were not completed, as constructors operated as cartels and skipped arbitration procedures in the 1980s and 1990s .

Nonetheless, growing Chinese involvement in the sector has created a number of problems. In 2010, at the Kenya National Contractors Conference held in Nairobi, (a conference that attracted over 5 000 local contractors) participants highlighted challenges facing the construction industry as high tax assessment on development materials and operations; granting of tremendous activities to remote temporary workers; lumbering acquirement forms; delay in installments after venture fruition and the absence of tailor-made protection plans for contractual workers . Members noticed that remote contractual workers have an aggressive edge over their partners, as they are bolstered by their administrations. Specifically, Chinese temporary workers get great money related terms from the Chinese government, while neighborhood contractual workers frequently need to source working capital from banks at high financing costs and to begin reimbursements promptly.

The Ministry of Public Works, which met the meeting, reprimanded nearby contractual workers for proceeded with slowed down tasks, falling development guidelines, irreconcilable circumstance (as some service authorities are likewise chiefs of development firms) and for going up against an excessive number of undertakings in the meantime. Interestingly, the operations of Chinese and other remote temporary workers are more effective and of higher quality, described by a division of work over the different tasks' stages .

4.3 Conclusion

Financial development in Kenya has enhanced yet has been significantly in light of capital-concentrated segments, for example, minerals and broadcast communications, with ensuing constrained development of formal division business. This appears differently in relation to Asian dependence on work escalated producing sends out, which have helped business and contributed significantly to destitution decrease. China specifically has turned into a prevailing exporter of made products, and its two-sided exchange with Kenya is very lopsided as in it overwhelmingly sends out makes to the area while bringing in minerals from it. As of late, in any case, Chinese wages have been rising quickly and outpacing efficiency development, diminishing China's upper hand in assembling and opening the way to advances by lower-wage nations, including Kenya.

Hence, Kenya needs to fortify 'the arrangement umbrella' through more steady macroeconomic approaches, more tried and true arrangement of taxpayer supported organizations, and extended foundation speculations, including support for local exchange. Local and multilateral arrangements ought to address 'duty acceleration', whereby imports of prepared products bring about higher levies than imports of essential wares, and ought to enhance the estimation of tax inclinations by wiping out burdensome and unworkable guidelines of starting point. Devoted geographic zones with less prohibitive guidelines confronting speculation could bolster produced sends out, in spite of the fact that the degree to which such zones will assist Kenyan advancement is questionable. At long last, linkages should be set up amongst levy and exchange approaches on the one side, and mechanical arrangements on the other. Now and again, a blend of prior one-sided progression and reciprocal, territorial and multilateral understandings have restricted the strategy space to sustain mechanical advancement.

The accessibility of shabby Chinese items has been an appreciated advancement for some customers who discover them moderate regardless of their low quality. It could be said, this has been a wellspring of alleviation from financial and political weight. Moreover, Kenya's exchange with China likewise shows an open door for abilities exchange and plausibility of redesigning nearby undertakings. The degree of this plausibility has been made by the utilizing of neighborhood undertakings in Kariobangi Cottage Industries on assembling of comparable items. Fares of scrap metal to China.

CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter presented the summary of the data findings, conclusion drawn from the findings highlighted and recommendation made there-to. The conclusions and recommendations drawn were focused on addressing the objectives of this study which were to examine and the trading frameworks between China and Kenya and how they impact Kenya's manufacturing sector, the type and nature of goods between China and Kenya and the nature of trade balance between China and Kenya.

5.2 Summary of Findings

The study found out that the multilateral, regional integration and bilateral trade arrangements that currently define the space that Kenya's international trade enjoys present an immense opportunity for pursuit of an umbrella trade framework or policy. The umbrella system will address the principle limitations and difficulties to worldwide exchange, which incorporate; a) Limited limit with regards to broadening and low esteem expansion underway; b) Increased utilization of non-duty hindrances in fare markets; c) Lack of intensity because of wasteful exchange assistance framework; d) Lack of medium and long haul fund for SMEs e) Limited accessibility of moderate exchange back; f) Limited arrangement limit and awkward transaction forms; g) Preference disintegration, among others. The drive in pursuit of solutions to these constraints and challenges is the central role that trade plays in the country's growth and development as well as poverty eradication. This is through its linkages with every one of the divisions of the economy where exchange makes advertises through which merchandise and enterprises get to the purchasers. In Kenya as somewhere else, exchange likewise assumes a basic part in neediness decrease through business creation in casual, retail, and discount exchange and gives Medium and Small Micro Enterprises with chances of getting to more great costs in regional as well as international markets thereby ensuring equitable income distribution. Much the same as her exchanging accomplice China, Kenya ought to endeavor to have an effective local market and fare drove all-inclusive aggressive economy by seeking after a more open, focused and fare arranged systems or approaches that are perfect with the with the Country's National advancement goals and moreover make an empowering situation for exchange and speculation to flourish. With the new regressed framework, Counties ought to be advanced as focuses of exchange and speculation. In this manner Kenya needs to fortify 'the approach umbrella' through more steady macroeconomic arrangements, more tried and true arrangement of taxpayer supported organizations, and extended foundation speculations, including support for local exchange.

The concentrate likewise found that the accessibility of moderate Chinese items going at aggressive costs has been an appreciated improvement for some buyers who discover them sensibly evaluated along these lines offering a wellspring of alleviation for some Kenyans who are quick to make a sparing. Moreover, Kenya's exchange with China likewise displays an open door for aptitudes exchange and probability of updating nearby undertakings. The degree of this plausibility has been made by the utilizing of nearby ventures on assembling of comparative items.

The study found that the Chinese financial invasions into Kenya have unmistakably developed quickly in the previous fifteen years, infiltrating into a huge number of various parts with far reaching suggestions. The study found that Chinese contracts in Kenya are financed in various ways. In any case, they tend to can be categorized as one of three classes. The first is immediate Chinese financing (by means of the Export-Import Bank) of Chinese MNCs in Kenya. This is done to guarantee negligible danger of misappropriation of assets. In this procedure, the Exim Bank specifically procures and pays a Chinese possessed organization, for example, China Road and Bridge Corporation or Wu Yi, to lead a development extend. The Kenyan government approves the agreement, and consents to hold duty regarding reimbursing the credit to the Exim Bank.

This model of speculation received by China basically brings monetary development targets and remote arrangement together directing exchange and venture choices with "no quid pro quos" budgetary and specialized help. Chinese offer intensely for asset and development ventures utilizing speculation and foundation credits. These advances are frequently cutting-edge at zero or close to zero percent intrigue or take into account reimbursement in characteristic assets.

The concentrate likewise found that, the exchange of produced products amongst China and Kenya had developed quick in the course of recent years however a great deal for China, whereby sends out from China have entered the business sectors in most Kenyan urban areas.This phenomenon cannot be adequately accounted for as the story of a hegemonic country imposing its own terms on the local population. The expanding, diversifying and deepening trading networks that source goods from China and market them in Kenya are key catalysts for the growth in Sino–Kenyan trade. Traders who connect Chinese producers and Kenyan consumers do so skilfully in order to succeed. The different resources possessed by Chinese and Kenya influence their ways of doing business and ability to capture a share of international value chains associated with Sino–Kenyan trade, and have led to relationships of competition, complementarity and cooperation between the two.

The study also found that Kenyans both admire and criticise Chinese firms, but with time they are increasing appreciating and admiring Chinese firms for their efficiency and speed and for how they have helped turn around the country's road network notably the Thika superhighway among others..

Furthermore, the study found that the number of Chinese companies in Kenya is on the rise as they win more contracts. These companies obtain contracts from the Kenyan government and agencies. They range from roads construction and other industries like telecommunications and resource extraction.

In addition, the study found that economic growth in Kenya has improved but has been substantially based on capital-intensive sectors such as minerals and telecommunications, with consequent limited growth of formal sector employment. This contrasts with Asian reliance on labour-intensive manufacturing exports, which have boosted employment and contributed dramatically to poverty reduction. China in particular has become a dominant exporter of manufactured goods, and its bilateral trade with Kenya is highly unbalanced in the sense that it overwhelmingly exports manufactures to the region while importing minerals from it. In recent years, however, Chinese wages have been rising rapidly and outpacing productivity growth, reducing China's competitive advantage in manufacturing and opening the door to inroads by lower-income countries, including Kenya.

5.3 Conclusions

From the findings of the study stated in brief in the summary of findings, the study revealed that China's trading ties with Kenya aims at achieving tangible developmental results. This research highlights essential issues as takes after: There has been a rising in FDI through gathering and organization part in Kenya and the Chinese eagerness for Kenya have in like manner extended to mining and mineral examination. However there is by all accounts extremely constrained joint proprietorship or nearby capital in Chinese ventures and all the more along these lines, the business level in such firms for both Kenyans and China is low.

The above pattern complies with the speculation that Chinese exchange ties with Kenya goes for accomplishing substantial formative results and the terms are ideal. China sees Kenya as an entryway to East African area and is a point of convergence as far as China's exchange and monetary technique in Africa particularly the sub Saharan Africa. China's interest in various street development ventures bears witness to this. All the more so China at present offers credits to Kenya for healing facility and schools development in less created zones, it has set intestinal sickness counteractive action and control focuses and additionally giving volunteers to prepare the neighbourhood individuals. It has been seen that monetary guide from China is settling to the usage of Chinese stock and wanders and the fundamental adherence required is the "One China" plan however not “incredible organization” as the conditionality’s that right now depict the western sponsors. This prescribes Chinese guide and trade are entwined from various perspectives and is hard to segregate the two. By and large, the effect of China's discretionary relations, exchange, FDI and Help to Kenya is a blended one on the grounds that there are both additions and misfortunes. This reaches from low costs of imports for both buyer and maker merchandise, which gives shoddy items despite quality. Be that as it may, this makes rivalry where nearby makers get to be washouts and this stretches out to neighborhood firms which crumple because of absence of intends to withstand rivalry thus workers wind up losing employments as well.

The study also concluded that Chinese model of interest basically brings monetary development goals and remote approach together controlling exchange and put choices in Kenya alongside no quid pro quos money related and specialized help. The Chinese appear to work with the African governments and have rejected responses. They are not apologizing for their activities (Wu, 2010) and ensure that the endeavors are at present more "market driven."

Chinese offer aggressively for asset and development ventures utilizing speculation and foundation advances. These credits are frequently best in class at zero or close to zero percent intrigue or consider reimbursement in regular assets. For instance, in the development of the Mombasa –Nairobi standard gage railroad (SGR). Chinas Exim Bank resolved to give 90 percent of the financing accordingly giving $1.6billion concessional advance and particular concessional advance of $1.633billion totalling $3.233 billion. The rest of the 10 percent is to be given by the Kenya Government. The development of the 609km-long railroad line started in October 2013 and booked to be finished in 2017.

5.4 Recommendation

Bilateral trade agreements have opened the sphere of Kenya’s market and created opportunity for production foreign markets including China. Kenya’s current trade into foreign markets has been low, with huge unexploited potential in several sectors that Kenya is not able to export, despite having a comparative and competitive advantage.

As seen from this study, there is need for Kenya to promote investments geared towards exploitation of Kenya’s trade potential in the domestic and international market.

Kenya needs both domestic and foreign direct investment to promote exports. While Kenya's performance in attracting FDI has been satisfactory, trade performance and the unexploited potential in several markets points out to opportunity for further promotion of FDI and domestic exports targeting trade sector as a prime mover of these investments.

Another area is that there is need for promotion of investments geared towards exploitation of Kenya's trade potential in the domestic and international market. This can done by providing incentives to promote investment in this areas.

The country can also do well by equipping its manpower with requisite skills and competencies thus human capital development in the type of aptitude overhauling for creation for the fare situated ventures and building up/updating specialized preparing establishments to react to market needs but has been lacking in most developing countries is the ability to negotiate trade deals. In view of this the government of Kenya needs to build and strengthen the capacity of trade and commercial officers to negotiate trade agreements -and those concerned to implement the assentions; improve ability to actualize exchange cure components, distinguish and break down fare market and needs; and adequately give exchange advancement programs in the promoting of fare items and cultivate universal business relations.

And for exporters, the challenge is financing. Trade financing and credit plans stays one of the issues experienced by Kenyan exporters. Nearby banks don't give consecutive letters of credit while the learning accessible exchange fund administrations are restricted especially among the MSEs. The administration is coming up with a National Export Strategy NES which should formulate and implement export-financing strategies that will ensure adequate and affordable access to export financing to enable boost exports to China.

Increased imports from China into the Kenyan market, obviously will end up displacing Kenyan manufactured goods from domestic market. To this end, it is up to the Kenyan authority to undertake investigations with an aim of establishing whether the imports from China do not enjoy both production and export subsidies which ultimately enhances their competitiveness superficially or unfairly. If the imports are enjoying any of these actionable subsidies, then Kenyan authority is free to take remedial action such as countervailing measures as prescribed by the World Trade Organization – the global body with mandate of setting up global rules guiding international trade.

If it is the case of dumping, again Kenyan authorities will resort to an anti-dumping measure as a remedial action.

Kenya also should invoke its entitled policy space in order to safeguard its infant industries from import surges. This policy space is basically a difference between bound tariff and applied tariff.

For purposes of narrowing the huge trade imbalance that currently favours China, the two countries should put in place negotiated enabling conditions which may encourage Chinese companies to invest in Kenya with guaranteed market access in the Chinese domestic market.

Kenya also should adopt a policy that prohibits some forms of raw materials from leaving the country unless processed up to intermediate stage. This will encourage local value addition.

The study recommends that upcoming National Trade Policy that is yet to be authorized ought to urge Kenya fares to China. One segment of this is Kenya must start to consider item broadening to meet the requests of rising livelihoods in China. This can mean more development towards light-assembling and nourishment items, or the investigation of chances for tourism. A moment segment is to build the estimation of fares to China by misusing open doors for esteem included preparing.

There is also need to support promotion of creativity and innovation for the creation of intellectual capital for sustainable development by strengthening the legal frameworks for protection and enforcement and strengthening also institutional frameworks for administration and management of IPRs.

The government also needs to develop adequate human resource capacity (technical also, lawful) for the organization, assurance, commercialization and implementation of IPRs.

China should also be encouraged to have more manufacturing industries in Kenya. This will limit exportation of resources which after making finished products are shipped back to Kenya at higher prices.

Lastly, growing trade with China is not Kenya's exclusive obligation. At present, China has an association of heightening costs on Kenya's most imperative convey over, making it more troublesome for the esteem added preparing to happen before things are sent out. China must lessen these levies as they contort maker motivators, as well as keep Kenya from coming to and profiting by their own relative favourable position. This is an area where further research can come in handy.