



A study on Chinese economic relations with Africa Case study, Kenya

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Review

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The period between 1945 – 1989 was marked by Cold war system and three worlds emerged, namely; first world (US and allies like Western Europe, Canada, Australia, New Zealand and later Japan), second world composed of communist states of Eastern Europe and the Soviet and then the third world which are occupied with the process of development (O'Briens and Williams 2004). However after 1989 to present there are noticeable changes and developments taking place. O'Briens and Williams (2004) argue that the US and other states are busy adjusting themselves to new distribution of power. Economically new parts of the world have opened to capitalist activities and the world is again seeking economic ties with foreigners. There has been rise of regionalism such as European Union (EU) and the like and it has been noticed that China has been peacefully rising up. It is in this respect that in the recent past, China has gained long strides in the global arena and more so China has been investing heavily in Africa. While many African welcome the capital and know-how, others fear that China is stepping in with heavy boots in various cycles. This has raised concerns with the developed nations and big world donors raising concerns whether China would bring hope or problems. Based on such argument therefore, this paper examined the China's relation with Africa with focus to Kenya. It explored the aspects of diplomatic, trade, investment, Aid and military relations between China and Kenya. It also examined the gains and losses amidst this relation. Data and information that was used to examine such relations was gathered from the existing literature, books, journals, news papers and internet search. It appeared that there is scarcity of the up to date data and information about China-Kenya and much of the information available captured a number of the past years and since this was the information the author could access, it was the same information used to examine the research paper study issue. The paper is aimed at establishing how close to the truth was its study hypothesis, that; 'China's relation with Africa aims at achieving tangible developmental results and the conditionality are suitable for African countries'. In this regard, the paper highlighted some important issues. It was noticed that there has been rise in Foreign Direct Investment (FDI) through manufacturing and service sector in Kenya and the Chinese interest in Kenya have also extended to mining and mineral exploration. However there seems to be very limited joint ownership or local capital in Chinese investments. More so, the employment level in the established firms for both Kenyans and China is very low. However, there are both gains and loses in the relations between the two countries, because in any partnership, there is always a bigger partner.

Key words: China, Kenya, foreign direct investment (FDI), foreign policy, aid, trade

INTRODUCTION

Description of the research

China is flexing its economic muscles in Africa, not because it wants to colonize Africa, but because of mercantilist ambitions in search for raw materials – petroleum, timber, cobalt, platinum, copper, diamonds and so on. This paper explored to what extend is China's

foreign direct investment, trade, military and aid in Kenya. However there seems to be little and detailed data about China and Kenya to help analyze such contribution. The study specific objectives are as follows;

- To examine China – Kenya diplomatic relations
- To examine China – Kenya trade relations

- Identify Chinese investment in Kenya
- To identify China-Kenya military relations
- Identify features and significance of Chinese aid to Kenya

This study investigated with the existing data to what extent does it support the China – Kenya relation. This was a qualitative research type and the main sources of the data and information used were from secondary information - from existing written literature, books, internet and journal articles.

Research hypothesis

China's relation with Africa aims at achieving tangible developmental results and the conditionality are suitable for African countries.

Main research question

What is China-Kenya's relation in terms of diplomacy, investment, trade and military?

Sub-research questions

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

Structure of the research paper

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

The main study issues that follow are divided into five sections and section one explores China's foreign policy, China-Africa relations and boils down to diplomatic relation between China and Kenya. Section two examines Chinese investment in Kenya and provides some data on what kind of investments is being undertaken. Section three examines China-Kenya trade relations by exploring on the imports and exports between the two countries. It also examines the loss and gain relation resulting from the trade venture. Section four looks at Chinese Aid to Kenya and identifies the sectors that have been able to gain from such aid. Section five briefly highlights on China-Kenya military relations which is quite a new initiative and has not been fully developed.

The conclusion part highlights some of the important points that have been gathered along the study paper.

Theoretical perspective

There are various theories that argue about the rise of China. For some neo-liberals who advocate globalization, the rise of China is key to their case that globalization is good for development. Globalization has its benefits and also costs but some arguments state that China cannot rise just because of the benefits of globalization alone. The key argument states that Chinese development fits in to the model of 'developmental state'. Developmental state is a state, ' whose politics have concentrated sufficient power, autonomy and capacity at the centre to shape, pursue and encourage the achievement of explicit developmental objectives, whether by establishing and promoting the conditions and direction of economic growth, or by organizing it directly, or varying combination of both' (Kiely, 2007, p. 178). Development in China and most East Asian countries occurred most successfully because states intervened to consciously promote social transformation and industrialization. The state did this by use of selective protection for their industries from cheap imports from the established overseas industries; they intervened to secure investment in dynamic sectors; discipline of both capital and labour through corrective measures against capital export and workers rights; and the forcible removal of people from the land in order to secure labour force for the new industries. These issues are authoritarian measures and do not correspond with liberal views of development as a process based on consensus, but made China and the East Asian countries industrialize using such measures while Africa is still struggling.

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

Study sections

Section 1 (China's foreign policy and its diplomatic relations with Kenya)

This section starts by exploring China's foreign policy in

general, then moves to tackle China-Africa relations and China's diplomatic relations with Kenya.

Foreign policy for China

Since the founding of the people's republic of China in 1950, Chinese leadership has wrestled with the dilemmas of the need to restore the country to its historical standing as a leading power against the milieu of its own development challenges. According to Alden (2007) in 1978, the new leader Deng Xiaoping set China on a gradual capitalist –oriented development road which produced three decades of double digit growth with income per capita of US\$1, 700 in 2005 (page 10). Alden continues to state that the approach to foreign policy was based on the following:

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

- According to Pere (2006), Chinese development is not a zero-sum game and so the policy statements express six themes, namely;

- 1). China is a peace-loving nation and opposes the use of force in international disputes, with the exception of Taiwan.
- 2). China is a developing country, and pursues unity with the third world countries
- 3). China is co-operative in international affairs, and supportive of international organizations and international treaties.
- 4). Chinese foreign policy is independent and autonomous
- 5). China is an aspiring great power with growing national strength and rising international status.
- 6). China pursues 'people-centered' (or put people first) development and policies (Xiaoxing 2005).

Such became the watchword for Chinese foreign policy. There are issues that characterize Chinese foreign policy adopted as in early 2006, namely sincerity, equality, mutual benefit, solidarity and common development (Alden 2007). Rotberg (2008) refers the same principles as diplomacy, equality, co-development and cooperation (page 35). The policy restates the issue of 'One China' principle as the political foundation for the founding and development of China's relations with African countries and regional organizations (McCormick 2008).

China – Africa relation

China was attracted to Africa as early as the T'ang dynasty (A.D. 618 – 907) and the 19th century reports of the meat-eating, ivory exporting people of po-pa-li who are the inhabitants of the now modern Kenya or Tanzania confirms this (Rotberg, 2008). It is in the 15th century that China started its first certain direct involvement with Africa. From Kenya or Tanzania a number of giraffes and other animals were strapped to the tumbling decks of

Chinese junk and transported across the sea to the imperial palace in distant Beijing (ibid). Since then China and Africa have enriched each other intellectually, culturally and commercially, but still there are questions as to whether China's promises to do more for economic growth and poverty alleviation more than Western nations will bear results. China's goals are ideological as well as material. It is not in competition with United States or Europe for Africa or to score in the ongoing battle for global hegemony (Rotberg, 2008). Diplomatically China has established embassies in 38 of Sub-Saharan Africa's 48 countries and exchanged military attaches with 14 African nations (ibid.). There are scholarships available for study in China for African students.

China and Africa's shared reliance on one another can be evidenced in Beijing Summit of the Forum on China-Africa Cooperation (FOCAC) which is held every third year. In 2006 the summit included the heads of state, government officials and representatives from forty eight African countries and the former Chinese President Jiang Zemin visited Africa four times. As of 2007, President Hu Jintao had paid five visits to the continent- twice as vice president and three times as president (Rotberg 2008).

According to Li Anshan as cited by Rotberg (2008) China's African policy can be divided into three periods, namely;

- 1). 1949–1977: a period of normal development;
- 2). 1978–1994: a transitional period; and
- 3). 1995 to date: as a period of rapid development (page 22).

Within these periods there has been gradual shift in Chinese policy towards economic development which was followed later by new foreign policy of independence, peace and development. After the founding of People's Republic of China (PRC) in 1950, China foreign policy was hemmed in by international politics (Alden, 2007, p. 10). In 1982, the Communist party of China (CPC) had its new principle of party relation – independence, complete equality, mutual respect, noninterference in others affairs and promised to network with other parties within and outside China. A good number of delegates were sent to visit ruling parties of sub-Saharan countries. High level visits have been frequent since 1990s. For example in 2006, twenty one African parties sent delegates to China while CPC delegations visited Africa.

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

forward during his visit to Africa in December 1963 – January 1964 (Rotberg 2008) and they are as follows;

- Aid should not be considered as a unilateral grant, but as mutual help.
- Neither conditions nor privilege should be attached to the aid.
- To reduce the burden of the recipient countries, the repayment period could be extended for no-interest or low-interest loans.
- The purpose of aid is to help recipient countries develop *independently*.
- To increase the income of recipient countries, Chinese programs should produce faster results with less investment.
- China will provide the best equipment and materials for the recipient countries, and promises to replace them if the quality is not what was stipulated in the agreement.
- Guarantee that technicians in recipient countries will master relevant technology when technical assistance is provided.
- Experts from China should never enjoy any privileges and should receive the same treatment as the local experts in recipient countries.

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

Chinese – African relations are characterized by summit diplomacy, equality, co-development and cooperation and it is worth mentioning that summit diplomacy is not found with any other country, except in Africa. Rotberg (2008) argues that China has a unique feature in foreign policy embedded in the principle of noninterference in the internal affairs of other countries. China's African policy has retained its principles while at the same time adapting to domestic and international conditions. China's engagement with Africa is changing Africa with opportunities and emerging challenges. However Chinese-Africa cooperation is an example of equality and co-development in international relations.

China and Kenya's cooperation in historical perspective

China- Kenya relation according to this paper is subdivided into three historical periods, namely;

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

President of Kenya.

- 3). 2002–2010: During the era of President Mwai Kibaki

4). 1963 – 1978 (President Jomo Kenyatta Era): The present diplomatic corporation between Kenya and China covers a number of issues, like the anti-piracy corporation, roads and bridges corporation, oil exploration corporation, to mention only but a few. This dates back in December 14th 1964 when the People's Republic of China established the diplomatic relations with the Republic of Kenya (Chege, 2008). The initial stages saw a fair bilateral ties development, but after 1965, the relation between the two countries was lowered to be at the *chargé d'affaires* level and it was towards the beginning of the 1970s that it gradually returned to the normal.

5). 1978–2002 (President Daniel Arap Moi Era): The year 1978, saw President Daniel Arap Moi in power, and only after then that the relation of the two countries fetched a fast development. Following frequent mutual visits at high level, the friendly cooperation has witnessed outstanding achievements in many fields. A number of Kenyan leaders have visited China since the establishment of the diplomatic relations between China and Kenya, and they include; Daniel Arap Moi, president of Kenya (September 1980, October 1988 and May 1994), David Okiki Amaye, president of the Kenya African National Union (September 1986). In October 2000 Kenyan Foreign Minister B. Godana headed a delegation to attend the Beijing Ministerial Meeting 2000 of the Sino-African Cooperation Forum (China-Kenya Embassy Website). The list provided there is just an example for there a number of prominent leaders who have been to China on diplomatic grounds.

Likewise, Chinese leaders and officials also visited Kenya and they include: Vice Premier Ji Pengfei (August 1980); President Jiang Zemin (May 1996); Wang Zhongyu, member and secretary-general of the State Council (May 2000); Li Tiesing, member of the Political Bureau of the CPC Central Committee (2001) and Premier Zhu Rongji (April 2002). The bilateral economy and trade agreements signed between China and Kenya include: Agreement on Economic and Technological Cooperation Between the People's Republic of China and the Republic of Kenya, Agreement on Trade Between the People's Republic of China and the Republic of Kenya and so on (China-Kenya website). Lots of constructions by Chinese and trade relations transpired during Moi's era.

6). 2002–2010: In December 2002, a new government was formed where Mwai Kibaki was elected the president of Kenya and he expressed to hold a great account of the relations with China, willing to further deepen and expand the friendly cooperation between the two countries (China-Kenya Embassy website).

According to Chege (2008), China-Kenya economic relations in the Kibaki era began with high-level political

contacts between the two states followed by a series of agreements (page 26). President Mwai Kibaki made an official visit to China in August 2005, accompanied by 11 Kenyan trade- and investment-seeking delegations. During this visit President Mwai Kibaki held extensive talks with President Hu Jintao and Chinese government officials which resulted to a five-part agreement covering official development assistance in grants for infrastructure and energy, extended air services between the two countries, technical assistance for assessment and classification of standards in industrial products, and modernization of equipment and training at the state-owned Kenya Broadcasting Corporation (Gadzala, 2009, p. 209). The delegation also paid the obligatory visit to Shanghai, where discussions with its mayor Han Zheng, on the functioning of special export industrial zones were held. The same delegation explored prospects in tourism, joint ventures in power generation, and machinery. The outcome of this visit was a highly successful Chinese trade exhibition in Nairobi in mid-2006.

High powered persons who have visited Kenya during President Mwai Kibaki era include Wu Bangguo, chairman of the NPC Standing Committee (October 2004) and Vice Premier Zeng Peiyan - February 2005 (China-Kenyan Embassy). The list is long and only a few have been cited above. Both countries expressed willingness and commitment to jointly develop bilateral friendly cooperation in all areas (Kenya, 2006).

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

The two countries signed an agreement for cultural cooperation in September 1980 and a new Cultural Cooperation agreement was recently (May 2009) signed between the Permanent Secretary, Ministry of State for Culture and National Heritage and Vice minister for Culture of China (China-Kenya Website). The two countries signed the protocol for the cooperation in higher education, according to which China provides Egerton University with apparatuses for teaching and researches with 2 teachers sent over to work there. Starting from 1982, China would provide Kenya every year with at least 10 scholarships. And in 2002, the Kenyan students studying in China came to 58 in all. In 1985, China's Xinhua News Agency set up a general branch office at Nairobi in Africa' (ibid).

Importance of the corporation

Following the information gathered in terms of China-Kenya relations, China views Kenya as an opportunity to

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

Gains and Losses for the corporation

China-Kenya cooperation has seen the Kenyan Airways provision of landing rights in several cities in China and is now operating direct flights to Hong Kong (China) and Guangzhou in southern China from Nairobi (China-Kenya website). In addition to this, since Kenya was granted Preferred Tourist Destination in 2004, arrivals from China have doubled and the number is expected to grow high (Kaplinsky R. et al, 2007). Such initiatives will boost the Kenyan economy by enhancing not just the earnings of the Airlines but also earnings for the tourism sector which is one of the leading foreign exchange earner for Kenya. These operations have a likelihood of facilitating the movement of Chinese business people to Kenya, resulting to increased foreign direct investment in Kenya from China (Onjalla, 2008).

Section 2 (Investments between China – Kenya)

According to Rotberg (2008), China and Africa greatly need each other and China cannot easily grow without Africa and vice versa and it's like both benefit from this remarkably symbiotic relationship. China with its world largest growing population sucks up basic commodities from all over including Africa and so its appetite does not equal any other world power. China not only purchases Africa's unprocessed returns of the sub soil, but also constructs or refurbishes roads and railways, creates export processing zones (EPZ), supplies equipment, supplies military free power, builds barracks, provides uniforms and offers various types of assistance. Kiely (2007) argues that foreign direct investment is good for growth because it leads to increase in income and employment and allows developing countries to import advanced technologies developed elsewhere hence creating room for competition (page 146).

In Kenya, Foreign direct investment (FDI) is defined as investment in foreign assets, such as foreign currency, credits, rights, benefits or property, undertaken by foreign national for the purpose of production of goods and services, which are to be sold either in the domestic market or exported overseas (Investment Promotion Center Act, Chapter 518). The records of FDI transactions are kept by the Central Bank of Kenya. Like in most African countries, Kenya has recently liberalized the investment environment. An interesting question arises; what are the determinants of FDI inflows?

Table 1: Kenyan FDI inflow 2007/2008 (Source Kenya Country Report 2009)

Year	Amount – US \$ (Million)
2007	728.0
2008	96.0

Source: Country reports 2009

Table 2: Kenyan FDI outflow 2007/2008 (Source Kenya Country Report 2009)

Year	Amount – US \$ (Million)
2007	36.0
2008	44.0

Source: Country reports 2009

According to Kipngetich (2008), there are a number of factors that facilitate the FDI inflows, namely, political stability and predictability in a country, labour conditions, legal environment, size of the market, openness of the economy, infrastructure and other support services availability and degree of globalization in a country. Amineh (2010) argues that in order for a country to develop and also attract a high level of FDI, there are certain conditions that are a prerequisite, namely, legitimized political leaders who influence policy and decision making, professional and efficient institutions, strong and efficient political economy, resources, security and peaceful relations with other nations-external relations. Such conditions if put in place attract FDI. Until 1995, all foreign investments flowing into the country were subject to approval by the Central Bank (Invest Promotion Centre). The Investment Promotion Act of 2004 spells out the government commitment to attracting FDI in Kenya because it was realized that the FDI in Kenya was declining during the last decade, while it rose in other countries in the region (Kenya, 2006). Why was then Kenya's FDI decreasing? Kipngetich (2008) argues that turbulent political environment in the last decade, stand-off with development partners especially IMF, low economic growth, corruption and insecurity, poor infrastructure, inefficient public services amongst other reasons made Kenyan FDI go down. According to Assistant Minister for Trade, Hon. James Magara, the current global economic crises and the post elections violence of 2007, shocked Kenya and investors have been hesitant to bring business back (Kenya Business, 2009). However, there are applications that have been coming over the last year - 2009. In addition increased competition among African countries in the global FDI also pushed the Kenya government to address the domestic impediments to foreign investments. According to the Investment Act of 2004, foreign ownership is only restricted for insurance industry, telecommunication industry, and companies listed on the Nairobi Stock

Exchange, to seventy-seven, seventy and seventy-five per cent, respectively. Kenya's FDI inflows and outflows for 2007 and 2008 are shown in table 1 and 2 respectively. These stocks have been increasing gradually over the years. However, the FDI inflows have been subject of fluctuations particularly in the last decade (table 1). Analysis over the last decade shows that Kenya has lost its competitiveness in attracting investment. Kenya has also lost in terms of retaining the stock of investment. The loss in Kenya's investment competitiveness is the result of many inter-connected factors such as negative perception by investors about political instability, poor governance, corruption, inadequate infrastructure, insecurity, crime, theft, and policy instability. Private investment which was growing at an average of 10% between 1985 and 1989 only grew by 0.4% between 1997 and 2001 (Central Bank of Kenya, 2006).

Composition of Chinese investment in Kenya

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

According to Chege (2008) in the year 2001 and 2002, there were 17 Chinese investments established in Kenya. In the year 2003, 11 Chinese firms were also started, which were fully owned by the Chinese, mostly in services sub-sector making 82 % of the firms while the rest were in manufacturing. It was noted that capital investments in these firms were entirely foreign, averaging US\$ 1.3 million per firm and most of the capital was invested in service sector. Within the firms, employment averaged 45 persons, with local employment averaging 37 (82%), while foreign averaging 8 (18%) persons per firm. By 2004 there were about 60 Chinese companies doing their businesses in Kenya of which 12 firms had established their activities the in same year with capital costs averaging US\$ 775,000 per firm (ibid.). Employment was mainly local (97%), averaging 114 per firm and foreign (3%), averaging 4 persons per firm. Onjalla (2007, p. 19) mentions that in 2005, 12 Chinese firms commenced their operations in Kenya and most of the firms were in the manufacturing and services subsectors. More so eight (8) Chinese firms were established in Kenya in 2006, again mostly in the services (63%) and manufacturing (37%) sub-sectors and most of the capital was invested in services sector. The average capital investment amounted to US\$ 636,000, with a bigger share of it going into services investment. Employment averaged 85 persons per firm for locals and 8 persons per firm for foreigners. Table 3 and 4 shows FDI

Table 3: China's FDI to Kenya 2006

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

Source: Invest Promotion Centre (IPC), Kenya Investment Authority (KIA) data sets
 NB: MANU = manufacture; SERV = Service; CAPCOST F= capital cost (foreign); CAPCOST L = capital cost (local); EMP F= employment (foreign); EMP L= employment (local)

Table 4: FDI from China 2000 – 2006

Year	Total FDI in US \$ (million)	China		
		No of projects	Capital US \$ (million)	Employment
2000	110.9	9	4.08	787
2001	5.3	12	2.79	1313
2002	27.6	6	1.67	170
2003	81.7	11	13.95	493
2004	46.1	12	9.03	1414
2005	21.2	12	3.74	239
2006	51	8	2.51	681

Source: Onjalla, J., (2008, p. 13): calculations based on the Investment Promotion Centre and Kenya Investment Authority data sets

investment from China to Kenya.

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

Chinese Direct Investments in 2007

According to Onjalla (2008) in 2007, China's Jinchuan gave \$9.34m to Canadian Tiomin's Titanium project Canadian mining company. Tiomin Resources Incorporation signed a Memorandum of Understanding with Chinese mining company Jinchuan Group, which is China's largest producer of nickel, cobalt and latinum with an output of nickel and platinum of 88% and 90% respectively, of the total Chinese production. The joint venture of the two companies aims to fund and advance the development of the Kwale mineral sands project in Kenya. Currently there are road constructions under way towards Kwale to allow access to the area. According to author's experience, it should be noted that after December 2007 election skirmishes, most activities came to an halt and investors started resuming their commitment late in 2009, but there is no available data yet to ascertain this.

Table 5: China's Exports and Imports to Kenya 1995 – 2002

Year	Exports – US \$ (millions)	Imports- US \$ (millions)
1995	104	1
1996	93	1
1997	132	1
1998	118	1
1999	101	5
2000	133	4
2001	139	6
2002	183	6

Source: Direction of Trade Statistics yearbook (Washington, DC: IMF, various years)

In general Chinese investment in Kenya is concentrated in the manufacturing and service sector and recently they are moving to mining and mineral exploration. According to Investment Promotion Centre (IPC) and Kenya Investment Authority (KIA), so far the Chinese firms in Kenya are not a joint venture, but most of them are fully owned by Chinese companies which are privately owned with very limited local capital. Interestingly also, the structure of employment is progressively changing, with rising percentage of Chinese employees.

Importance of China's FDI in Kenya

In the recent past, the FDI inflows from China have become significant and this can be elaborated by two factors according to Kipngetich (2008);

- 1). The weakening of Kenyan competitiveness to attract direct foreign has been filled by the China's FDI inflows and this constitutes a very important proportion for the country.
- 2). China's adoption of new policy to Kenya with closer economic ties has increased Chinese enterprise presence in the country.

However the China's FDI flows to Kenya has been more in terms of capital investment rather than the quality of activities, because the firms established are engaged in services such as trade. The FDI flows from China have assumed significant proportions even though they remain low i.e. ranging from US\$ 1-3 million in the last 6 years as shown in [table 4](#).

Beneficiaries and losers as result of Chinese investment in various sectors

The FDI from China to Kenya has been of great importance and the following are some of the results experienced from such relations;

- FDI goes along with technological transfer using advanced technology and managerial skills and with such Kenya has been able to benefit from China's FDI.
- There has been diversification of FDI as noticed from [table 3](#). Chinese have been able to invest in retail services, tourism, transport, construction, power plants and telecommunication. As an example, Huawei Telecom

Company from - China provides cell phone services in Kenya.

- There has been creation of employment as noticed in [table 3](#) where some Kenyans have been able to get jobs with Chinese firms.

Section 3 (Trade relations between China – Kenya)

The volume and size of Kenya exports and imports to China has been growing over time as evident in [table 5](#). Onjalla (2008) argues that trade between Kenya and China did not pick up well until the mid of 1990s when there was increase in Kenya's imports from China and very low value of Kenya exports to China (p. 24). Chege (2008, p. 26) argues that the increase of China's imports to Kenya came as a result of two things, namely;

- 1). In 1994 Kenya liberalized its exchange rate as part of economic liberalization programme supported by IMF and World Bank.
- 2). China's industrial modernization produced goods that Kenyans desired at more competitive prices than other suppliers.

This displaced import sources and local suppliers in favour of China and it is in this period for the first time many individual traders and firms from Kenya started traveling to Dubai and Asians countries to obtain products directly rather going through the intermediaries. As the figures in the [table 5](#) shows, despite all the efforts by both governments to boost the volume of Kenyan exports to China, the balance remained in favor of China.

Composition of Kenyan Imports from China

As observed in the table above, as a result of trading opportunities in the expanding economy, Kenya's imports from China were on the rise in 1990s. The Chinese exports to Kenya mainly include telecommunication equipment, electrical machinery, civil engineering equipment, motor and transport vehicles, rubber tyres, motorcycles, and iron and steel products, household electric appliances, textile goods, commodities for daily use, building materials and drugs (Kenya daily nation 29 2010). In the year 2002 saw the trade value between China and Kenya reach US\$186.37 million, whereby the

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

Items	Description	2004		2005		2006	
		Value US \$	% of total	Value US \$	% of total	Value US \$	% of total
1	Food & live animals	6,946,625	2	4,843,586	2	3,440,786	1
2	Beverages & tobacco	177,481	n	370,303	n	40	n
3	Crude materials, inedible, except fuels	1,129,130	1	1,338,276	n	1,799,632	n
4	Mineral fuels, lubricants & related materials	1,134,536	1	23,737,922	8	1,798,928	n
5	Animal & vegetable oils, fats & waxes	199,226	n	25,335	n	58,097	n
6	Chemicals & related products, n.e.s	25,063,446	13	34,254,279	13	45,161,264	10
7	Manufactured goods classified chiefly by material	51,197,790	26	87,671,224	29	160,275,765	35
8	Machinery & transport equipment	54,993,236	28	99,750,706	33	181,558,751	40
9	Miscellaneous manufactured articles	58,360,951	29	45,837,353	15	63,156,849	14
10	Commodities & transactions not classified elsewhere in the s.i.t.c	3,984	n	-	-	60	n
Total imports		199,206,405	100	297,828,983	100	457,250,173	100

Source: Customs Department, Kenya Revenue Authority 2008
 N = negligible

Chinese export took up US\$180.576 million while the import was US\$5.798 million (Chinese-Kenya Embassy). There are over 20 Chinese companies doing their businesses in Kenya, such as Jiangsu International Economic and Technological Cooperation Co, Sichuan International Economic and Technological Cooperation Co Ltd and China Road Bridge Construction (Group) Corporation and China Import and Export (Group) Corporation for Complete Sets of Equipment, and so on (table 6).

Chege (2008) notes that the most important imports from China to Kenya are as follows;

- Machinery and transport equipment which comprise 40 per cent of the value of Chinese imports
- Manufactured goods classified chiefly by material – 35 per cent
- Miscellaneous manufactured articles – 14 per cent and
- Chemicals and related products – 10 per cent.

Composition of Kenyan exports to China

The main Kenyan exports to China include scrap metals (copper and aluminium waste), fruits and nuts, black tea, coffee, sisal fibre, leather, raw hides and skins and fish (Kenya daily nation, 29th June 2010). According to November 2 2009 news the Kenyan government statistics showed that Kenya exported goods worth 2 billion shillings to mainland China in 2008 compared with imports worth 63 billion shillings (Reuters Africa). In 2008, total trade was \$106.8 billion which is 45.1 percent on 2007 (ibid). “While Kenya’s exports to China increased

from Sh1.2 billion in 2005 to Sh2.5 billion in 2009, its imports rose to Sh74.5 billion from Sh19.4 billion in 2005, because most of the imports are capital goods or goods for industrial use” (Kenya Daily Nation, 29th 2010). This shows that the Kenya imports more from China than it exports there.

Beneficiary and loser in trade

In terms of imports there has been a gain where Chinese goods have gained inroads into African markets including Kenya. There are huge quantities of cheap Chinese products available in Kenyan markets. However, there has been some experiences of losses due to competition from Chinese imports which has hurt the local textile and other local manufacturing sector (Onjalla, 2008, p.32). On the side of exports, there have been losses because Chinese have duplicated the local goods and have been trading with them. From the BBC interview, Nicholas Makombi expressed the following; ‘they used to come here and take photos of our products. Then they go and produce almost the same designs and they sell it at a cheaper price’.

Section 4 (Chinese Aid to Kenya)

According to Kiely (2007, p. 45), Aid is a loan to a country at concessional or zero rates of interest. Moyo (2009) classifies aid into three broad categories, namely, humanitarian or emergency aid, Charity-based aid and systematic aid (page 7). This study paper tracks on systematic aid which is the type of aid payments made

directly to governments and in this case it is the official development assistance from Chinese government to Kenya.

The development aid Kenya receives from China varies considerably from that originating from Western donors. In the first instant the difference captures the 'terms and conditions' imposed, and secondly, on the aspect of 'tying' (McCormick, 2008). China is not so much concerned about the issues of internal governance, human rights and democracy in Kenya like the donors from the West. Besides subscribing to the '*One China Policy*', in the case of China, there is no any other conditionality imposed on the recipient country (ibid.). China's aid is 'tied' to using Chinese companies and procurement of materials in China, but nonetheless, most government officials believe that China is perhaps one of the most price-competitive sources whether its development aid is 'tied' or not (Onjalla, 2008). In respect to scholarships and technical training, decisions are made by the relevant Ministry in Kenya. China is considered to be much more flexible than the Western donors in accepting domestic constraints. It does not change its reporting and accounting procedures like the Western donors once aid has been disbursed. According to China's African Policy, China will provide assistance "with no political strings attached" (Rotberg, 2008). The only political condition China provides for the establishment of its relations with African countries is the 'one China' principle, i.e. not to give formal recognition to Taiwan (Pere, 2006).

Features of China's aid to Kenya

The Chinese development aid until mid-1990s was directed towards liberation movement in Africa, but later in the same decade, China changed its aid policy from liberation to debt reduction, promotion of investment and assistance in human resource development (Mohan and Power, 2008, p. 29). Chinese aid varies from monetary and monetary aid packages which cover grants and loans for infrastructure, plant and equipment, scholarships, training opportunities and technical assistance (McCormick, 2008). McCormick notes that monetary aid from China is tied to the use of Chinese goods and services and the only adherence required is the "One China" policy but not "good governance" as the conditionalities that currently characterize the western donors. This suggests that Chinese aid and trade are intertwined in many ways and is hard to separate the two.

Kenya is among the beneficiary countries of Chinese aid, but the sources of information do not specify if the companies are state owned or private sector firms. However the assistance from China to Kenya is project based though in diverse ways (Onjalla, 2008). Since the establishment of the diplomatic relations, the projects of aid and assistance provided by China to Kenya mainly include: Moi International Sport Center, methane-

generating pit and the expansion project of Eldoret hospital, Confucius Institute at Nairobi University, Teaching Chinese and Joint Research Work on Vegetables with Egerton University, Road Construction Projects, and so on (China-Kenya Embassy website). The two countries signed the protocol for the cooperation in higher education, according to which China provides Egerton University with apparatuses for teaching and researches with 2 teachers sent over to work there. Starting from 1982, China would provide Kenya every year with at least 10 scholarships and the new number has been increased up to 20 yearly. Table 7 shows the type of Aid Kenya has received from China from 2003 up to 2007.

However, Kenya does not only receive aid from China alone and table 8 shows the sources of Aid for Kenya China being included;

The figures for the years between 2003 and 2005 (table 8), show that most of China's development aid to Kenya went into a rural telecommunications project that linked Kenya's administration units, with Chinese equipment of course; the controversial "tying of aid" to donor suppliers is still part of China's aid policy (China-Kenya Embassy Website). In the same period, other projects included rural and urban roads and additional maintenance at the Kasarani Sports Complex. There is Nairobi roads project, now in progress, which is a fine example of the "China way" of doing development, and it has earned China's aid the popularity referred to earlier – because the roads are being undertaken by Chinese companies (Chege, 2008). The economic boom since 2003 has seen an increase in number of personal and business vehicles, mostly around Nairobi and Kenya on average registered an average of 5, 000 vehicles per month in 2007 and the trend seems to continue. This is a part of the reflection in the growth in business and partly an example of emerging middle class in personal cars from East Asia.

Beneficiary and loser

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

The no political strings attached policy has raised much debate and reactions from external actors; first, the non-interference policy which has its roots in China's historical experience of western interference and therefore China is careful not to interfere in African countries. Secondly, the

Table 7: Main Types of aid given by China to Kenya 2003-2007 Amounts (US\$'000)

Type of Aid	Purpose	Year				
		2003	2004	2005	2006	2007
Loans	Gambogi Serem Road	3,100.00	-	-	-	-
Loans	Kipsigak-Shamkhokho Road	3,000.00	-	-	-	-
Grants	Kasarani Sports Ground Maintenance	39.00	3,620.00	-	-	43,846.15
Grants	Various Training Courses in China	300.00	-	-	-	-
Loans	Purchase of Tractors	66.00	-	-	-	-
Grants	Government Office Equipment	-	120.00	-	-	-
Grants	Maize Flour Processing Project in Bomet and Drought hit Areas	-	3,330.00	-	-	1,766.00
Grants	Tsunami Relief Kenya	-	-	442.00	-	-
Grants	Economic and Technical Cooperation Kenya	-	-	10,387.00	-	-
Loans	Rural Telecommunications Development Programme Project	-	-	24,500.00	-	14,583.20
Loans	Kenya Power Distribution System Modernization and Strengthening Project	-	-	20,130.00	-	6,600.00
Grants	Rehabilitation of Nairobi Roads and Street Lighting Project	-	-	-	-	21,538.46
Grants	Technical Training courses to government officials	-	-	548.00	-	-
Total		6,505.00	7,070.00	56,007.00	0.00	88,333.81

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

Table 8: Distribution of Aid Sources to Kenya Showing China's Contribution: 2002-2005 (in million U.S. dollars)

Sources	Year			
	2002	2003	2004	2005
Multilateral	181	229	266	242
China	0.20	6.5	7.1	56
Other Bilaterals	272.8	300.5	342.9	379
Total	454	536	616	677
China's Share (%)	0.08	2	2	13

Source: UNDP, Kenya Development Cooperation Report (Nairobi: UNDP, 2006).

Chinese government is careful not to interfere as it sees its political problems in Taiwan and Tibet as internal affairs. Thirdly, the principle is based on China's own experience of being able to develop according to its national context without facing conditionality.

However while analyzing the lack of political strings policy, there is some fear that this provides a risk presented as follows:

- 1). That such policy will fortify repressive regimes/elites that are not working in the interest of poor people or development in general.
- 2). Such policy will weaken social and environmental standards
- 3). It will weaken efforts to combat corruption and promote good governance in Kenya.

In general, Chinese aid is closely packaged with infrastructural projects, often linked to the extraction and

export of minerals and oil to China -these facts indicate that the aid might hurt Kenya in the long-run (Gadzala, 2009).

Section 5 (China – Kenya military relations)

The military exchanges between China and Kenya have been increasing in the recent past. It is a new venture and there is no much information about it. In December 1996, General Liu Jingsong, commander of Lanzhou Military Area headed the first Chinese military delegation to visit Kenya. In October 2000, General Li Jinai, political commissar of the General Equipment Department led a friendly delegation to visit Kenya and in December 2001, General Fu Quanyou, chief of the General Staff too led a delegation to visit Kenya. The Kenyan military visits to China include: Major General Nick Leshan, commander of the Kenyan air force (1997); General Doudi Tonje,

chief of the General Staff (1997); Lieutenant General Daniel Opande, president of the Institute for National Defense (1998); and General Joseph Kibwana, chief of the General Staff (2002). In March 1998, Kenya sent its military attaché to its embassy in China (China-Kenya Website).

CONCLUSION

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

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

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

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

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

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