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The Impact of Chinese Investments on the Kenyan Economy

A Thesis by

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Orange, CA

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Submitted in partial fulfillment of the requirements for the degree of

Masters of International Studies

August 2020

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August 2020

The Impact of Chinese Investments on the Kenyan Economy

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ABSTRACT

The Impact of Chinese Investments on the Kenyan Economy

by Candice S. Newcomb

The involvement of China in Kenya has been increasing in recent years. China's investments in Kenya are still impacting the Kenyan economy significantly. This thesis will examine the positive and negative impacts that the Chinese investments have had on the Kenyan economy.

This thesis will also address the role that the Kenyan government plays in the facilitating of the Chinese investments. It will highlight the importance the Kenyan government has in prioritizing policies such as labor laws for the Kenyan people. The Kenyan government has a responsibility to protect its citizens from the negative impacts of Chinese investments such as unfair competition in the market. The same policies can also be used to create an environment of good relations between Kenya and China and more importantly, positive economic growth for Kenya.

Finally, the paper will look into ways that Kenya and China can both benefit from their partnership, rather than the current deals which unilaterally benefit the Chinese government and a few corrupt Kenyan oligarchy.

The methodology for this thesis project is from secondary academic data, acquired from online sources, news articles, as well as information from sources found in various libraries in Kenya.

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LIST OF ABBREVIATIONS

<u>Abbreviation</u>	<u>Meaning</u>
BRI	Belt Road Initiative
CCP	Chinese Communist Party
CRBC	China Road and Bridge Corporation
CNY	Chinese Yuan Renminbi
EU	European Union
EPZ	Export Processing Zones
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNP	Gross National product
ICT	Information, Communications, and Technology
IS	Import Substitution
KNBS	Kenya National Bureau of Statistics\
KPA	Kenya Ports Authority
KWS	Kenya Wildlife Services
MSR	Maritime Silk Road
PRC	People’s Republic of China
SME	Small and Medium-sized Enterprises
SGR	Standard Gauge Railway
UNCTAD	United Nations Conference on Trade and Development

1 Introduction

My interest in this project started from experiencing firsthand the Chinese investments' consequences on the Kenyan economy. I grew up in the Kenyan countryside in a small town called Limuru, about forty-five minutes from Nairobi, the capital city. While living in Kenya, I was puzzled by China and Kenya's economic partnership and wondered if the connection could be mutually beneficial for both countries and economies.

During my childhood, all the shopping centers and malls had been in Nairobi. Yet, Nairobi's city was too far of a distance to drive whenever my family needed to go shopping. Our family often chose to shop in nearby markets in our town of Limuru. In Limuru, most shops in the market and private vendors sold locally produced textiles, garments, shoes, fruits, and vegetables. There were also more exciting and simple items that the hawkers would sell on the streets, such as baked goods and handmade crafts. There is also a section of the market in Limuru designated just for secondhand clothes that were known as 'mitumba.' The 'mitumba' clothes were satisfactory for the low price point they were sold at, because most of them were donated to Kenya for free from non-profit organizations from other countries such as the United States, Germany, and France¹. Through this partnership, vendors that sold 'mitumba' earned adequate money to survive and support their families.

¹ Gloriasb Dailykos, "Do African Nations want your second-hand clothes? Yes and No", June 30. 2017, <https://www.alternet.org/2017/06/do-african-nations-want-your-second-hand-clothes-yes-and-no/>

However, over the last few years, the vendors at the Limuru market started to lose business. I began to hear many of the vendors complain about the sudden influx of cheap Chinese products that many people preferred to buy rather than buy their products. The Chinese imports were displacing many local producers, and as a result, the textile and clothing sector, which is 20 percent of all formal manufacturing employment in Kenya, was adversely affected. The majority of those working in the formal manufacturing employment sector are women, thus many women were affected and lost their jobs². My neighbors and those in my community of Limuru were laid off and lost their shops.

When I went back to Limuru last year, it was a heartbreaking sight to see. The Limuru marketplace that was once so vibrant and busy was suddenly struggling. There was also evidence of the increasing number of Chinese investments, especially the sheer number of construction projects. For example, Kenyans talked about the new railway, which was under construction that would allow people to travel in just half the usual time. There was an influx of new roads that were under construction at a record pace. The Chinese investments had already affected many people in my neighborhood, positively and negatively. These events sparked my interest in the economic partnership between China and Kenya and raised questions of the history between the two countries and the current state and future impact of this partnership for the Kenyan people.

1.1 Background of the Study

The relations between Kenya and China began in the 1950s before Kenya gained its independence in 1963. This paper will describe the gradual adjustments that the Chinese migrants

² Apurva Sanghi & Dylan Johnson, "Deal or No Deal: Strictly business for China in Kenya?" *World Bank group*, March. 2016, <https://elibrary.worldbank.org/doi/pdf/10.1596/1813-9450-7614>

went through over the years in Kenya and describe how the history of China and Kenya relations has deepened over the years. It will explain Chinese migrants' historical progression from working at Chinese restaurants to owning Chinese restaurants, trading, and investing in Kenya.

This study will show how the China and Kenya relations progressed from President Moi's regimes to Kibaki and to now, President Uhuru. The most significant investment that China has had so far in Kenya has been the Belt Road Initiative (BRI). As a result of this investment, Kenya's overall debt is the fifth highest in Africa. Kenya's public debt has surpassed 50 Billion dollars. As that amount makes up for 60% of Kenya's gross domestic product, China has become Kenya's largest creditor.³ Thus, Kenya presently owes 72% of its bilateral debt and 21% of its overall debt to China.⁴

As a country, Kenya is importing more than it is exporting, which is negatively affecting the Kenyan economy. The typical business practice in Kenya is that local Chinese businesses are importing cheap goods from China. This business practice makes it almost impossible for the markets of the local Kenyans to compete. Though many Kenyan owned businesses competed with each other over the years, many Kenyan companies have no choice but to close down, due to the unfair competition of Chinese imported goods and the increased number of these imports from China. This study will look deeper into how the businesses owned by local Kenyans are being affected by the increasing competition and business practices by both the Chinese government and

³ Andrea Begleiter, "The Dragon Stretches its Wings: Assessing the Geopolitical and Economic Implications of China's Belt and Road Initiative in Pakistan and Kenya." *College Undergraduate Research Electronic Journal*, 1 March 2019, <https://repository.upenn.edu/curej/227>.

⁴ Ibid.

the Chinese migrants living in Kenya. The competition comes from the local businesses selling imported Chinese goods.

1.3 Research Design and Methods

This study is based on secondary research, and the information gathered is from existing literature, books, news articles, journals, academic thesis, and online databases. The paper begins with an overview of China and Kenya's history and provides information on the different aspects of diplomatic relations that each Kenyan president had with China. This study will also touch on Kenya's political background and explain the Kenyan political culture, which involves high levels of corruption among the group of elites in the country. This study will explain Kenya's political environment and how the local elites set up beneficial policies, but detrimental for the average Kenyan. The analysis of the differing views between Kenyan government leaders and its citizens is crucial in understanding the polar responses to China's aid and setting the stage for the initiative's global response.

By providing an overview of Kenya's economic background and history between Kenya-China relations, the paper will highlight the cultural issues that continue to shape how Chinese employers interact and manage their Kenyan employees. These cultural issues start from China and Kenya, having different government forms to competing ideologies and even cultural contrasts in leadership and management. In many cases, the workplace's Chinese social norms can be understood as abuse and even racial discrimination toward Kenyan employees. The consequences of such cultural differences, combined with other issues such as violations of labor laws and environmental laws, have created hostile work environments and hostility outside of the workplace. For example, many Chinese migrants in Kenya are private and individual entrepreneurs seeking job opportunities in Kenya. Though the Chinese government has not sent many Chinese

migrants, many Kenyan citizens have negative perspectives on the Chinese migrants due to the cultural differences, ideologies, and even views on the Chinese government. Furthermore, many Kenyans' hostility and negative outlook have expanded in regard to the current trade partnership between the two countries.

In order to corroborate and expound on the cultural issues and local Kenyan perspectives to these issues, the information will be gathered from Kenyan newspapers such as the *Daily Nation*, *The Star*, and *The Standard*. Through these news articles, this study will disclose the local sentiment of the Kenyan people and their responses to issues such as the discrimination in the workplace, the current policies between China and Kenya, and the violation of labor and environmental laws. This study's primary investment is highlighting the relationship between China and Kenya through the analysis of the Belt Road Initiative (BRI) and the Standard Gauge Railway (SGR). Since Chinese investors have taken control of most of the infrastructure and construction projects, the reactions have been mixed from Kenyans and the international community. By understanding Kenya's historical, political, and economic background, this study will portray and illustrate how China's first investments were welcome by the Kenyan political leaders and the elite of Kenya.

After seeing the fruit of the early investments, such as new roads constructed at rapid speed, many Kenyan citizens were also optimistic and welcomed this partnership. Yet, this positive perspective of this new partnership started to change. For many Kenyans, the influx of cheap Chinese imports, continued violation of labor laws have currently created an atmosphere of skepticism towards Chinese investors. By giving insight into these changes in cultural perception and perspective, this study will set the background to examine the current opaque deals that the Kenyan government has presently signed with the Chinese government. One current deal has

Mombasa Port, Kenya's largest port, as a form of collateral in the loan from China's Exim bank. The details of these opaque deals and the secrecy in which features are not readily available give many Kenyans and the international community concern and create distrust towards the Chinese government, Chinese businesses, firms, and Chinese migrants.

In addition to the news articles, most of the information gathered for this study are from cited books, academic journals, and publications from around the world to give a better perspective on not only the history of international relations between China and Kenya, but also provide better insight into the history, culture, and economics of Kenya. By using a compilation of different scholars from not only Kenya but around the world, this study can give insight on the same issues from different perspectives. It was also imperative for this study to have a clear understanding of not only the Kenyan culture and background, but also the Chinese one as well. For example, the knowledge of the Chinese perspective in the workplace, it was essential to gather literature from Chinese authors and scholars such as Jiing-Lih Farh and Bor-Shiuan Cheng. In the best efforts be objective and impartial, Western academic journals and publications were also combined with Chinese scholars to not paint a biased view on Chinese involvement in Kenya.

However, finding sources on some current issues and policies were a challenge. China's government is historically known to be reserved in the disclosure of any matters on internal affairs. Therefore, there is no academic or authoritative source from China or the Chinese media on the present Belt and Road Initiative. Thus, it limits the inquiry and depth of investigation of the Chinese perspective and stance on this policy and surrounding issues. Additionally, much of the research being conducted on the Belt and Road Initiative as the project is still ongoing, which means that most of the reporting is based on temporarily valid observations. However, the BRI has sparked the international interest of academic scholars and policymakers and governments

worldwide. Many publications and journalists have chosen to investigate and write on this issue such as The New York Times, BBC, Aljazeera, Foreign Policy, Financial Times and others. Lastly, the nature of the research is ongoing as the final impact of the current policies between China and Kenya are still unknown, but the study and analysis of the Chinese systems and investments in Kenya is crucial to Kenya's social, political, and economic present and future.

2 Literature Review

2.1 Introduction

This chapter will discuss the literature on the theoretical framework of the Chinese investments in Kenya and how these investments are specifically impactful due to Kenya's distinct economic, political, socio-cultural, and technological factors. This chapter's information was sourced from books, past theses, online journals, and government articles. The section's presentation and flow will show the literature on each theme and subtheme of the paper.

2.2 Political Factors

As Chinese investments have increased in African countries over the years, many African countries and the citizens have welcomed the capital and know-how of new skills⁵. However, there are rising concerns in the developed countries, specifically the Western countries, on whether China would bring hope or problems⁶. The phrase 'debt-trap diplomacy' is said to reflect Western anxieties and not African realities. The concern about debt- trap diplomacy stems from the fact that Kenya's amount of debt has raised alarms of potential risks to Kenyan sovereignty⁷. The critics view the BRI in Kenya as a neocolonial venture. By partnering with China, Kenya would result in an environment that encourages corruption, reduces governance standards, and the

⁵ Kennedy Mwengei, "A Study on the Impact of China's Investments in Africa; the Case of Kenya." *Finance Management*, 23 Mar. 2013, www.elixirpublishers.com/articles/1364041481_56A (2013) 13706-13714.pdf.

⁶ Ibid.

⁷ Andrea Begleiter, "The Dragon Stretches its Wings: Assessing the Geopolitical and Economic Implications of China's Belt and Road Initiative in Pakistan and Kenya." *College Undergraduate Research Electronic Journal*, 1 March 2019, <https://repository.upenn.edu/curej/227>.

Kenyan population would be indoctrinated to support the Chinese Communist Party (CCP). On the other hand, those who support the Kenya- China partnership view the BRI as an opportunity to receive funding to develop Kenya's infrastructure, especially since Western lenders have minimized their international development programs⁸.

Along with the skepticism that the critics may have regarding the planning, financing, and implementation of the Standard Gauge Railway (SGR), the controversies are rooted in the Kenyan political culture, where there are high levels of corruption among the group of elites in the country. This political culture reflects negatively on Chinese developers who are viewed as partnering with corrupt politicians⁹. The root of the problem is found within the policies put in place by the local elites who benefit and other outside actors, rather than the masses, as well as the global system that allows the perpetuation of those policies to be viewed as fair¹⁰. Politics plays a vital role in the development and growth of international trade between Kenya and China, which happens by controlling taxes, regulations, and offering security. The political climate and stability affect how the investors will react. If the political instability is high, then it will most likely scare the investors away¹¹.

⁸ Andrea Begleiter, "The Dragon Stretches its Wings: Assessing the Geopolitical and Economic Implications of China's Belt and Road Initiative in Pakistan and Kenya." *College Undergraduate Research Electronic Journal*, 1 March 2019, <https://repository.upenn.edu/curej/227>.

⁹ Uwe Wissenbach, "African politics meets Chinese engineers: The Chinese- built standard gauge railway project in Kenya and East Africa." Chinese research initiative, June. 2017, <https://static1.squarespace.com/static/5652847de4b033f56d2bdc29/t/594d739f3e00bed37482d4fe/1498248096443/SGR+v4.pdf>

¹⁰ Nils Ståhlkrantz, "The Tiger in the Cage: Discourse Surrounding China's Engagement in Kenya The Tiger in the Cage." *ResearchGate*, Uppsala University, Jan. 2018, www.researchgate.net/publication/322696283_The_Tiger_in_the_Cage_Discourse_Surrounding_China's_Engagement_in_Kenya_The_Tiger_in_the_Cage.

¹¹ Nguku Grace Wanjiru, "External environmental factors influencing China- Kenya trade: A case study of the ministry of foreign affairs and international trade and Chinese embassy in Kenya." *Semantic Scholars*, University of Nairobi, Nov. 2013, pdfs.semanticscholar.org/dc28/ec1588929da597c6497d86218a8d7c08a2d6.pdf.

2.3 Economic Factors

The Chinese Belt and Road Initiative (BRI), also known as the New Silk Road, is an ambitious infrastructure project launched by President Xi Jinping in 2013¹². The BRI is a multinational, trillion-dollar development project that aims to improve connections by land and sea between China and its economic partners in Asia, Africa, the Middle East, and Europe through infrastructure plans. It has become the most prominent development initiative in history¹³. One of the two critical components of the BRI is the 21st century Maritime Silk Road (MSR), which emphasizes Kenya.

The MSR initiative focuses on the core projects that involve the upgrading of the Mombasa Port, the building of a new ultra-modern port in Lamu, and the construction of a new standard gauge railway line (SGR). The SGR links the Mombasa port, the capital Nairobi, and the landlocked neighboring countries. The estimated cost of the railway line is US\$25 billion, 90 percent of which is financed by China EXIM Bank¹⁴. This commercial project is essential for China because it has become a country that depends on exporting its manufactured products. Also, the highways, railways, and pipelines will run two ways that will make it easier for China to get things out, but it would make it easier to get crucial raw materials in¹⁵. The Belt Road Initiative includes one-third of the world trade and GDP and over 60% of the world's population¹⁶.

¹² Andrew Chatzky and James McBride, "China's Massive Belt and Road Initiative," Jan 28.2020, <https://www.cfr.org/background/chinas-massive-belt-and-road-initiative>

¹³ Farooq Sabil Muhammad, "Kenya and the 21st Century Maritime Silk Road." *World Scientific*, 6 Mar. 2020, www.worldscientific.com/doi/pdf/10.1142/S2377740018500136.

¹⁴ Ibid.

¹⁵ Andrea Begleiter, "The Dragon Stretches its Wings: Assessing the Geopolitical and Economic Implications of China's Belt and Road Initiative in Pakistan and Kenya." *College Undergraduate Research Electronic Journal*, 1 March 2019, <https://repository.upenn.edu/curej/227>.

¹⁶ Caroline Freund, "Belt and Road Initiative." *The World Bank*, 29 Mar. 2018, www.worldbank.org/en/topic/regional-integration/brief/belt-and-road-initiative.print.

There have been heated debates among various economists from Kenya and other nations about whether China's Belt and Road Initiative (BRI) will bring sustainable economic development. The arguments are based on the level of debt in Kenya, which is an alarming indicator of doubt and the possible fallout. BRI contracts suggest that the port in Mombasa would be held as collateral for SGR loans¹⁷. The loss of the Mombasa port would be detrimental to the Kenyan economy because it is the busiest and largest seaport in Kenya, serving the hinterland by exporting critical agricultural products and supporting the foundation of the Kenyan economy¹⁸. There are also mixed reactions towards the impact of China's diplomatic relations, trade, Foreign Direct Investment (FDI), and aid to Kenya because there are both pros and cons. These gains and losses range from cheap imports for both consumer and producer goods and create unfair competition among the local producers. When the local producers lose business, it extends to the local firms which collapse because they cannot cope with the competition. As a result of this loss, the employees lose their jobs, and it increases the level of unemployment¹⁹.

China has become Kenya's biggest trading partner over the last decade. It accounts for 17.2 percent of Kenya's total trade, with exports to China adding up to \$167 Million against imports, total to \$3.78 billion²⁰. These figures alarm critics who label Kenya and China's trade as imbalanced at best.²¹ It is worrisome to many critics and Kenyan citizens who view the bilateral

¹⁷ Andrea Begleiter, "The Dragon Stretches its Wings: Assessing the Geopolitical and Economic Implications of China's Belt and Road Initiative in Pakistan and Kenya." *College Undergraduate Research Electronic Journal*, 1 March 2019, <https://repository.upenn.edu/curej/227>.

¹⁸ World port source, "Port of Mombasa", http://www.worldportsource.com/ports/commerce/KEN_Port_of_Mombasa_1365.php#:~:text=It%20has%20been%20the%20hub,foundation%20of%20the%20Kenyan%20economy.

¹⁹ Kennedy Mwengei, "A Study on the Impact of China's Investments in Africa; the Case of Kenya." *Finance Management*, 23 Mar. 2013, www.elixirpublishers.com/articles/1364041481_56A (2013) 13706-13714.pdf.

²⁰ Karen Kandie, "Leveling Kenya- China trade imbalance", May 2. 2019, <https://www.the-star.co.ke/business/commentary/2019-05-02-leveling-kenya--china-trade-imbalance/>

²¹ Ibid.

trade deficit as a threat to the economy and believe that it is best to embrace a more trade effectiveness policy than aid effectiveness as a strategy to improve and strengthen Kenya economic growth²².

Generally, when many Kenya and China officials consider trade, they usually are concerned with the bilateral trade deficit. However, it is a meaningless statistic, as a country can have simultaneous surpluses and deficits with many different trading partners and still have a positive balance overall. The overall trade deficit in Kenya is of concern to the policymakers as well. The consumers are profiting, but the policymakers fear that local producers are at a loss from cheap Chinese goods. Others have even argued that the imports are hurting Kenya's prospects of industrialization²³.

One of the biggest trends in international trade is the increasing gap between the rich and the poor. This gap is because the terms of business are usually unfair, such that the developed nation benefits while the developing nations get the raw deal, which can be termed as modern-day imperialism²⁴. It is also common for corporations from developed nations to relocate their labor to developing countries such as Kenya, take advantage of the low costing labor, and weak environmental laws, which leads to increasing environmental degradation as the rich keep getting rich. At the same time, the poor do not gain as much from the deal²⁵.

²² Elijah Siringi, "Kenya China Trade Relations", August. 2018, Journal of Economics and Finance, https://www.researchgate.net/publication/326920414_Kenya_China_Trade_Relations

²³ Apurva Sanghi & Dylan Johnson, "Deal or No Deal: Strictly business for China in Kenya?" *World Bank group*, March. 2016, <https://elibrary.worldbank.org/doi/pdf/10.1596/1813-9450-7614>

²⁴ Nguku Grace Wanjiru, "External environmental factors influencing China- Kenya trade: A case study of the ministry of foreign affairs and international trade and Chinese embassy in Kenya." *Semantic Scholars*, University of Nairobi, Nov. 2013, pdfs.semanticscholar.org/dc28/ec1588929da597c6497d86218a8d7c08a2d6.pdf.

²⁵ Ibid.

The paradox in development economics is the “resource curse,” which is when many countries with abundant natural resources, have a reduced growth performance. The 'resource curse' is most common in Sub- Saharan Africa²⁶. This weak growth performance shows that the capital-intensive natural resource abundance creates opportunities for rent-seeking behavior, which is an essential factor in determining a country’s level of corruption. In this case, rent-seekers are people such as civil servants, who embezzle funds and resources, demand bribes from their clients or avoid paying taxes to the government by getting their goods transported across unpatrolled borders²⁷. Rent-seekers are also entrepreneurs who lobby for measures to reduce competition to sell their products at higher prices. The motive behind rent-seeking is self-enrichment, power extension or yielding to the demands of powerful interests groups led by the government²⁸.

In the case of the trade deals between China and Kenya, rent-seeking behavior opportunities are available. There are high levels of corruption in the Kenyan government and among the local elite members of society. Despite the good intentions to promote sustainable development in Kenya, the developing strategy often fails to guide individual activities into productive areas in the past²⁹. Instead, many state interventions offered privileged people opportunities to gain income in a nonproductive or even destructive ways³⁰.

²⁶ Ali Zafar, “The Growing Relationship between China and Sub-Saharan Africa: Macroeconomic, Trade, Investment, and Aid Links.” *The World Bank*, 20 Apr. 2007, documents.worldbank.org/curated/en/617301468003942566/The-growing-relationship-between-China-and-Sub-Saharan-Africa-macroeconomic-trade-investment-and-aid-links.

²⁷ Pius Fischer, “rent-seeking institutions reforms- Theory and empirical evidence for Tanzania”, Sep.2004, https://ethz.ch/content/dam/ethz/special-interest/gess/nadel-dam/documents/publications/Fischer_Pius_PhD_Rent_Seeking.pdf

²⁸ Ibid.

²⁹ Ibid.

³⁰ Ibid.

2.4 Socio-cultural Factors

According to *The New York Times* article, some Kenyans believe that the influx of Chinese immigrants has led to racism and discrimination against the native population³¹. One of the main areas that generate racism and discrimination in the labor relations between the Chinese employers and Kenyan employees is the cultural difference. Chinese investors and local workers have different views on labor rights. Also, the politicization of these issues further complicates some of these situations³². For instance, what Kenyan employees would consider being overworked and as abuse, is not necessarily how the Chinese employers would view it. The Chinese Ambassador to Kenya, Sun Baohong, defended the allegations on abuse of Kenya SGR workers as “little punishment.” Ambassador Sun Baohong said, “It is little punishment and part of team building which all Chinese including me do. Maybe, if it is found to be offensive to Kenyans, then the company can change to another exercise”. The Ambassador has blamed the conflict between Kenyan and Chinese workers on cultural differences and said, “It will take time for them to socialize and fully engage with one another.”³³

According to Farh and Cheng (2000), the legitimacy of authoritarian leadership in China originates from the family relationships regulated by Confucianism. As the grandfather has complete authority over other members of the family, he should be obeyed. Thus, the

³¹ Andrea Begleiter, "The Dragon Stretches its Wings: Assessing the Geopolitical and Economic Implications of China's Belt and Road Initiative in Pakistan and Kenya." *College Undergraduate Research Electronic Journal*, 1 March 2019, <https://repository.upenn.edu/curej/227>.

³² Ying Xia, "Chinese Agricultural and Manufacturing Investment in Kenya: a Scoping Study." *Chinese Africa Research Initiative*, Aug. 2019, www.static1.squarespace.com/static/5652847de4b033f56d2bdc29/t/5d657c6d44756300019e37ad/1566932078004/WP30XiaChineseInvestmentKenya.pdf.

³³ Angeline Mbogo, "Communication barriers blamed for low skills transfer from Chinese to Kenyans working on SGR", Aug 1. 2018, The Kenyan Wallstreet, <https://kenyanwallstreet.com/communication-barriers-blamed-for-low-skills-transfer-from-chinese-to-kenyans-working-on-sgr/>

patriarchalism in the family affects other social organizations such as leaders, company managers, who take on the father role and the employees take the part of the children³⁴. The inequalities between the supervisors and the subordinates are expected, and the subordinates tend to rely on the leader's orders with little or no explanation. Kirkman et al. (2009) states that this form of thinking is derived from the power distance orientation that influences a person's beliefs about status, authority and power distribution in an organization³⁵. Many Chinese employees regard power distance orientation positively. They prefer authoritarian leadership, and that is where a lot of the clashes between the Chinese employers and the Kenyan workers occur. The Chinese mindset and worldview about leadership are not universal, and thus both parties need to be informed about the cultural differences.

Despite the perception of Chinese presence in Africa as a neocolonialist strategy led by the Chinese state, a study done by Ruti Ejangue shows that the Chinese migrant population in Kenya is diverse. There are different independent actors with personal and economic motives separate from the Chinese government in the Chinese migrant population. The Chinese migrants have been able to impact the Kenyan social, cultural fabric through the proliferation of the Chinese language, food, work ethic, and an increase in interracial relationships. Although Chinese migrants are exporting their cultural heritage to Kenyans, many embrace the Kenyan culture and interact with the Kenyan communities³⁶.

³⁴ Farh, J.-L., & Cheng, B.-S. (2000). A cultural analysis of paternalistic leadership in Chinese organizations. In J. T. Li, A. S. Tsui, & E. Weldon (Eds.), *Management and organizations in the Chinese contexts* (pp. 84–127). London: MacMillan

³⁵ Kirkman, B. L., Chen, G., Farh, J.-L., Chen, Z. X., & Lowe, K. B. (2009). Individual power distance orientation and follower reactions to transformational leaders: A cross-level, cross-cultural examination. *Academy of Management Journal*, 52(4), 744–764.

³⁶ Ruti Ejangue, "Beyond "Neocolonialism": Understanding the sociocultural impacts and exchanges between Chinese migrants and Kenyans in Nairobi and Kirinyaga country." School of International Service American University, April. 2018, <https://www.ncurproceedings.org/ojs/index.php/NCUR2018/article/download/2671/1424>

2.5 Theoretical Framework

This section of the chapter provides the literature on some of the international dependence models found within the academic field of international relations. The approaches mentioned include the neo-colonial approach, the false-paradigm approach, and the dualistic-development approach. The methods aim to provide a foundation for understanding the reasoning behind some arguments about the development in Kenya and the role that Chinese investments play in relations with Kenya and the Kenyan economy.

According to Griffin and Gurley, the neo-colonial approach argues that those who benefit from foreign aid to developing countries are the ruling class group. Their activities and policies defy accountability and obstruct any radical reform efforts that could interfere with their base of power or benefit the ordinary citizens³⁷. Many aid donors are external forces with selfish political and economic interests in the aid- recipient countries. Many donors and the ruling elite of recipient countries use aid packages, like financial aid, for their purposes. Thus, the neo-colonial approach views dependency on foreign aid as political and economic control over the poor developing countries by their wealthy established partners. The developing countries' forces help the latter, which subjects the developing countries to more severe conditions of backwardness and making them even more vulnerable to exploitation³⁸.

³⁷ Griffin & Gurley, "Radical Analyses of Imperialism, the Third World, and the Transition to Socialism: A Survey Article", *Journal of Economic Literature*, Sep., 1985, Vol. 23, No. 3 (Sep., 1985), pp. 1089- 1143, https://www.jstor.org/stable/pdf/2725460.pdf?casa_token=SKbyblZCVYkAAAAA:dR9ltBTPqmpgUkQafvfp0H-JgOwwf8t8Px2_zihonivULdai5eZTKYWOMt-GiuUc0muB8gfgVzvuGdznqQR9WRMOfmBJgkFNi7PaCNt7MJy-PrLqoeU

³⁸ Richard Ilorah, "Is Africa trapped between foreign aid dependency and failed growth initiatives?" University of Limpopo, 2013, http://www.essa2013.org.za/fullpaper/essa2013_2525.pdf

The false- paradigm approach by Joseph Stiglitz views underdevelopment and poverty and the dependency syndrome in developing countries as the result of a misleading ‘one-size fits all’ doctrine that is implemented in developing countries by assuming and naïve international experts employed by donor countries³⁹. The majority of the projects carried out by the developing countries fail because the policies implemented in the projects serve the interest of an opportunistic group of the ruling elite in the developing countries. Those elites happen to control their countries’ meager resources along with donor packages. In cases where there is a failure of policies due to being advised wrongly, there are more cases of aid dependency, debt and debt-servicing problems in developing countries⁴⁰.

Marwan Ghandour’s dualistic-development approach argues that the co-existence of industrialized developed countries and developing countries have become so entrenched, that it only leads to the developed countries getting more productive and the developing countries getting poorer⁴¹. These unfair deals among the partners from the developed and developing countries make it difficult and hopeless for the developing countries to have a political and economic breakthrough and become free of their foreign aid dependency trap⁴².

William Stanley Jevons was an economist and philosopher and one of the main contributors to the ‘marginal revolution,’ which revolutionized the economic theory and shifted classical to

³⁹ Joseph Stiglitz, “Globalization and Its Discontents”, Economic Notes by Banca Monte dei Paschi di Siena Spa, vol. 32, no. 2-2003, pp. 123–142, 2002, https://onlinelibrary.wiley.com/doi/pdf/10.1046/j.0391-5026.2003.00107.x?casa_token=NXV31eKJvIwAAAAA:eFMdRkxPFHOZ3qJr4YDDm8JnqhgoBnRbm4d6UOM8fnrC-sm15EXpkxDiOf8ndm-ogxi_5biqz5MQ7gg

⁴⁰ Ibid.

⁴¹ Marwan Ghandour, “Dualistic development: A new approach”, Sep. 1975, <https://onlinelibrary.wiley.com/doi/epdf/10.1111/j.1746-1049.1975.tb00355.x>

⁴² Ibid.

neoclassical economics⁴³. In Richard Ilorah's opinion, the neoclassical view argues that high savings, through high investment will lead to growth. It emphasizes the idea that foreign aid would promote growth in Africa⁴⁴. The Harrod-Domar model supports this theory of a direct correlation between savings and the gross national product (GNP). The more an economy can save and invest from a particular gross national product, with total savings being equal to total investment, the higher the GNP's growth rate will be. Therefore, this would imply that foreign aid, to a large extent, is as good as saving, and thus, it can play the role of saving to determine investment and subsequently, growth. In this way, foreign aid can fill the financing gap between the national saving and the investment for a country to achieve sustained growth on its own. A lot of importance is placed on savings and investment; however, they are lacking in developing countries⁴⁵.

Kenya is a prime example of how each of these approaches is presently impacting the current state of China and Kenya relations. The Kenyan government has chosen to follow the neo-classical approach to bring prosperity and continued economic growth to Kenya. Kenya has chosen to welcome high investments from countries like China, primarily through foreign aid. For Kenya, foreign aid is appealing as another asset to their total GDP and seems beneficial, especially in the short-term. The other three approaches help understand Kenya's present-day economy and government policy as well. The Kenyan government has long sought after China's rapid economic growth and believed that the same pathway of economic success is possible for Kenya as well. Kenya has welcomed Chinese investments and tried to copy China's industrial advancement and business practices to achieve the same level of success. However, currently, this has become a

⁴³ Stanford Encyclopedia of Philosophy, "William Stanley Jevons", Jan 22. 2007, <https://plato.stanford.edu/entries/william-jevons/>

⁴⁴ Richard Ilorah, "Is Africa trapped between foreign aid dependency and failed growth initiatives?" University of Limpopo, 2013, http://www.essa2013.org.za/fullpaper/essa2013_2525.pdf

⁴⁵ Ibid.

false-paradigm as these practices and investments have been disadvantageous, particularly for Kenyan locals. By looking at Kenya through the neo-colonial approach, the investments continue to benefit the Chinese investors and the Kenyan oligarchy through corrupt practices such as rent-seeking. This paper will address these approaches but focus on the dualist-development approach. The latest significant impact seen in Kenya and China relations is Kenya's present debt and how it is damaging the Kenyan local businesses. By studying and understanding each of these approaches, this paper will analyze the current effects of China's investments in Kenya, and the future repercussions on the Kenyan government, economy, and people.

3 Analysis

3.1 History of the Relations between Kenya and China

Relations between Kenya and China started before Kenya gained its independence from the British in 1963. In the 1950s and the early 1960s, Kenya exported raw materials such as sisal, cotton, and pyrethrum to China, while China was exporting semi-processed products to Kenya including tea and base metals⁴⁶. This partnership was mutually beneficial for both countries. Relations between Kenya and China became official in December 1963, when China became the fourth country to establish diplomatic ties with the new independent Kenya⁴⁷.

Despite the bilateral ties with China, Kenya began to pursue a more western capitalistic oriented developmental trajectory. President Kenyatta kept strong relations with the West during his regime, and so did President Moi when he became president in 1978. During the first decade of President Moi's government, he maintained secure ties with the West in terms of military and economic assistance⁴⁸. However, after a coup attempt in 1982, there was much criticism of

⁴⁶ Ying Xia, "Chinese Agricultural and Manufacturing Investment in Kenya: a Scoping Study." *Chinese Africa Research Initiative*, Aug. 2019, www.static1.squarespace.com/static/5652847de4b033f56d2bdc29/t/5d657c6d44756300019e37ad/1566932078004/WP30XiaChineseInvestmentKenya.pdf.

⁴⁷ Maggie Opondo, "The Impact of Chinese Firms on CSR in Kenya's Garment Sector." *International Research Network*, citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.522.4044&rep=rep1&type=pdf.

⁴⁸ Robert M. Maxon, "Historical Dictionary of Kenya" Rowman & Littlefield, 2014, https://books.google.com/books?id=BreCBAAQBAJ&pg=PA103&lpg=PA103&dq=why+did+kenya+face+increasing+isolation+from+the+west+during+moi%27s+regime?&source=bl&ots=aeAnWEWqWM&sig=ACfU3U35SywCw4xaol-WAEMuLQubZ4d-3w&hl=en&sa=X&ved=2ahUKEwiikb_wrrrqAhWFhJ4KHREUDX0Q6AEwAHoECAoQAQ#v=onepage&q=why%20did%20kenya%20face%20increasing%20isolation%20from%20the%20west%20during%20moi's%20regime%3F&f=false

Kenya's human rights record. Corruption in many media reports in the United States and Britain raised problems for Kenya concerning the tightening of authoritarianism⁴⁹. The pressure intensified after the murder of the foreign minister Dr. Robert Ouko.

In the 1990s, governance issues led to domestic pressure on matters of democratic change, which impacted foreign relations. The international scene's crucial changes were brought about by the end of the cold war and the end of apartheid in South Africa. As Kenya's economic situation was worsening, the need for foreign economic assistance increased⁵⁰. These factors affected Kenya's relations with the United States, Britain, and other members of the European Union (EU). Thus, Kenya faced increasing isolation from the West and chose to partner less with Western countries such as the United States, which led Kenya to turn its attention to the East⁵¹.

Each of the former presidents of Kenya has had different diplomatic relations with China. During President Jomo Kenyatta's regime, from 1963- 1978, both Kenyatta and Secretary-General Tom J. Mboya did not trust China's political intentions in Kenya⁵². In 1964, the Chinese premier Chou En-lai made a statement about an "excellent revolutionary situation in Africa" after visiting 10 African countries⁵³. Given that Kenya had just gained independence in 1963, President Jomo Kenyatta expressed that the Chinese premier's expectation did not apply to Kenya because Kenya

⁴⁹ Robert M. Maxon, "Historical Dictionary of Kenya" Rowman& Littlefield, 2014, https://books.google.com/books?id=BreCBAAQBAJ&pg=PA103&lpg=PA103&dq=why+did+kenya+face+increasing+isolation+from+the+west+during+moi's+regime?&source=bl&ots=aeAnWEWqwm&sig=ACfU3U35SywCw4xaol-WAEMuLQubZ4d-3w&hl=en&sa=X&ved=2ahUKEwiikb_wrrrqAhWFhJ4KHREUDX0Q6AEwAHoECAoQAQ#v=onepage&q=why%20did%20kenya%20face%20increasing%20isolation%20from%20the%20west%20during%20moi's%20regime%3F&f=false

⁵⁰ Ibid.

⁵¹ Maggie Opondo, "The Impact of Chinese Firms on CSR in Kenya's Garment Sector." *International Research Network*, citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.522.4044&rep=rep1&type=pdf.

⁵² Michael Chege, "Economic relations between Kenya and China, 1963-2007", 2006, https://csis-website-prod.s3.amazonaws.com/s3fs-public/legacy_files/files/media/csis/pubs/080603_chege_kenyachina.pdf

⁵³ Ibid.

had completed its anti-colonial revolution. The relations between Kenya and China were tense in 1965, and there were different views among various cabinet members on this matter. However, President Jomo Kenyatta favored having a mixed economy that was mainly directed by the private sector with room for producer cooperatives, state-operated enterprises and small-holder production for the market⁵⁴. Hence, President Jomo Kenyatta was more interested in improving cooperation with the United States, Britain, and Western Europe. Despite the tension between China and Kenya, there was diplomatic cooperation between Kenya and China during President Jomo Kenyatta's era in 1963-1978, which covered issues such as the anti-piracy Corporation, roads, Bridges Corporation, and Oil Exploration Corporation, among others⁵⁵.

Before President Daniel Arap Moi became president in 1978-2002, he was also among those who did not trust China's intentions in Kenya and accused China of plotting revolution in the 1960s. However, once he became president, he expressed his admiration for China's modernization, orderliness, and cleanliness⁵⁶. President Moi reached out to the Post-Mao People's Republic of China, ready to strengthen Kenya and China's ties. He intended to diversify the sources of Kenya's external development funds. However, he also had a personal plan to secure new development projects for his home region in the Rift Valley, to set up his political base. President Moi made numerous visits to China and thus opened the door for more negotiations and diplomatic relations, which led to lower-level technical exchanges and activities. China did not partner with Kenya merely as a donor but as the beneficiary of mutual trade and cooperation. Instead, as a developing economy that was modernizing at high speed and transitioning from communist-era

⁵⁴ Michael Chege, "Economic relations between Kenya and China, 1963-2007", 2006, https://csis-website-prod.s3.amazonaws.com/s3fs-public/legacy_files/files/media/csis/pubs/080603_chege_kenyachina

⁵⁵ Ibid.

⁵⁶ Ibid.

central planning to globally competitive production, China went to Kenya to learn from areas where Kenya made outstanding progress like agriculture and tourism⁵⁷. By 1980, Kenya and China made two agreements. The first agreement was on economic and technological cooperation, which covers projects such as a new sports stadium, technical support to two universities, scholarships, military, and cultural exchanges. The second one involved the transactions of goods between a China state trading agency and its equivalent in Kenya⁵⁸.

In December 2002, a new government was formed under President Mwai Kibaki, who was not only optimistic but in favor of developing strong ties with China. In August 2005, President Mwai Kibaki was accompanied by eleven Kenyan trade and investment-seeking delegates to China's visit. During this time, President Mwai Kibaki held extensive talks with President Hu Jintao and Chinese government officials. These talks resulted in a five-part agreement covering official development assistance in grants for infrastructure and energy, extended air services between the two countries, technical support for assessment and classification of standards in industrial products, and modernization of equipment and training at the state-owned Kenya Broadcasting Corporation⁵⁹.

Since then, Kenya has been an essential Chinese ally in international affairs on state sovereignty and the One China Policy⁶⁰. The 'One China Policy' is the diplomatic

⁵⁷ Michael Chege, "Economic relations between Kenya and China, 1963-2007", 2006, https://csis-website-prod.s3.amazonaws.com/s3fs-public/legacy_files/files/media/csis/pubs/080603_chege_kenyachina.pdf

⁵⁸ Ibid.

⁵⁹ Kennedy Mwengei, "A Study on the Impact of China's Investments in Africa; the Case of Kenya." *Finance Management*, 23 Mar. 2013, [www.elixirpublishers.com/articles/1364041481_56A\(2013\)13706-13714.pdf](http://www.elixirpublishers.com/articles/1364041481_56A(2013)13706-13714.pdf).

⁶⁰ Ying Xia, "Chinese Agricultural and Manufacturing Investment in Kenya: a Scoping Study." *Chinese Africa Research Initiative*, Aug. 2019, www.static1.squarespace.com/static/5652847de4b033f56d2bdc29/t/5d657c6d44756300019e37ad/1566932078004/WP30XiaChineseInvestmentKenya.pdf.

acknowledgment that there is only one Chinese government. Under this policy, the United States recognizes that it has formal ties with China and not Taiwan's island. China views Taiwan as a province that will be reunified with the Mainland in the future⁶¹. One reason Kenya is an ally to China in the One China policy is that there is no territorial dispute. Like most African countries, it does not present a direct threat to China's national security. Furthermore, most African countries like Kenya do not support the efforts of Taiwan, Tibet or Xinjiang in their pursuit of independence from China⁶². For instance, Kenya sided with the People's Republic of China (PRC) in a diplomatic competition between the PRC and the Taiwanese government in 2016. The Chinese government requested the Kenyan government to deport around 50 Taiwanese fraud suspects to Mainland China, regardless of the intense protests from Taiwan⁶³. As a result of trading opportunities in the expanding economy, Kenya's imports from China were rising in the 1990s⁶⁴.

Kenya has been a beneficiary of China's development aid since the year of independence in 1963. Among the many instances where China assisted Kenya, one of the first notable assistance was with constructing the Moi International Sports Complex that was developed through a Chinese Yuan Renminbi (CNY) loan of approximately, KSH 1.16 billion in 1987. Over the years, China has changed the forms of aid policies such as the change from liberation and grandiose projects to reducing debts, promotion of investment, and assistance in human resource development.

⁶¹ "What is the 'One China policy?'" Feb 10. 2017, BBC News, <https://www.bbc.com/news/world-asia-china-38285354>

⁶² Yun Sun, "Africa in China's foreign policy", Brookings, April 12. 2016, https://www.brookings.edu/wp-content/uploads/2016/06/Africa-in-China-web_CMG7.pdf

⁶³ Ying Xia, "Chinese Agricultural and Manufacturing Investment in Kenya: a Scoping Study." *Chinese Africa Research Initiative*, Aug. 2019,

www.static1.squarespace.com/static/5652847de4b033f56d2bdc29/t/5d657c6d44756300019e37ad/1566932078004/WP_30_Xia_Chinese_Investment_Kenya.pdf.

⁶⁴ Nguku Grace Wanjiru, "External environmental factors influencing China- Kenya trade: A case study of the ministry of foreign affairs and international trade and Chinese embassy in Kenya." *Semantic Scholars*, University of Nairobi, Nov. 2013, pdfs.semanticscholar.org/dc28/ec1588929da597c6497d86218a8d7c08a2d6.pdf.

Following the elections in 2013, the current president, Uhuru Kenyatta decided to start borrowing money from China in a way that many people in the country view as reckless and have put the citizens in fear of being in a crippling amount of public debt⁶⁵.

Even before Kenya gained independence, Chinese migrants started moving to Kenya. The first wave of Chinese migrants came to Kenya during the 1950s and 1960s. Most of the Chinese migrants were from China's coastal provinces like Fujian and Guangdong. As the Chinese migrants spent time in Kenya, they quickly realized that the foodservice industry did not require much capital and skill to start in Kenya. Consequently, many Chinese migrants not only began to work in but also own their Chinese restaurants.

As the years have progressed, the Chinese migrants have adjusted in Kenya. They have learned more about the Kenyan culture and understood the types of demands that Kenyans have for goods and services. As their businesses started to become lucrative, the migrants became entrepreneurs who ran small Chinese restaurants and eventually became traders and investors. Due to the Chinese migrants' economic success, the second wave of Chinese immigration to Kenya soon followed from the 1990s and the early 2000s. This period is consistent with when China took a more active role in global trade⁶⁶. Eventually, the number of Chinese communities began to increase in other major cities in Kenya, such as Mombasa, Kisumu, and Nakuru. These communities were appealing not only for businesses as they are still significant cities but also as tourist attraction sites. These cities are known for their tourist appeals such as the sandy beaches

⁶⁵ Joseph Onjala, "China's development loans and the threat of debt crisis in Kenya." Institute for Development Studies, University of Nairobi, July. 2017, <https://onlinelibrary.wiley.com/doi/abs/10.1111/dpr.12328>

⁶⁶ Ying Xia, "Chinese Agricultural and Manufacturing Investment in Kenya: a Scoping Study." *Chinese Africa Research Initiative*, Aug. 2019, www.static1.squarespace.com/static/5652847de4b033f56d2bdc29/t/5d657c6d44756300019e37ad/1566932078004/WP30XiaChineseInvestmentKenya.pdf.

in Mombasa, Lake Victoria in Kisumu, and Lake Nakuru in Nakuru, where there is also a national game park. These main areas of attraction are ideal for businesses as they automatically bring in foot traffic of the Kenyan middle and high class in business. Additionally, these businesses are suitable for tourists from outside of Kenya as well.

During the first years after independence, Kenya pursued an import substitution (IS) strategy in which the government provided both direct support and tariff protection for the industrial sector. This strategy was a carryover from colonial policies. Its objectives were the rapid growth of the industry, the reduced balance of payment pressure, more indigenous participation in the sector, higher productivity, and high-income employment. Though this strategy was well-intended, it was unable to create sustained work, and with the high import level, there was a significant problem of imbalance of payments⁶⁷. Following these agreements, in 2007, there was a presidential election in Kenya that resulted in post-election violence. The post-election violence was systemically based on the inadequacies and inefficiencies with the electoral commission. The cause of the violence was also systematic as evidence in the ethnic-based violence.

The post-election violence lasted for about two months which resulted in 1,133 deaths and 100,000 displaced persons⁶⁸. After the post-election violence, Kenya was not as attractive to foreign investors because of the corruption, violence, inadequate infrastructure, and reduced investment climate. However, the Chinese continued to offer aid that supported infrastructure development and improved education standards, both academic and technical, humanitarian relief,

⁶⁷ Maggie Opondo, "The Impact of Chinese Firms on CSR in Kenya's Garment Sector." *International Research Network*, citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.522.4044&rep=rep1&type=pdf.

⁶⁸ Ying Xia, "Chinese Agricultural and Manufacturing Investment in Kenya: a Scoping Study." *Chinese Africa Research Initiative*, Aug. 2019, www.static1.squarespace.com/static/5652847de4b033f56d2bdc29/t/5d657c6d44756300019e37ad/1566932078004/WP30XiaChineseInvestmentKenya.pdf.

and tariff exemptions. Other areas of assistance included the modernization of power distribution, rural electrification, water; renovation of sports facilities; provision of anti-malaria drugs; construction of a malaria research center, and the modernization of international airports Kenya⁶⁹.

3.2 Development of Kenya's Economy

Within the 50 years of the post-colonial era, Kenya has become the second-largest economy in the East African region, and it accounts for 19% of regional output⁷⁰. Kenya is also the fourth largest economy in Sub-Saharan Africa⁷¹. The leading sectors that drive the Kenyan economy include agriculture, services that include real estate and finance and manufacturing. These sectors made up 31.5%, 14.9% and 8.4% of gross domestic product (GDP) respectively in 2017⁷². According to the World Bank's Doing Business Index, Kenya has risen over 40 places to rank 80 in 2017⁷³. The GDP growth is also projected to rise to 5.7% in 2018 due to the robust performance of the services sector and improved business confidence⁷⁴.

According to the 2017 Attractiveness Index, Ernst & Young assessed Kenya as the second most attractive investment destination in Africa after Morocco. As this indicates that investors have been attracted to Kenya to a certain extent, the Kenya National Bureau of Statistics (KNBS)

⁶⁹ Kennedy Mwengei, "A Study on the Impact of China's Investments in Africa; the Case of Kenya." *Finance Management*, 23 Mar. 2013, www.elixirpublishers.com/articles/1364041481_56A (2013) 13706-13714.pdf.

⁷⁰ African Development Bank. 2018 African Economic Outlook: Kenya.

https://www.afdb.org/fileadmin/uploads/afdb/Documents/GenericDocuments/country_notes/Kenya_country_note.pdf

⁷¹ Ernst & Young. 2017. Africa Attractiveness Index.

⁷² Thomas Shipley, "Integrity Risks for International Business in Kenya." *Transparency International*, Transparency International Kenya, 20 Dec. 2018, knowledgehub.transparency.org/helpdesk/integrity-risks-for-international-businesses-in-kenya.

⁷³ African Development Bank. 2018 African Economic Outlook: Kenya.

https://www.afdb.org/fileadmin/uploads/afdb/Documents/GenericDocuments/country_notes/Kenya_country_note.pdf

⁷⁴ Thomas Shipley, "Integrity Risks for International Business in Kenya." *Transparency International*, Transparency International Kenya, 20 Dec. 2018, knowledgehub.transparency.org/helpdesk/integrity-risks-for-international-businesses-in-kenya.

figures for 2015 show that the sectors receiving the most investment were finance and insurance, information and communication, manufacturing and retail⁷⁵. The infrastructure, horticulture, oil and gas, and tourism sectors have all attracted significant investment from foreign companies⁷⁶.

While there are private sectors in the economy that are led and dominated by a small number of large firms, 82.7% of the country's employment, businesses and entrepreneurs are from the informal sector⁷⁷. Kenya's informal sector is also known as 'Jua Kali' which means fierce sun in Swahili, and it represents the artisanal makers who have various types of workshops such as trade auto parts, repair and maintenance shops, material supply, furniture, handicrafts, and many other consumer and capital goods under minimal protection and regulation from the government⁷⁸. Other examples of small informal businesses include farming, food vending, shop-keeping, selling clothes and beauty products, manufacturing, and craft.

Other sectors contributing to economic growth are building and construction, infrastructure development, manufacturing, transport, services, tourism (particularly from emerging markets); agriculture, wholesale and retail. The small and medium-sized enterprises, also known as SMEs, form a part of the formal economy and are characterized by some degree of specialization. These enterprises manufacture a wide range of items that include wood, furniture, metal products, glass and pottery, clothing, and leather products. The products are tailored to meet the domestic needs

⁷⁵ Kenya National Bureau of Statistics. 2017. Foreign Investment Survey 2016 Report.
<https://www.knbs.or.ke/foreign-investmentsurvey-2016-report/>

⁷⁶ Ibid.

⁷⁷ Informal Enterprises in Kenya, Jan, 2016, World Bank,
<http://documents1.worldbank.org/curated/en/262361468914023771/pdf/106986-WP-P151793-PUBLIC-Box.pdf>

⁷⁸ Ibid.

of low-income households, although some of these products are exported to neighboring countries⁷⁹.

The tropical climate and abundant fertile land have made agriculture the principle leading contributor to Kenya's domestic economy. Agriculture accounts for 26% of the gross domestic product and another 27% indirectly through other sectors⁸⁰. More than 40% of the total population is employed in the agricultural sector and more than 70% of those employed live in the rural areas⁸¹. Furthermore, agriculture is what the majority of Kenyans depend on as their sources of livelihood. The sector includes the production of crops, horticulture, livestock, fisheries, and forestry. Crop production and horticulture alone contribute 76.5% of agriculture GDP followed by livestock production at 4.9%⁸². Foreign investors have also demonstrated great interest in Kenya's agricultural industry⁸³.

The major agricultural products in Kenya include tea, coffee, horticulture, corn, wheat, sugarcane, dairy products, beef, pork, poultry, sisal, cotton, fruits, vegetables and eggs⁸⁴. Tea and horticulture are the primary foreign exchange-earners. The industrial activity that processes most of these agricultural products takes place in Kenya's major cities, being Nairobi, Mombasa, and

⁷⁹ . Carol Newman and John Page. "Manufacturing Transformation: Comparative Studies of Industrial Development in Africa and Emerging Asia." *Oxford Scholarship Online*, Aug. 2016, www.oxfordscholarship.com/view/10.1093/acprof:oso/9780198776987.001.0001/acprof-9780198776987-chapter-4.

⁸⁰ "Kenya at a Glance." *Food and Agriculture Organization of the United Nations*, www.fao.org/kenya/fao-in-kenya/kenya-at-a-glance/en/.

⁸¹ Ibid.

⁸² "Key Sectors." *Kenya*, www.kenyarep-jp.com/business/key_sectors_e.html.

⁸³ Ying Xia, "Chinese Agricultural and Manufacturing Investment in Kenya: a Scoping Study." *Chinese Africa Research Initiative*, Aug. 2019, www.static1.squarespace.com/static/5652847de4b033f56d2bdc29/t/5d657c6d44756300019e37ad/1566932078004/WP_30_Xia_Chinese_Investment_Kenya.pdf.

⁸⁴ "Kenya- Agriculture." *Nations Encyclopedia*, www.nationsencyclopedia.com/economies/Africa/Kenya-AGRICULTURE.html.

Kisumu. It focuses on food-processing such as grain milling, beer production, sugarcane crushing, and customer goods fabrication. Kenya also had an oil refinery that processed imported crude petroleum into petroleum products that were mainly used for the domestic market in 2015 and then stopped when it became uneconomical run⁸⁵.

The tourism sector is the third-largest contributor to the GDP after agriculture and horticulture in Kenya and is the leading foreign exchange earner. Kenya has numerous tourist attractions such as the national parks, mountains, sandy beaches in the coast region of Kenya, etc. The tourism sector benefits from the attractions and it also impacts other aspects of the service industry, such as hotel services, restaurants, and many more. Additionally, tourists can also support the local small businesses that sell various kinds of traditional African art and souvenirs. Travel and tourism have accounted for 8.8% of the nation's gross domestic product in 2018⁸⁶. Kenya is currently the third largest tourism economy in Sub-Saharan Africa after South Africa and Nigeria, according to the Ministry of Tourism and Wildlife⁸⁷.

Ever since fiber optics were introduced in the Kenyan economy in 2009, Kenya has been a game-changer in the Information and Technology sector. Fiber optics has set the momentum for Information, Communications and Technology (ICT) investments and has benefited Kenya

⁸⁵ Carol Newman and John Page. "Manufacturing Transformation: Comparative Studies of Industrial Development in Africa and Emerging Asia." *Oxford Scholarship Online*, Aug. 2016, www.oxfordscholarship.com/view/10.1093/acprof:oso/9780198776987.001.0001/acprof-9780198776987-chapter-4.

⁸⁶ Faith Nyasuguta, "Kenya Ranked Third Largest Tourism Economy in Sub-Saharan Africa." *The Star*, 16 Apr. 2019, www.the-star.co.ke/business/kenya/2019-04-16-kenya-ranked-third-largest-tourism-economy-in-sub-saharan-africa/.

⁸⁷ Ibid.

more than most of its neighboring countries⁸⁸. According to figures from the United Nations Conference on Trade and Development (UNCTAD) World Investment Report, in 2017, FDI inflows into Kenya were US\$672m.

The FDI inflows were driven principally by investments into the ICT sector⁸⁹. Along with attracting investors, Kenya has been nicknamed “Silicon Savannah.” Thus, Kenya has become the second most innovative country in sub-Saharan Africa according to the World Intellectual Property Organization’s Global Innovation Index 2019⁹⁰.

3.3 Chinese Investment in Kenya

Kenya has been receiving Chinese support for multiple road infrastructure projects since 2006. During President Mwai Kibaki’s era, he signed a grant of 510,000,000 Kenyan shillings (KSh) under an economic and technical co-operation agreement. China later extended concessional loans and grants to Kenya under the agreement on economic and technological co-operation, which included the Northern and Eastern Bypass road projects for KSh 8.5 billion and KSh 2.16 billion, respectively. Many other road construction agreements were signed by President Mwai Kibaki, including the Thika highway, flyovers, and underpasses. The roadwork comprised an eight-lane motorway and flyovers as well as underpasses designed to decongest the traffic.

⁸⁸ Courtney Fingar, “Kenya’s Reputation for Quality Leads Companies to Choose Nairobi.” *Financial Times*, 31 Oct. 2019, www.ft.com/content/367907d0-d558-11e9-8d46-8def889b4137.

⁸⁹ Thomas Shipley, “Integrity Risks for International Business in Kenya.” *Transparency International*, Transparency International Kenya, 20 Dec. 2018, knowledgehub.transparency.org/helpdesk/integrity-risks-for-international-businesses-in-kenya.

⁹⁰ Courtney Fingar, “Kenya’s Reputation for Quality Leads Companies to Choose Nairobi.” *Financial Times*, 31 Oct. 2019, www.ft.com/content/367907d0-d558-11e9-8d46-8def889b4137.

China announced Sino- Africa industrial cooperation in 2015, and Kenya was one of the pilot countries. President Xi Jinping proposed ten major cooperation plans for 2016-2019, the first three of which covered industrialization, agricultural modernization, and infrastructure. These cooperation plans were meant to be supported by a series of financial and political commitments by the Chinese government⁹¹. This demonstrates how interested China has been to invest in Kenya.

Kenya's goal has also been to have sustainable development, and economic growth. According to Ndubuisi Ekekwe, Chairman of Fasmicro Group, "African leaders have expected that as China rises further, its wage levels will create disincentives for global manufacturers to continue sending work there⁹²." Ndubuisi Ekekwe said, "As that happens, they hope countries like Ethiopia, Rwanda, and Kenya can be seen as reliable alternatives that provide affordable labor with enough infrastructures for basic manufacturing⁹³."

Due to the relationship between Africa and China, African leaders have been pursuing policies designed to mimic the path China took. After years of seeing the development and success that China has had as a country, many African countries believe and continue to think that the same growth and success is also available to them if they follow the same path. The path that China took developmentally is highly desirable because China designed and executed a policy that shrank the

⁹¹ Ying Xia, "Chinese Agricultural and Manufacturing Investment in Kenya: a Scoping Study." *Chinese Africa Research Initiative*, Aug. 2019, www.static1.squarespace.com/static/5652847de4b033f56d2bdc29/t/5d657c6d44756300019e37ad/1566932078004/WP_30_Xia_Chinese_Investment_Kenya.pdf.

⁹² Ndubuisi Ekekwe "Why Africa's Industrialization Won't Look Like China's." *Harvard Business Review*, 4 Sept. 2019, hbr.org/2019/09/why-africas-industrialization-wont-look-like-chinas.

⁹³ Ibid.

industrialization process in a mere 25 years — something that many economies took at least a century to do⁹⁴.

Therefore, the Kenyan government's overarching vision for 2030 is to make Kenya globally competitive and prosper the nation with high quality of life⁹⁵.

With this vision in hand, its government has sought to work with China. This partnership with China will grant Kenya access to critical Chinese exports such as telecommunication equipment, electrical machinery, civil engineering equipment, motor, and transport vehicles, rubber tires, motorcycles, and iron and steel products, household electric appliances, textile goods, commodities for daily use, building materials and drugs⁹⁶.

Due to the rise in partnership with China, there have been other unexpected results as well. Over recent years, there has been an increase in Chinese companies' involvement and investment in Kenya. There are more than 70 large Chinese companies doing business in Kenya, the largest among them being Jiangsu International Economic and Technological Cooperation Co., China Road Bridge Construction Corporation, and China Import and Export Group⁹⁷.

However, the fact that China's industrial development took place in a communist country should be considered. China's ability to industrialize should not be used as a 'one size fits all'

⁹⁴ Ndubuisi Ekekwe "Why Africa's Industrialization Won't Look Like China's." *Harvard Business Review*, 4 Sept. 2019, hbr.org/2019/09/why-africas-industrialization-wont-look-like-chinas.

⁹⁵ Nguku Grace Wanjiru, "External environmental factors influencing China- Kenya trade: A case study of the ministry of foreign affairs and international trade and Chinese embassy in Kenya." *Semantic Scholars*, University of Nairobi, Nov. 2013, pdfs.semanticscholar.org/dc28/ec1588929da597c6497d86218a8d7c08a2d6.pdf.

⁹⁶ Kennedy Mwengei, "A Study on the Impact of China's Investments in Africa; the Case of Kenya." *Finance Management*, 23 Mar. 2013, www.elixirpublishers.com/articles/1364041481_56A (2013) 13706-13714.pdf.

⁹⁷ Farooq Sabil Muhammad, "Kenya and the 21st Century Maritime Silk Road." *World Scientific*, 6 Mar. 2020, www.worldscientific.com/doi/pdf/10.1142/S2377740018500136.

program. One reason for China's quick success in industrial development was the mindset of the Chinese Communist society. Chairman Mao Zedong said, "At no time and in no circumstances should a communist place his interests first; he should subordinate to the nation's interest and the masses. Hence selfishness, slacking, corruption, seeking the limelight are most contemptible, while working with all one's energy, wholehearted devotion to public duty, and quiet hard work will command respect⁹⁸." Thus the work ethic and motivation come from the sense of duty to benefit the community without hesitation. This kind of mindset has been with the Chinese for decades. Thus it is unrealistic to expect that the Kenyans would be able to completely change their way of life and thinking to mimic China's industrial development process.

China is attracted to investing in Kenya because China's growing economy is thirsty for sustainable supplies of mineral resources⁹⁹. Hence, the Chinese government had decided to empower and support several domestic state-owned and private companies to pursue mining deals throughout the world¹⁰⁰. The mining deals that China employs in Africa are very diverse and often involve direct investments in mining projects, infrastructure, mineral resources "trade-in" deals, joint ventures, indirect investments, off-take agreements etc.¹⁰¹. However, if the main issue with China's aid is the access to Kenya's raw materials and markets and the export of natural resources out of Kenya, this will hurt Kenya's economy in the long run by undermining the ability of the local firms to exploit the same markets and resources¹⁰². Given Kenya's geographical advantage

⁹⁸ Communism and Computer Ethics, "Work Ethic and Motivation", <https://cs.stanford.edu/people/eroberts/cs201/projects/communism-computing-china/workethic.html>

⁹⁹ Ibid.

¹⁰⁰ Ibid.

¹⁰¹ Ibid.

¹⁰² Kennedy Mwengei, "A Study on the Impact of China's Investments in Africa; the Case of Kenya." *Finance Management*, 23 Mar. 2013, www.elixirpublishers.com/articles/1364041481_56A (2013) 13706-13714.pdf.C

and comparative strength in political stability and economic development, Kenya is considered the continent's focal point in China's "One-Belt-One-Road" policy¹⁰³.

The Chinese government is hoping that when the BRI is fully operational, it will benefit the oil export from Uganda and South Sudan, whose conflicts with the Republic of Sudan have made it challenging to export oil to China and other countries. As a result of the challenges in exporting oil from Sudan, the Chinese want to use the Kenyan route that would facilitate the shipping of oil from Sudan, so that the China's investment in Sudanese oil can bear fruit¹⁰⁴. Another reason for China's investment in Kenya is that China views Kenya as a gateway to the East African region and the focal point of China's trade and economic strategy in Africa¹⁰⁵.

Similarly, the discovery of oil fields in Northern Uganda has diversified oil import source markets for China. Because Uganda is a land-locked country and is neighboring Kenya, with the secure Kenyan route, China can advance the MSR into the African hinterland in the future¹⁰⁶. The Kenyan government sees this as a great opportunity as they believe that the MSR will increase the volume of exports and jobs and foster cultural and people to people exchange while creating a vast interconnected economic zone¹⁰⁷. Moreover, China is currently offering favorable loans to Kenya to construct hospitals and schools in less developed areas. China has malaria prevention and

¹⁰³ Ying Xia, "Chinese Agricultural and Manufacturing Investment in Kenya: a Scoping Study." *Chinese Africa Research Initiative*, Aug. 2019, www.static1.squarespace.com/static/5652847de4b033f56d2bdc29/t/5d657c6d44756300019e37ad/1566932078004/WP30XiaChineseInvestmentKenya.pdf.

¹⁰⁴ Farooq Sabil Muhammad, "Kenya and the 21st Century Maritime Silk Road." *World Scientific*, 6 Mar. 2020, www.worldscientific.com/doi/pdf/10.1142/S2377740018500136.

¹⁰⁵ Kennedy Mwengei, "A Study on the Impact of China's Investments in Africa; the Case of Kenya." *Finance Management*, 23 Mar. 2013, www.elixirpublishers.com/articles/1364041481_56A (2013) 13706-13714.pdf.

¹⁰⁶ Ibid.

¹⁰⁷ Farooq Sabil Muhammad, "Kenya and the 21st Century Maritime Silk Road." *World Scientific*, 6 Mar. 2020, www.worldscientific.com/doi/pdf/10.1142/S2377740018500136.

control centers as well as providing volunteers to train people¹⁰⁸. All these gestures of goodwill are used to support China's investments based on Kenya's best interest and Kenya's rapid development. However, the overall adverse effects of Chinese investments is quite alarming. In March 2018, the Washington-based Centre for Global Development identified Kenya as one of the three African countries at risk of debt distress as a result of its Belt and Road participation¹⁰⁹.

The increase in China's role in Kenya has created heated debates between economists not only from Kenya and internationally, whether the Belt Road Initiative will bring substantial development. The debt level is the most concerning and has made many people skeptical as the public debt surpasses \$50 BN, making Kenya become the 5th indebted country in Africa¹¹⁰. There have been claims that China is using "debt-trap diplomacy" to accomplish its foreign policy agenda¹¹¹.

¹⁰⁸ Farooq Sabil Muhammad, "Kenya and the 21st Century Maritime Silk Road." *World Scientific*, 6 Mar. 2020, www.worldscientific.com/doi/pdf/10.1142/S2377740018500136.

¹⁰⁹ David Herbling, "China's built a Railroad to Nowhere in Kenya." *Bloomberg*, 18 July 2019, www.bloomberg.com/news/features/2019-07-19/china-s-belt-and-road-leaves-kenya-with-a-railroad-to-nowhere.

¹¹⁰ Andrea Begleiter, "The Dragon Stretches its Wings: Assessing the Geopolitical and Economic Implications of China's Belt and Road Initiative in Pakistan and Kenya." *College Undergraduate Research Electronic Journal*, 1 March 2019, <https://repository.upenn.edu/curej/227>.

¹¹¹ Ibid.

4 Findings

4.1 Positive Impacts of Chinese Investments in the Kenyan Economy

Chinese investment in Kenya has shown some positive aspects. As noted in a World Bank report, Chinese businesses in Kenya employ, on average, 360 local employees, far higher than the average 147 local employees employed in other foreign-invested enterprises in Kenya. The investment has also provided students with scholarships through China's Xinhua News Agency set up a branch office in Nairobi since 1985. Furthermore, China has provided significant aid or low-interest loans to fund the construction of the Moi International Sports Center and methane generating pits, the expansion of Eldoret Hospital, and building the Gambogi-Serem Highway, among other projects¹¹².

The positive impacts are also seen in infrastructure and government projects. In the past, government construction projects in Kenya were characterized by inefficiency and these projects took longer than expected due to shoddy work, corruption and procrastination¹¹³. Many Kenyans have been impressed by how quickly the Chinese can work and complete tasks such as constructing roads and buildings in Kenya. Thus, compared to the Kenyan government projects, the Chinese workers show how their projects can be completed quickly and cheaply. The local Kenyan response has been one of approval and even amazement as it has also challenged the Kenyan companies to improve on their service quality. Through these actions, China has earned

¹¹² Farooq Sabil Muhammad, "Kenya and the 21st Century Maritime Silk Road." *World Scientific*, 6 Mar. 2020, www.worldscientific.com/doi/pdf/10.1142/S2377740018500136.

¹¹³ Anthony Njuguna, "China firms outmuscling Kenyan ones on road projects", Reuters, Nov 2. 2010, <https://af.reuters.com/article/topNews/idAFJOE6A10L520101102>

much community trust in Kenya and is known for helping create a favorable local business environment.

Western media, particularly the United States, expresses its skepticism about China's involvement in Kenya and views it as a form of 'debt-trap diplomacy'¹¹⁴. The idea of debt-trap diplomacy is rooted in the anxiety of China's rise as a global power rather than Africa's reality. For instance, Evan Feigenbaum of the Paulson Institute think tanks writes that treasury secretary Steven Mnuchin has counseled countries against taking Chinese money, warning it will lead countries into a debilitating cycle of debt, and asset stripping¹¹⁵."

Chinese companies have also had a positive influence in the country as they produce quality work, enhance competitiveness, and encourage discipline to deliver within deadlines, which has helped Kenya achieve its infrastructure development goals¹¹⁶. In Kenya today, there are many new roads, railways, power grids, and ports built in Kenya at previously unthinkable speeds. Kenya inaugurated a \$3.2 billion railway, funded by China that links the Capital city Nairobi to Mombasa's port. The railway is the biggest infrastructure project since its independence 50 years ago¹¹⁷.

The Standard Gauge Railway (SGR), was built with a symbolic meaning behind it as well. It will replace the current railway built by the British colonialists, which was known as a

¹¹⁴ W. Gyude Moore, "The language of "debt-trap diplomacy" reflects Western anxieties, not African realities", Sept 16, 2018, <https://qz.com/1391770/the-anxious-chorus-around-chinese-debt-trap-diplomacy-doesnt-reflect-african-realities/>

¹¹⁵ Ibid.

¹¹⁶ Farooq Sabil Muhammad, "Kenya and the 21st Century Maritime Silk Road." *World Scientific*, 6 Mar. 2020, www.worldscientific.com/doi/pdf/10.1142/S2377740018500136.

¹¹⁷ Duncan Miriri, "Kenya inaugurates Chinese- built railway linking port to capital." Reuters, May 31, 2017, <https://www.reuters.com/article/us-kenya-railways/kenya-inaugurates-chinese-built-railway-linking-port-to-capital-idUSKBN18R2TR>

‘monumental folly’. The symbolism is quite apparent as President Uhuru Kenyatta named the new railway line the ‘Madaraka Express,’ which was named after the Independence Day, June 1st when Kenya gained its independence from Britain. President Kenyatta seems to be celebrating the new SGR and the freedom from British colonialism; however, many Kenyans fear that they are introducing a new colonial power, China¹¹⁸.

In the manufacturing sector of Kenya’s economy, many products are being exported from China at a significantly lower price than products produced by European or American companies. The imports of cheaper Chinese products have enabled the Kenyan consumer to purchase these products which were never accessible to them in the past¹¹⁹. Some Kenyan consumers, such as the more impoverished population now can afford cell phones and other electronics. Access to cheap cell phones may have improved small businesses, and the overall quality of life by making communication easier. Along with the cheap electronics and cell phones, Chinese cars and auto-parts have been dominating the roads¹²⁰. These are just a few examples products that Kenyans have increased access to due to the affordability of such products from China. For many in Kenya, this has led to an improvement in the quality of life.

Due to the massive amounts of borrowed money, many have criticized this project to be putting Kenya into significant debt. However, the positive aspect of the SGR is that since the railway started transporting passengers and goods in 2017, the gross domestic product has risen a

¹¹⁸ Andrea Begleiter, "The Dragon Stretches its Wings: Assessing the Geopolitical and Economic Implications of China’s Belt and Road Initiative in Pakistan and Kenya." *College Undergraduate Research Electronic Journal*, 1 March 2019, <https://repository.upenn.edu/curej/227>.

¹¹⁹ Nils Ståhlkrantz, “The Tiger in the Cage: Discourse Surrounding China's Engagement in Kenya The Tiger in the Cage.” *ResearchGate*, Uppsala University, Jan. 2018, www.researchgate.net/publication/322696283_The_Tiger_in_the_Cage_Discourse_Surrounding_China's_Engagement_in_Kenya_The_Tiger_in_the_Cage.

¹²⁰ Ibid.

whole percentage point to 6.5 percent. The new railway has led to increased volumes of freight and faster clearing of cargo from Mombasa's port to the hinterland, which has saved costs and time that fuels economic activity¹²¹. The same journey on the former railway built by the British colonialists used to take 12 hours to travel the 472 kilometers but now takes only four hours. Therefore, businesses in Kenya are saving time and cutting costs. Also, passengers are enjoying a faster, cheaper and safer journey, and the increased freight-carrying capacity reduces wear and tear on the roads in the long run¹²².

4.2 Negative Impact of the Chinese Investments in the Kenyan Economy

Despite the positive results from the Maritime Silk Road initiative, the Kenyan government still has a responsibility to ensure that the Chinese firms do not profit at the Kenyan indigenous firms' expense. Policies and international agreements regarding the China-Kenya socioeconomic relationship must be a win-win for both countries. This section of the paper will provide information on how the manufacturing, textile, garment, agricultural, and artisanal 'Jua Kali' industries have been negatively affected by Chinese investments. It will also examine reported cases of labor laws, environmental laws, and discrimination of Kenyan employees.

Many Kenyans thought that deepening their relations with China and allowing them to invest in Kenya would provide more jobs for the Kenyans and training. However, a World Bank Research paper states that Chinese firms tend to rely on their low-cost labor and do not invest

¹²¹ Kwinga, Sammy. "KWINGA: SGR Tip of the Modernization Spear." *Daily Nation*, Daily Nation, 26 Feb. 2020, www.nation.co.ke/oped/opinion/SGR-tip-of-the-modernisation-spear/440808-5469982-vtik0nz/index.html.

¹²² Nancy Kacungira, "Will Kenya get value for money from its new railway?", BBC Africa, June 8. 2017, <https://www.bbc.com/news/world-africa-40171095>

heavily in the training and education of African workers¹²³. This business practice by Chinese firms has continued to hurt the development of local job markets. The negative impact of this practice goes beyond the singular construction project that is passed up for Kenyans. Plenty of Kenyan educated and skilled local people who could use the work experience are also losing these opportunities and are left jobless or forced to migrate to other countries to find a use for their education and skills, which leads to brain drain. Therefore, it has been suggested that in future infrastructure projects between China and African countries, a deal should be settled before starting the contract, on the percentage of local workers for technical and managerial staff to facilitate the capacity building of local workforce in Africa and ensure win-win cooperation between China and African countries in the long run¹²⁴.

4.2.1 Environmental Laws

A negative aspect of many Chinese companies is their disregard for Kenya's domestic regulations and policies, which is complicating and delaying matters. For instance, the railway line's construction was controversial as the railway passed through the Nairobi National Park. The Nairobi National Park is iconic to Kenya and home to wildlife such as lions, hyenas, and giraffes roaming in an area. The wildlife was already facing pressures from a burgeoning city but now had to deal with the railway construction and the accompanying infrastructure demands. The Kenyan conservationists thus resulted in a protest after a court order had already halted constructing a

¹²³ Ali Zafar, "The Growing Relationship between China and Sub-Saharan Africa: Macroeconomic, Trade, Investment, and Aid Links." *The World Bank*, 20 Apr. 2007, documents.worldbank.org/curated/en/617301468003942566/The-growing-relationship-between-China-and-Sub-Saharan-Africa-macroeconomic-trade-investment-and-aid-links.

¹²⁴ Farooq Sabil Muhammad, "Kenya and the 21st Century Maritime Silk Road." *World Scientific*, 6 Mar. 2020, www.worldscientific.com/doi/pdf/10.1142/S2377740018500136.

railway line inside Nairobi's famed national park since 2016¹²⁵. A coalition of interested parties appealed to the social environment tribunal in 2016, complaining about public participation. Despite the legal battles that were going on addressing the legality of the railway construction through the national park, the China Road and Bridge Corporation (CRBC) continued to use cranes and heavy machinery, while working inside an area guarded by armed rangers¹²⁶. While the conservationists insisted that the order to halt the construction was in place, they were told by the Kenya Wildlife Services (KWS) that the development was taking place legally. Jim Karani, a legal affairs manager of Wildlife Direct, who had been involved in the litigation, said, “What we have seen here is a hell-bent government on getting its way and building this project even in defiance of court”¹²⁷.

4.2.2 Labor Laws

There have been countless Chinese companies discriminating against local workers and violating the local law and provisions. In 2007, the Kenyan government passed Kenya's Employment Act to ensure equal employment and protect local workers' health, safety, and welfare. Many of the Chinese employers have been known to ignore the domestic worker's rights in Kenya. By supporting the corrupt and/ dictatorial regimes in Kenya, these employers can circumvent the local labor laws and provision¹²⁸. For instance, China Bridge and Road Corporation (CBRC), a state-owned Chinese construction company, which is also the most significant Chinese

¹²⁵ The Guardian, “Kenyan conservationists protest as Chinese company starts work on railway”, Mar 1. 2018, <https://www.theguardian.com/world/2018/mar/01/kenyan-conservationists-protest-as-chinese-company-starts-work-on-railway>

¹²⁶ Ibid.

¹²⁷ Ibid.

¹²⁸ Farooq Sabil Muhammad, “Kenya and the 21st Century Maritime Silk Road.” *World Scientific*, 6 Mar. 2020, www.worldscientific.com/doi/pdf/10.1142/S2377740018500136.

enterprise in Kenya, has been accused of firing workers without a cause, importing labor, stealing water from local communities and dredging sand discretely from Kenyan beaches for construction material¹²⁹.

Language barriers are considered to be the leading cause of misunderstandings between the labor office and the employees¹³⁰. For instance, if an employee misunderstands an order from the employer and does the wrong thing, the employer is likely to dismiss the employee. As a result, the employees can become greatly offended and result in labor strikes¹³¹. Being unfamiliar with the Kenyan employment system also contributes to labor disputes. However, Chinese companies investing in Kenya should be expected to learn about the country's customs and laws before conducting their business. Language barriers, misunderstandings about cultures and regulations, and other miscommunication forms force employees to turn to labor unions. Even for the MSR's future progress, ineffective communication is considered a significant hurdle for its future development¹³². Yet the lack of communication goes beyond cultural education and labor unions. In a labor strike in 2018, a labor officer complained that “Chinese companies are hard to reach because they always try to confuse the meeting by pretending that they don’t understand English¹³³.”

4.2.3 Manufacturing Sector

¹²⁹ Lily Kuo, “Kenya railway workers are protesting against their Chinese employer for a raise – to \$5 a day”, Aug 3. 2016, Quartz Africa, <https://qz.com/africa/749177/kenyan-rail-workers-are-protesting-against-their-chinese-employer-for-a-raise-to-5-a-day/>

¹³⁰ China House Student Fellows, “How Chinese Companies Deal with Labor Strikes and Unions in Kenya”, Sept 3. 2017, <https://chinaafricaproject.com/student-xchange/chinese-companies-deal-labor-strikes-unions-kenya/>

¹³¹ Ibid.

¹³² Ibid.

¹³³ Ibid.

China's investment in the Kenyan economy's manufacturing sector has concentrated on activities such as building materials and light manufacturing, intending to serve growing domestic markets in Kenya and neighboring countries¹³⁴. China has now become the largest financier for infrastructure in Africa as it funds one in five projects and constructs every third project according to a Deloitte report¹³⁵. Due to the infrastructure needs that the African Development Bank estimates at \$130 billion to \$170 billion yearly, governments are only too willing to take out Chinese loans to plug the funding gap¹³⁶. The Kenyan government took a multibillion shilling loan it received from China Exim Bank to build the gauge railway (SGR) in the Mombasa Port. The loan left the cash-flush Kenya Ports Authority (KPA) exposed to seizure by the Chinese in a default¹³⁷. There has also been a leaked report that shows that the Kenyan Government waived the port's sovereign immunity in 2013, to use it as a security for the Chinese loan.

One of the disadvantages of the competition that the Chinese companies have brought into the Kenyan manufacturing market is that the local small businesses cannot compete against the cheap Chinese imports. The average buyer prefers to buy the goods that are cheaper and that meet their needs. Although cheap goods from China can be beneficial to the local buyer as they are easily accessible, the reality is that the local Kenyan business owner has challenges keeping up with such competition from the Chinese companies.

¹³⁴ Ying Xia, "Chinese Agricultural and Manufacturing Investment in Kenya: a Scoping Study." *Chinese Africa Research Initiative*, Aug. 2019, www.static1.squarespace.com/static/5652847de4b033f56d2bdc29/t/5d657c6d44756300019e37ad/1566932078004/WP30XiaChineseInvestmentKenya.pdf.

¹³⁵ David Herbling, "China's Built a Railroad to Nowhere in Kenya." *Bloomberg*, 18 July 2019, www.bloomberg.com/news/features/2019-07-19/china-s-belt-and-road-leaves-kenya-with-a-railroad-to-nowhere.

¹³⁶ Ibid

¹³⁷ George Omondi, "Mombasa Port at Risk as Audit Finds It Was Used to Secure SGR Loan." *The East African*, 20 Dec. 2018, www.theeastafrican.co.ke/business/Mombasa-port-SGR-loan-default-Chinsa/2560-4903360-clh5nn/index.html.

4.2.4 Textile Industry

As for the textile industry, business owners complain that China's cheap goods are threatening the number of good manufacturing jobs available to Kenyan workers. The Kenyan business owners would like the Kenyan government to control the flow of imports and tax the imported goods¹³⁸. The head of African Cotton Textile and Textile Industries Federation, Rajeev Arora, said government policies are partly to blame for not providing a suitable economic environment so the local textile industries can compete with China on the price of the clothing¹³⁹. He said, "We keep saying China is a competitor, China is the country which is destroying the market, China is the one which has created this distortion of cost, which has been quite true," Arora said. "But we keep forgetting it's also us who are not able to build our own competition for China by upgrading our standard of production or technology or productivity or methodology to bring our cost down and our quality up"¹⁴⁰.

The local textile manufacturing sector suffers from competition from cheap Chinese imports. However, a greater issue is that the Chinese have duplicated the local goods and have been flooding the Kenyan market with duplicates manufactured from China¹⁴¹. An example of a duplicate 'traditional item' found in Kenyan markets is the fabrics known as the 'Kitenge.' 'Kitenge' is a term that encompasses Dutch wax print and other more modern takes on traditional patterns from around the continent. The best-selling brand of the *kitenge* in Kenya is called Anningtex,

¹³⁸ Mohammed Yusuf, "Chinese Imports Threaten Kenya's Textile Industry", July 12, 2013, VOA, <https://www.voanews.com/africa/chinese-imports-threaten-kenyas-textile-industry>

¹³⁹ Ibid.

¹⁴⁰ Ibid.

¹⁴¹ Ibid.

which happens to be produced in China. Not many people know this fact and the local vendors are usually unwilling to let the customer know where it is being produced¹⁴².

Many Chinese manufacturers have been known to take photos of the local product and produce it with the same designs. Taking pictures allows them to utilize Chinese manufacturing's cheap labor costs while still making a profit despite selling the products at a lower price. From a 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”¹⁴³. Many small business owners in Kenya are unable to keep up with such competition from the duplicates made. Unlike Chinese manufacturers, the Kenyans do not have the capital or machinery to produce cheaper goods at similar price points.

4.2.5 Jua Kali Sector

The artisanal makers in the informal sector, ‘Jua Kali’, is also affected by the duplication of products in China. Historically and culturally, a ‘Jua kali’ entrepreneur is known to be resourceful, creative and driven, and these qualities allow them to produce goods and services that help them earn a living. However, with the increase in competition, if a ‘Jua Kali’ carpenter decided to design and assemble a chair, he could quickly find dozens of replicas of his handcrafted and unique chair being sold on the roadside. When ideas are stolen so fast, it can discourage and

¹⁴² April Zhu, “Can a Chinese import ever be authentically African?”, Aug 21. 2019, African Arguments, <https://africanarguments.org/2019/08/21/can-chinese-import-authentically-african-kitenge/>

¹⁴³ Kennedy Mwengei, “A Study on the Impact of China's Investments in Africa; the Case of Kenya.” *Finance Management*, 23 Mar. 2013, www.elixirpublishers.com/articles/1364041481_56A (2013) 13706-13714.pdf.

Inhibit invention¹⁴⁴. Creating an extremely low-cost job was the ‘jua kali’ sector’s greatest strength. However, as a result of the competition, it is challenging for any enterprise to accumulate enough capital to operate on their own as a private shop¹⁴⁵.

4.2.6 Agriculture Sector

The agriculture sector is also affected negatively in Kenya. One of the most significant agricultural issues is the flood of cheap garlic imports from China. The average Kenyan garlic farmer is finding the competition too challenging. Currently, eighty percent of the garlic in the Kenyan market is from China¹⁴⁶. A Kenyan farmer named Munyua says, “Chinese garlic should be taxed high so that the Kenyan farmer can earn something.” He also questions the “win-win” notion that underpins the relationship is a reality. Munyua asks, “Is it beneficial for the common man?” Claiming that one group benefits the most from China’s presence in Kenya. "The politicians¹⁴⁷." Despite the negative impact of Chinese investments, not every Chinese migrant is sent by the Chinese government or works with them, many Chinese migrants are in Kenya as private entrepreneurs. However, as many businesses are being affected, it can affect how the Kenyans view the Chinese altogether.

¹⁴⁴ Steve Daniels, “Making do: Innovation in Kenya’s informal economy”, 2010, https://books.google.com/books?hl=en&lr=&id=W_ghblkxXY4C&oi=fnd&pg=PA2&dq=why+china%27s+industrial+development+strategy+doesn%27t+work+in+kenya&ots=Zd6RkwWJjO&sig=9hqIIFfs5oT0Z8RRLxnPEDbM7cM#v=onepage&q&f=false

¹⁴⁵ Ibid.

¹⁴⁶ Ismail Einashe, “China’s relationship with Africa is illustrated by garlic tensions”, May11. 2019, NBC News, <https://www.nbcnews.com/news/world/china-s-relationship-africa-illustrated-garlic-tensions-n994486>

¹⁴⁷ Ibid.

4.2.7 Dumping of Chinese imports

The impact of Chinese investment and aid to Kenya has been mixed. The low import prices of Chinese goods have reduced monopolistic tendencies among Kenyan enterprises. Yet, employees and firms are negatively affected by the influx of cheap products. These effects in turn trickle down to the national economy with both gains and losses¹⁴⁸. According to a 2018 survey conducted by Ipsos Synovate, many Kenyans had an unfavorable perception of China because of the threats posed by the cheap goods, for fear of fostering corruption and leading to job losses¹⁴⁹. A total of 38% of Kenyans think that continued relationship between Kenya and China will lead to job losses¹⁵⁰.

With increased imports and dumping of cheap goods comes increased competition where local producers go at a loss and eventually lead to many businesses and firms collapsing because they cannot stand the competition. Thus, many local employees who work for local firms, lose their jobs. One of the shocking statistics is that in 2015, Chinese exports to Kenya reached US\$ 5.9 billion, increasing by 20 percent compared to 2014; meanwhile, Kenyan exports to China witnessed a 28 percent increase, reaching US\$ 100 million¹⁵¹. The primary beneficiaries of these profits are the Chinese entrepreneurs and the African elites that partner with them and help them

¹⁴⁸ Ismail Einashe, "China's relationship with Africa is illustrated by garlic tensions", May 11, 2019, NBC News, <https://www.nbcnews.com/news/world/china-s-relationship-africa-illustrated-garlic-tensions-n994486>

¹⁴⁹ "China a Threat to Kenya's Economy, New Survey Shows." *The East African*, 6 Sept. 2018, www.theeastafrican.co.ke/business/China-threat-to-Kenya-economy/2560-4746008-nvxinkz/index.html.

¹⁵⁰ Ibid.

¹⁵¹ Ying Xia, "Chinese Agricultural and Manufacturing Investment in Kenya: a Scoping Study." *Chinese Africa Research Initiative*, Aug. 2019, [www.static1.squarespace.com/static/5652847de4b033f56d2bdc29/t/5d657c6d44756300019e37ad/1566932078004/WP 30 Xia Chinese Investment Kenya.pdf](http://www.static1.squarespace.com/static/5652847de4b033f56d2bdc29/t/5d657c6d44756300019e37ad/1566932078004/WP+30+Xia+Chinese+Investment+Kenya.pdf).

by arranging for access and resources. The average Kenyan worker is there to provide cheap labor along the way¹⁵².

Currently, these practices, to a certain extent, have hurt the relationship between the Kenyans and the Chinese. Some business owners have started to see the Chinese as a threat, which creates hostility. For example, an area known as Eastleigh or “little Mogadishu,” is known for the Somali population and for being a place of trade. Ninety percent of the goods that are sold there are from China¹⁵³. Mohamed Ali, who owns a menswear shop says, “The more cheap imports from China arrive in the market, the slower the business gets with more stores selling the same things”¹⁵⁴. Neil Carrier, author of a book on Eastleigh, *Little Mogadishu: Eastleigh, Nairobi’s Global Somali Hub* says, “It’s more about surviving these days when in the past it was about thriving¹⁵⁵.”

There is youth unemployment in Kenya at a crisis, and it currently stands at 22%. Many Kenyans blame the high levels of unemployment on the influx of Chinese investment, and there is a growing problem of mutual distrust between the Kenyan and the Chinese workers. The majority of the Kenyans believe that the Chinese project managers are inhibiting the skills that would

¹⁵² Nils Ståhlkrantz, “The Tiger in the Cage: Discourse Surrounding China's Engagement in Kenya The Tiger in the Cage.” *Research Gate*, Uppsala University, Jan. 2018, www.researchgate.net/publication/322696283_The_Tiger_in_the_Cage_Discourse_Surrounding_China's_Engagement_in_Kenya_The_Tiger_in_the_Cage.

¹⁵³ Lily Kuo, “The best days of selling cheap Chinese goods in Africa are over, May 2. 2017, Quartz Africa, <https://qz.com/africa/950377/the-best-days-of-selling-cheap-chinese-goods-in-africa-are-over/>

¹⁵⁴ Ibid.

¹⁵⁵ Ibid.

eventually lead Kenyans to take the lead¹⁵⁶. The Chinese Ambassador to Kenya, Sun Bohong attributed the delay in redistributing jobs to Kenyans to a language barrier¹⁵⁷.

However, language barriers are not accepted as the main reason for the delay of redistribution of jobs to Kenyans. Historically, and currently, there are numerous accounts of abuse of Kenyan employees under Chinese managers. In a widely-read *New York Times* piece published in October 2018, Kenyans described Chinese supervisors who directed racial slurs towards their Kenyan employees. The Kenyan workers interviewed in the article accused their bosses of barring them from operating trains unless a journalist is there to capture the moment.

4.3 The Role of the Kenyan Government in Facilitating the Chinese Investments.

4.3.1 The Political Background

President Uhuru Kenyatta won a second presidential term in August 2017. However, a month later, the court annulled the results due to technical issues in the votes' processing. President Uhuru still won the re-run in October 2017, despite the opposition group held by Raila Odinga by boycotting the polls. The re-run led to fear of a repeat of post-election violence in 2007/ 2008, due to similar ethnic issues¹⁵⁸.

¹⁵⁶ Andrea Begleiter, "The Dragon Stretches its Wings: Assessing the Geopolitical and Economic Implications of China's Belt and Road Initiative in Pakistan and Kenya." *College Undergraduate Research Electronic Journal*, 1 March 2019, <https://repository.upenn.edu/curej/227>.

¹⁵⁷ Ibid.

¹⁵⁸ Thomas Shipley, "Integrity Risks for International Business in Kenya." *Transparency International*, Transparency International Kenya, 20 Dec. 2018, knowledgehub.transparency.org/helpdesk/integrity-risks-for-international-businesses-in-kenya.

President Kenyatta had formerly branded his government as the ‘digital generation’ during his first presidential term in 2013. He planned to ease business regulations, reform the tax code, and improve the infrastructure, especially the energy supply and transport networks. For his second presidential term, President Kenyatta has promoted a more socially oriented program known as the “Big Four” agenda, which focuses on manufacturing, universal healthcare, affordable housing, and food security¹⁵⁹. According to a recommendation from the World Bank, the government should reprioritize and enhance public spending efficiency if it wants to make the Big Four agenda a success¹⁶⁰.

Historically, politics in Kenya was based on the formation of alliances between Kenya’s main ethnic groups. There are 24 ethnic groups in Kenya, and the largest ones are the Kikuyu, Luhya, Kalenjin, Luo, and Kamba. In total, they make up 66% of the population¹⁶¹. Thus, when they get into ethnic conflicts, it can become devastating, such as the post-election violence in 2007/2008. This way of conducting politics leads to a zero-sum game in which groups compete for the state's resources, which exacerbates the tensions during the election period¹⁶².

There are officials in Kenya who defend President Kenyatta’s borrowing spree. They believe that it is part of the efforts to upgrade the infrastructure investment, expand energy options and distribution, and improve transportation systems. However, critics argue that the increase in

¹⁵⁹ Thomas Shipley, “Integrity Risks for International Business in Kenya.” *Transparency International*, Transparency International Kenya, 20 Dec. 2018, knowledgehub.transparency.org/helpdesk/integrity-risks-for-international-businesses-in-kenya.

¹⁶⁰ World Bank. 2018. Kenya Economic Update. In Search of Fiscal Space. Government Spending and Taxation: Who Benefits?

¹⁶¹ Ibid.

¹⁶² Thomas Shipley, “Integrity Risks for International Business in Kenya.” *Transparency International*, Transparency International Kenya, 20 Dec. 2018, knowledgehub.transparency.org/helpdesk/integrity-risks-for-international-businesses-in-kenya.

lending from China will lead to dependency and could have the potential to entrap the nation in debt¹⁶³. All the adverse effects that have resulted from the Chinese investments should not be entirely blamed on the Chinese government. The Kenyan government also shares responsibility in signing the agreements and policies that are being carried out today. Similarly, the Kenyan government shares responsibility in setting up the law and enforcing laws to protect its citizens. In 2001, Kenya created the Labor Law Reform Agenda to promote equity and equality in the workplace. The Kenyan government must enforce these current labor laws and also pass more laws to protect against future violations by Chinese employers¹⁶⁴.

One of the main problems and issues is that Kenya's government has not been transparent with the deals and agreements it has been making with China. For instance, Kenya's citizens were not informed of the initial deal for the Mombasa-Nairobi railway, which was signed on May 11, 2014. The deal's details revealed that the pact would be governed by Chinese laws, with all disputes being arbitrated in Beijing. Also, the contract even has a confidentiality clause gagging Kenya from making the deal public, without permission from the lender, China¹⁶⁵. For many Kenyans, the confidentiality clause raises a lot of suspicion within the country.

The people of Kenya recently found out that Kenya may lose Mombasa, its largest and most developed port if it cannot pay back the loan from China¹⁶⁶. This news came as a shock to

¹⁶³ Abdi Latif Dahir, "China now owns more than 70% of Kenya's bilateral debt", Quarts Africa, July 10. 2018, <https://qz.com/africa/1324618/china-is-kenyas-largest-creditor-with-72-of-total-bilateral-debt/>

¹⁶⁴ *National Labour Law Profile: Kenya*. 17 June 2011, http://www.ilo.org/ifpdial/information-resources/national-labour-law-profiles/WCMS_158910/lang--en/index.htm.

¹⁶⁵ Edwin Okoth. "SGR pact with China a risk to Kenyan sovereignty, assets." Daily Nation, Jan 12. 2019, <https://www.nation.co.ke/kenya/news/sgr-pact-with-china-a-risk-to-kenyan-sovereignty-assets-127328>

¹⁶⁶ Kristin Huang, "Will China seize prized port if Kenya can't pay back its belt and road loan?" ,30 Dec. 2018, China Economy, <https://www.scmp.com/economy/china-economy/article/2180026/will-china-seize-prized-port-if-kenya-cant-pay-back-its-belt>

most Kenyans because it is something they never thought would be put on the line as collateral. As the SGR agreement states, “Neither the borrower (Kenya) nor any of its assets is entitled to any right of immunity on the grounds of sovereignty or otherwise from arbitration, suit, execution or any other legal process concerning its obligations under this Agreement, as the case may be in any jurisdiction,” Clause 5.5 of the Preferential Buyer Credit Loan Agreement on the Mombasa-Nairobi SGR reads¹⁶⁷. Also, Kenya is compelled to import goods, technology, and service from China. These are a few of the conditions in these agreements that were made between the Kenyan and Chinese governments.

The citizens of Kenya are expected to continue their skepticism of Chinese involvement and investment, but it may also be leading to the distrust of the Kenyan government. Some sympathizers may argue that Kenya was in a vulnerable position, and China was using a form of soft power. Still, ultimately it was the Kenyan government who chose to take the deal. Furthermore, Kenya is known to be a country with a lot of corruption. The East African Bribery Index illustrates the extent of the problem across Kenyan society as a whole. The index ranked the police (83.3/100), judiciary (44/100) and land services (41.7/100) as the most bribery prone institutions in Kenya, with a score of 100 indicating the worst score across five measures of bribery¹⁶⁸. With the current policies and agreements in place in Kenya, elites from the Agikuyu and Kalenjin clusters group of the African elite members may benefit from the China and Kenya relations more than the local Kenyan¹⁶⁹. The ethnic elites have been able to maintain their position

¹⁶⁷ Edwin Okoth. “SGR pact with China a risk to Kenyan sovereignty, assets.” Daily Nation, Jan 12. 2019, <https://www.nation.co.ke/kenya/news/sgr-pact-with-china-a-risk-to-kenyan-sovereignty-assets-127328>

¹⁶⁸ Ibid.

¹⁶⁹ Luke Obala, “Kenya and China”, May 22. 2014. Aljazeera Centre For Studies, <https://studies.aljazeera.net/en/reports/2014/05/2014522115544892973.html>

due to the networking among themselves by sharing information and assistance on opportunities in the capitalist sector¹⁷⁰.

These opaque deals work for many recipient governments as they let them build visible projects, which helps them win elections. The arrangements are also a source of income for corrupt politicians and their supporters¹⁷¹. Anzette Were, a development economist said, "African governments may be happy with the opacity, but African publics are not." She also says, "Fundamentally, the sentiments on the ground are really going to inform how successful and how well received their initiatives are in the country as a whole¹⁷²." High levels of background corruption have adverse effects on a country's economic performance by reducing institutional quality, undermining competitiveness and entrepreneurship, distorting credit allocation, and acting as a barrier to trade¹⁷³.

Corruption has a long-term harmful impact on the regulatory environment and the state apparatus's efficiency as it creates incentives for politicians and public officials to create more regulations, restrictions, and administrative procedures to have more opportunities to extort payments from citizens and companies. This form of corruption, in turn, is likely to exacerbate rent-seeking behavior and breed inefficiencies across the public sector¹⁷⁴. The closely related

¹⁷⁰ Paula Holst, "Kenyan capitalist narrative", A discourse analysis of online media reporting on the Global entrepreneurship Summit 2015 in Nairobi," 2016, https://muep.mau.se/bitstream/handle/2043/21110/Holst-P-DP16_for_MUEP.pdf?sequence=2&isAllowed=y

¹⁷¹ Eyder Peralta, "A New Chinese-Funded Railway in Kenya Sparks Debt-Trap Fears." *NPR*, 8 Oct. 2018, www.npr.org/2018/10/08/641625157/a-new-chinese-funded-railway-in-kenya-sparks-debt-trap-fears.

¹⁷² Ibid.

¹⁷³ Thomas Shipley, "Integrity Risks for International Business in Kenya." *Transparency International*, Transparency International Kenya, 20 Dec. 2018, knowledgehub.transparency.org/helpdesk/integrity-risks-for-international-businesses-in-kenya.

¹⁷⁴ Ying Xia, "Chinese Agricultural and Manufacturing Investment in Kenya: a Scoping Study." *Chinese Africa Research Initiative*, Aug. 2019, www.static1.squarespace.com/static/5652847de4b033f56d2bdc29/t/5d657c6d44756300019e37ad/1566932078004/WP_30_Xia_Chinese_Investment_Kenya.pdf.

problems of corruption, insecurity and political mismanagement have all held the economy back from achieving its potential¹⁷⁵.

Kenya's current partnership with China has both positively and negatively impacted Kenya's economy. The issues that negatively impact Kenya's economy, such as cheap Chinese products, do not put the blame solely on China or absolve the Kenya government. Chinese manufacturers, Chinese firms, and the Chinese government have taken advantage of the system's loopholes. Yet there is still hope that the Chinese loans to Kenya could be put to good use. However, the political corruption in the Kenyan government and the current foreign and labor policies may hinder Kenya from developing economically as quickly as desired.

5 Implications

5.1 Conclusion

This paper has examined the positive and negative impacts of Chinese investments in the Kenyan economy. The conclusion is that both China and Kenya are responsible for the implications and outcomes. The root causes of Kenya's current economic problem is corruption, opaque deals, and not being transparent to the public, racism, and discrimination in the workplace, unfair competition in the market, unemployment, and debt. This thesis aims not to portray the

¹⁷⁵ Thomas Shipley, "Integrity Risks for International Business in Kenya." *Transparency International*, Transparency International Kenya, 20 Dec. 2018, knowledgehub.transparency.org/helpdesk/integrity-risks-for-international-businesses-in-kenya.

Chinese investments and partnerships between China and Kenya in a negative light. Instead, the purpose is to reveal that China's aid and assistance are not based on genuine care and interest for Kenyan people. Therefore, the Kenyan government should sign the agreements with China, and make policies that ensure mutual benefit and does not put the Kenyan economy at a disadvantage or mortgage its future.

One of the first steps in ensuring that the Kenyan government can sign agreements that are beneficial to the Kenyan economy is by being transparent with the public about the terms and conditions. The Kenyan government should implement policies that ensure bilateral arrangements are made public so that the general public can vet projects. Moreover, other agencies such as Parliament, legislators, and state auditors should also exercise vigorous oversight roles and demand transparency on debt terms and spending plans¹⁷⁶. Since China is one of the main source of FDI, Kenya should try to attract FDI from other sources as well, in order to avoid dependency on China¹⁷⁷. If the Kenyan public is more involved in the decision-making process and better informed about the terms of the agreements made, Kenyans can decide for themselves and push for politicians that will genuinely benefit Kenya's development.

It is also imperative that Kenya and the Chinese government form new regulations to create a win-win situation. The Kenyan government needs to cultivate a political environment where such negotiations can take place. Mutual respect should be cultivated, commitment and cooperation to

¹⁷⁶ Joseph Onjala, "China's development loans and the threat of debt crisis in Kenya." Institute for Development Studies, University of Nairobi, July. 2017, <https://onlinelibrary.wiley.com/doi/abs/10.1111/dpr.12328>

¹⁷⁷ Apurva Sanghi & Dylan Johnson, "Deal or No Deal: Strictly business for China in Kenya?" *World Bank group*, March. 2016, <https://elibrary.worldbank.org/doi/pdf/10.1596/1813-9450-7614>

remove the doubts and distrust between them¹⁷⁸. It would be helpful if the Kenyan government renegotiated with the Chinese government to ensure that Kenya can gain more from the current investments in infrastructure. The renegotiation is critical as the infrastructure aid for Kenya's projects is currently tied to China's construction companies and importing the materials from china¹⁷⁹. These policies are affecting and will continue to affect the local Kenyan employers and employees by blocking them out of the bidding process for government projects and even sourcing materials and labor from China. As it stands, it costs more for Kenyans to outsource and pay for the Chinese operated projects. Thus, China should 'untie' the development assistance it provides to Kenya so that more Kenyan local firms can bid on the infrastructure projects and insist on local participation in Chinese funded infrastructure projects¹⁸⁰.

To increase employment and economic opportunities, policymakers need to consider the labor-intensive local industries. For instance, local manufacturers missed a valuable opportunity for capacity building, knowledge sharing, and long-term job creation for the SGR project. Policymakers are crucial in designing policies to help form linkages between small Kenyan firms, technical institutes, and Chinese contractors, treating the SGR project as a learning experience. With more significant ties, future infrastructure projects can draw from a larger pool of skilled labor and cut its costs¹⁸¹.

¹⁷⁸ Nguku Grace Wanjiru, "External environmental factors influencing China- Kenya trade: A case study of the ministry of foreign affairs and international trade and Chinese embassy in Kenya." *Semantic Scholars*, University of Nairobi, Nov. 2013, pdfs.semanticscholar.org/dc28/ec1588929da597c6497d86218a8d7c08a2d6.pdf.

¹⁷⁹ Mohamed Abokor Elmi, "A New Approach? The Impact of China's Development Aid on Kenya", Aug. 2012, <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.1031.2759&rep=rep1&type=pdf>

¹⁸⁰ Ibid.

¹⁸¹ Apurva Sanghi & Dylan Johnson, "Deal or No Deal: Strictly business for China in Kenya?" *World Bank group*, March. 2016, <https://elibrary.worldbank.org/doi/pdf/10.1596/1813-9450-7614>

The government agencies should also put up measures such as raising tariffs on imports and ban the imports through policy rules, to avoid dumping of Chinese products and duplicates that cause local manufacturers to go at a loss. To ensure this measure is taken, the Kenya Bureau of Standards and the anti-counterfeit agency should create awareness to buy substandard goods. Furthermore, the Kenyan government needs to improve the local market by promoting Kenyan products¹⁸². Majority of the Kenyan products come from the informal 'Jua kali' sector, which has provided employment for 80% of the labor force over the years¹⁸³. In 1956, the Kenyan government wrote of the informal sector as a powerful channel for economic growth. The government's sessional Paper No. 1 of 1986, for example stated, "Obviously the modern, urban, industrial sector cannot be dependent on to employ much of the growing work force. To employ people on small farms, in very small-scale industry and services, or self-employment takes only a fraction of the £ 16,000 per worker required in the formal sector. Clearly the bulk of the work force will have to be productively employed in these activities¹⁸⁴."

Despite how the government in the 1950's viewed the informal sector, it focused on developing export processing zones (EPZs) and established formal enterprises, providing incentives such as 10- year tax withholding, expedited project approval and business inputs such as machinery¹⁸⁵. The EPZ program does not benefit the 'Jua Kali' sector, as no technology or capital is transferred. There have also been cases where policemen have been accused of harassing those who work in the 'Jua Kali' sector. The harassment adds to the challenges for running their

¹⁸² Apurva Sanghi & Dylan Johnson, "Deal or No Deal: Strictly business for China in Kenya?" *World Bank group*, March. 2016, <https://elibrary.worldbank.org/doi/pdf/10.1596/1813-9450-7614>

¹⁸³ Steve Daniels, "Making do: Innovation in Kenya's informal economy", 2010, https://books.google.com/books?hl=en&lr=&id=W_ghblkxXY4C&oi=fnd&pg=PA2&dq=why+china%27s+industrial+development+strategy+doesn%27t+work+in+kenya&ots=Zd6RkwWJjO&sig=9hqIIFfs5oT0Z8RRLxnPEDbM7cM#v=onepage&q&f=false

¹⁸⁴ Ibid.

¹⁸⁵ Ibid.

enterprises amidst the competitive market environment. The Kenyan government should believe in its citizens and invest in the local way of conducting business instead of completely following the modernization approach. The Kenyan government must commit to empowering the 'jua kali' sector by providing sheds, electricity, and other incentives, so the industry that makes up most of the labor force can grow, leading to an overall improvement of the economy and standard of living.

Most importantly, China must be held accountable for the dumping of cheap imports, violating labor laws, and other practices that are harming Kenya's economy. These business practices, trade agreements, and policies by the Chinese government are not just impacting Kenya, but are also practiced in East Africa. As Kenya is considered China's gateway to East Africa, Kenya's own leverage also includes China's ability to access all of East Africa's resources such as Uganda's oil fields. For the present and the future of Kenya's economy, the Kenyan government should always involve the East African Community (EAC) in viewing its agreements with China. As Kenya is already part of the East African Community (EAC), Kenya has a unique opportunity to partner with the other countries in Africa to pressure China to make economic concessions and guarantee mutually profitable growth for both countries. By doing so, Kenya's government can solve their current and future financial problems and create a better future for all Kenyans¹⁸⁶.

¹⁸⁶ Mohamed Abokor Elmi, "A New Approach? The Impact of China's Development Aid on Kenya", Aug. 2012, <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.1031.2759&rep=rep1&type=pdf>

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