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RESEARCH ARTICLE OPEN ACCESS

China-Kenya Economic Engagement: A Win-Win

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Abstract

With the recent trends of bilateral relations of China with African countries there is a wave of plenty of questions as to whether these relations are of equal benefit. The Chinese presence in Kenya has offered a unique stability in Kenya's economic and political stability. Nonetheless, the introductions of Chinese firms and products have "raised the bar" for the local industries which struggle to compete in terms of prices and efficiency. The objective of this study is to assess whether the relations between Kenya and China are a win-win situation or not. The study concludes that the China-Kenya relations are beneficial for both; however they yield more profits to China, and more question marks to Kenya. The paper observes that this means that there is room for more development, and hence the study suggests on how Kenya should maximize on these opportunities in order to achieve growth.

Background Information

The African continent has always been known not only for the abundant poverty and hunger that strikes its nations, but also for its convenient, yet widely different, types of weather, and more importantly for the abundance of natural resources (Atinmo et'al, 2009). At that point, European powers were mostly interested in the natural resources coming from the African continent (Alemazung, 2010).This could have been caused by the competition that was taking place during that time among the European superpowers, which were struggling to become the most dominant power in the region. Therefore, this competition might have been what led them to not only occupy landmass in Africa, but also to use some of its people to extract their own resources. It was during the second half of the 20th century that most of the African colonies became independent from the European nations.

The independence of most African nations took place in a much synchronized manner during the period of the Cold War. Their ability to gain independence resulted to African communities having their political freedom and forming their own states. Nonetheless, African states continued to have ties with their former colonies. Such is the case of the Common Wealth states which is formed by Britain ant its former colonies from all over the world (Vishra, 2008). For the first years of their independence, African states were part of the battle ground of the Cold War. After the Cold War was over, a majority of African states became allies with Western nations. However, there were issues that remained largely of concern in Africa. Menghestab points out that the efforts made in combating issues such as poverty and food security relatively meant little progress in Africa (2005).This is likely to have triggered African nations to search for other forms of economic support alternative to the

Western economic ties. At the same time, China had been increasing its economic might. According to Gu, Humphrey and Messner, Chinese interests in the African continent has grown exponentially in the 21st century (2007). This is how China has managed to create a strong economic bond with many African nations whose economy heavily depends on the South Easter Asian state. Gadzala, suggests that the three main forms of economic approach by China in Africa consist of trade, aid and foreign direct investment (2009).

Within the African continent, there are specific allies of importance to China. One such key ally in Eastern Africa is Kenya. This is due to being the most viable country for business. Because of its relative stability and economic strength compared to the rest of the countries in the region, Kenya is a good candidate for China as an reference economic partner in the region. However, in the eyes of Gadzala, China-Kenya relations can have both positive and negative impacts in the Kenyan economy (2009).

In the words of Onjala:

> “China views Kenya as a gateway to the region and it has become a key focus of China’s trade and economic strategy in Africa. Being a war-free country with stable political situation has made Kenya an ideal regional base for Chinese investors to expand their business in Africa” (2008, p.9)

According to the Star magazine

> “China has overtaken the World Bank to become Kenya's single largest creditor, accounting for 72% of the total debt owed to foreign lenders. In just over 10 years since Republic of Kenya turned from West to East, the government has borrowed Sh 534 billion from China, slightly more than Sh 508 billion owed to the World Bank who was the leading lender” (2018).

In this context, the question is whether the financial relations with China is sustainable enough. The increasing dependence on the Asian colossal and its loans and investments might not be entirely healthy to the Eastern African nation. According to the Daily Nation, every Kenyan citizen owes lenders KES 110,000 of which, the largest owed lender is China (2018). This amount can only increase if the Government of Kenya continues to take loans from China.

There is no doubt that the Chinese relations with Kenya, as well as with other developing nations are mostly tied by financial bounds. In general, China's economic and political position in the worldwide arena is somewhat distinct. This is because China can easily identify with many developing nations due to its vast population percentage living in poverty, yet often, when it comes to international forums, China is not at the forefront of the discussions representing the interests of the developing nations (Gu, Humphrey & Messner, 2007). It is important to understand that China's engagement with most nations in the world is seen through the financial spectrum. Hence, in order to better understand the relation between China and Kenya, there are basic components that need to be consider. These are not only legal trade, but illicit trade too, together with Chinese FDI and Chinese foreign aid. The role each country plays on these factors is key in determining the nature of relation between the colossal from South-Eastern Asian, and the leading economy from Eastern African.

Statement of Research Problem

In the last two decades, China has gradually increased its interest in Africa. Generally, its interactions with African states come often in the shape of trade, FDI and foreign aid. Considering the effects of Chinese economic might on a continent which is in the search for development, China's true intentions in the African continent are followed by a question mark. This is mainly due to the fact that Chinese intervention has had a wide range of outcomes which attract both criticism and compliments. Therefore, taking China-Kenya economic relations as a case study, this research poses the question: are China and Kenya's economic activities a win-win for both?

Objectives of the Study

This research will give the reader:

1. A thorough understanding of Kenya–China relations.

Methodology:

Due to the fact that documenting and analyzing the impacts of Chinese economic engagement in the whole of Kenya would have been inconsistent with the time assigned for such a task, this paper will use secondary sources of information such as journal articles, news media online articles, and statistical information from reliable websites specialized in the matter.

Trade, Foreign Direct Investment and Foreign Aid

In regard to trade between Kenya and China, the initial perception on the nature of these relations is the same as the trade patterns that are expected in the US-Kenya trade relation. In other words, it is expected more value in the Chinese goods imported into Kenya than the value of Kenyan goods exported to China. Indeed, according to the United Nations COMTRADE database on international trade, Chinese goods imported into Kenya came to a total value of USD 2.12 billion in the year 2013 (Trading Economics, 2019). Most of these products are manufactured goods, which means that they have an added value. Most of these manufactured goods imported from China into Kenya are electronic equipment, machinery, nuclear reactors, boilers, vehicles, rubber, plastic among others. In terms of raw material, Kenya imported iron and steel from China among others.

However, the imports of Chinese products into Kenya are not limited to this official numbers. To a larger extent, Kenya imports a huge number of counterfeit goods mainly through the black market. Patroba argues that these goods are also manufactured (meaning they have an added value), and not only are they similar to other products from reknown international brands, but also they are cheaper than most local goods available in the Kenyan market which fit in in the same category as these counterfeit products (2012). Therefore, the value in regard to imports of products of Chinese origin into the Kenyan market is likely to be much higher than the official numbers.

In the case of the Kenyan goods exported to China, the United Nations COMTRADE database on international trade indicates that the total value of these goods was estimated to be of USD 166.82 million in the year 2017 (Trading Economics, 2019). Most of these goods are Ores, slag, ash, together with raw hides and skins, woven fabrics and other agricultural goods (among others). Hence, it is now possible to see the huge gap between of income from imports and exports between these two nations.

In the context of FDI, China and Kenya have exponentially increased their relations in the last two decades as far as investment is concerned. As Hilary Patroba indicates, by 2010, China had already become Kenya's main FDI source (2012, p. 5). Chinese FDI came when Kenya needed it the most. According to Onjala, most investors were discouraged from investing in Kenya after the 2007-2008 post-election crisis (2008). This is because as stability attracts both local and foreign investment, instability repels it. That is how Chinese FDI became easily the largest source of FDI in the Eastern African country. Onjala further argues that Chinese FDI in Kenya has some positive aspects because it contributes towards revitalizing the local economy as well as promoting the transfer of technology (2008). Nonetheless, it is worth to note that Onjala also suggests that the labor conditions which come with Chinese businesses employment are known for being below the Western standards (2008, pp. 21-23).

Aid from China to Kenya is mainly present in the form of development assistance. As indicated by Onjala, Chinese aid flowing into Kenya is not limited to monetary forms of aid, but also non-monetary (2008). Among many other initiatives, China offers training, capacity-building, and scholarships, together with machinery and technical equipment as aid. Besides the projects offering that form of aid, China has a considerable number of many more projects in Kenya which have the potential to be very positive to the country in the long run. Among the most famous Chinese projects such as the construction of the Thika Superhighway, and the construction of the Standard-Gauge Railway (SGR), there are also other projects done in the country.

Onjala underlines that:

> "[most notably, there is] the Moi International Sports Complex project in Kasarani, supply of medical equipment and drugs, the upgrading of the Moi Referral Hospital in Eldoret, Concessional Loans for construction of various roads, including Kipsigak – Serem – Shamakhoho road, Kima/Emusustwi Road and the Gambogi-Serem road and a Maize Flour Processing Project in Bomet town". (p. 36, 2008).

All these are by far some of the most famous projects done in the country.

World Views, Theories and their Applicability

The selection of the following contending world views was based on the core assumptions that govern each of them. In the Mercantilist perspective, the win of one state is the loss of the other. This is known as the Zero-Sum Game. In this context, cooperation is often seen as difficult to attain. If any cooperation is attained, it comes as a result of states attempting to balance the power distribution in the international system. In the case of Neo-Liberalism, the assumption is that the individuals, companies, organizations and states can cooperate in order to achieve a "win-win" situation where there is no loser but winners. This is reflected through the Non-Zero-Sum Game. As per Structuralism, whether through the Dependency Theory, or through the World Systems Theory, this world view differs from the Mercantilist and Neo-Liberal assumptions by implying that the systems in place tend to favor the dominant groups, while relegating the vast majority.

Mercantilism and the Zero-Sum Game.

As a world view, Mercantilism sees the international market as the means by which the strong states prey on the smaller states. In Mercantilism, a state attempts to amass wealth through maximizing their gains from trade with other states, and through minimizing their losses. The Zero-Sum Game proposes a situation whereby if country "A" wins, then country "B" loses. Based on the realist notion that human beings are selfish, and given that humans have to live in an environment where resources are scarce, cooperation is not possible, unless it aims at fulfilling the interest of the state. In this regard, country "A" (China) seeks to have a notable impact in country "B" (Kenya), and so it engages in trade because it is more beneficial to China.

The Mercantilist model is very much relevant in the Kenya-China relations also due to the various economic developments the Chinese are making in Kenya in return for various trade agreements. Emerging powers like China have used their great engagement in Africa as part of the attempt to gain recognition as a major power in the international scene. For instance, the various infrastructural projects that are being financed by the Chinese Government in Kenya can be seen as a way to expand Chinese interest throughout the country. Moreover, the value of the various manufactured goods as Chinese exports cannot compare to the value of the raw material or basic goods which Kenya exports to China. As earlier observed, the deficit between imports and exports is favorable to China. Therefore, Chinese economic interests are maximized whereas Kenya makes relatively smaller gains. Hence, Kenya becomes the loser in this game because it does not benefit as much as China, and therefore China increases the gap between them and Kenya. Furthermore, due to their economic ties, and given the imbalanced trade deficit, together with the large number of projects and investments in Kenya, one could argue that China is a very influential actor in the Kenyan economy and politics.

Neo-Liberalism and the Absolute Gain

In contrast to the Zero-Sum Game, in the eyes of Neo-Liberalism, the Non-Zero-Sum Game explains a situation whereby individuals do not fight for resources, but rather, cooperate to maximize their gains. In this context, individuals and states are interconnected, and therefore need to collaborate in order to achieve the best profits possible. A victory for person/state "A" becomes a victory for person/state "B" affecting the group positively, whereas a loss for person/state "A" becomes a loss for person/state "B", affecting the group negatively (Raghavan, 2002). In applying this concept to International Relations, both individuals cooperate in gathering resources and producing goods in order to obtain more profit. The individuals focus on their area of specialization in order to spend less and produce more, so long as they can earn more in the shortest period of time possible. Then the goods or services are provided to the other individuals who have also goods which were produced in a cost-effective way. If individual "A" has a problem, this is likely to bring a loss to the entire group. Therefore, individual "B" can intervene in order to avoid loss or to ultimately promote the absolute gain of both individuals.

In terms of trade, the line is blurring. On one hand, Kenya's exports to China are considerable to its economy, and Kenya does import manufactured goods such as electronics and machinery, which are essential to the industrialization of the country. On the other hand, as earlier mentioned, the deficit gap in exports and imports between China and Kenya is rather imbalanced. This deficit is greatly favorable to China and not so much to Kenya's economy. Also, the presence of counterfeit goods plays a negative role in the Kenyan market (Patroba, 2012, pp. 12-16). This is because Chinese counterfeit products are more affordable to the demand in Kenya than the very products of Kenyan origin. Even though many of the counterfeit products might not be up to the standards of the original products sold in the same category. Yet, due to its affordability, they can be a threatening competition to the local industries. Hence, it is fair to argue that in terms of trade, China has a larger upper hand over Kenya. The trade imbalance is such that the Chinese government and the Kenyan government are said to be looking for ways for reducing this gap (Patroba, 2012, p.7). That is why it comes out as challenging to argue that the trade situation between China and Kenya is a win-win situation for both countries.

In regard to the Chinese FDI and foreign aid coming into Kenya, they not only provide technology transfer (from FDI) and infrastructural development (through the building of roads), but they also revitalize the economy of the country. This goes hand-in-hand with the Non-Zero-Sum Game because we can identify two actors (China and Kenya), and in this case one of the actors (China) is facilitating FDI into the other actor (Kenya), arguably resulting into a beneficial outcome for both. Nonetheless, as much as Chinese FDI into the country could present some concise advantage for Kenya's path towards strengthening its economy, this could lead the Kenya's economy to be strongly attached to Chinese investment, and therefore the control of the Kenyan economy could consequently lie in Chinese interests and not in Kenya's interests.

It is important to note that the relationship between China and Kenya can be viewed by many as a beneficial investor-donor business partnership that has contributed towards the economic development of the Kenya and towards furthering the economic might of China. This gives room to also argue that the relation between these countries could be a win-win situation. However, there are certain factors that put question marks in this argument. For instance, the introductions of some Chinese firms and projects have affected some industries in Kenya. Patroba indicates that the Government of Kenyan has opted to use Chinese firms and contractors instead of Kenyan contractors for many construction projects, and this has greatly contributed to severely affect the construction industry (2012). In this context, Patroba underlines that the local Government passed the blame to the local contractors alleging among other reasons that local contractors had several issues such as unfinished projects, and low construction standards (2012, p.16). In this regard, it is possible to argue that the Kenyan Government is not supporting the local industries, and remains unbothered by the Chinese competition. Patroba also indicated that the Kenyan government has shown confidence in the Chinese companies due to the work they have done in the country (2012, p.13). Therefore, the extent of the beneficial aspects of this situation is debatable at the very least.

The relations between both countries are very complex. On the one hand, it is easy to argue that in the overall picture, it is disadvantageous to Kenya because of the observed imbalance in imports and exports in as far as trade between the two countries is concerned. Aside from this trade imbalance, there is further damage caused to the Kenyan economy through the introduction of counterfeit goods. The affordability of these types of goods makes them strive in the Kenyan market, and therefore they are a threat to the competing local industries.

However, on the other hand, it is also possible to argue that their relation is also beneficial to Kenya. Through FDI and foreign aid, Kenya has arguably the potential for expanding further as far as infrastructural development is concerned. This coupled with the large number of employment opportunities that are foreseeable to come with Chinese investment and aid in Kenya could yield a positive impact in Kenya's economy. Moreover, the good will of the Government of China should be highlighted. In this context, it is important to mention once again that not only the Kenyan Government but also the Chinese Government are concerned with the gap between these two nations when it comes to trade, and they are both trying to address this gap. Patroba indicates that one of the possible solutions to this would be to encourage the trade of some finished products coming from the East African Community (EAC) to China (2012, p.7).

Conclusion and Recommendations

As an overall, it is important to remark that the current trend of "going to the East" seems to be unavoidable for African states, and more precisely in this case, for Kenya. The question that has governed the relations between China and Kenya asks whether their relations are beneficial for Kenya. This leads to the first conclusion, which is the fact that there is a high level of certainty that the China-Kenya relations are undoubtedly beneficial to China. Hence, the second conclusion that can be drawn from this is that China is probably benefiting more than Kenya. The third conclusion that has been identified is that if the relations between China and Kenya are more beneficial to China, there is probably room for yielding more benefits for Kenya. Hence, perhaps the following question for scholars and researchers should not necessarily ask whether the economic ties between Kenya and China are beneficial for both or not, but rather whether there is something for Kenya to do in order to maximize and enjoy its share. For this to happen, Kenya should do what China has done best, which is to take advantage of the rules of the capitalism and maximize where it gathers most profits.

In terms of trade, there is a need for both, economic and political framework to attempt to decrease the deficit between imports and exports to China. This should be done by developing the necessary means of production for manufacturing products with some of the material which is exported to China. In doing so, not only the export values will change, but it will also stimulate the local industry, creating a sense of domestic protectionism which will thus attract more investment. The Government of Kenya, should come together with the government of China in order to combine their efforts to stop the influx of counterfeit products into Kenya. This will help in sustaining the local industries.

In regard to Chinese FDI flowing into Kenya should be embraced to a certain level. In order not to become excessively dependent on Chinese investment in the country, Kenya should attempt to strengthen its local industries perhaps by using certain level of protectionism. This would not only ignite the domestic economy, but it would also promote the development of the local industries, encouraging them to produce manufactured goods which could later be exported with added value. Kenya should also strengthen its ties with other countries in the region such as Tanzania and Uganda to provide a suitable environment to attract more FDI from them. Moreover, a limiting quota of FDI per country could also be considered so as avoid total dependency on a specific country such as China in this case. Nevertheless, this is a sensitive measure which might not be necessary in view of the success of the ones previously suggested.

Finally, as far as foreign aid is concerned, Kenya should maximize on these opportunities as long as it provides the development the country requires. Unlike the US, China does not provide military or relief aid, but development aid. At this point in time, infrastructural development is what Kenya needs. Hence, the current aid Kenya is receiving from China might be the best Kenya could hope for. Perhaps by maximizing in all the aforementioned forms of economic engagement with China (trade, FDI and foreign aid), Kenya could start minimizing its need for loans from China. Eventually, this path might gradually lead the African state to achieve certain levels of economic self-sustainability. In such ideal case scenario, Kenya would not only be able to stand as a strong African economy, but it could also assist as a model nation for other neighboring nations, and it could even start to pay off the debt to China.

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