

A New Approach? The Impact of China's Development Aid on Kenya

By
Mohamed Abokor Elmi

A Thesis Submitted to
Saint Mary's University, Halifax, Nova Scotia
in Partial Fulfillment of the Requirements for
the Degree of Master of Arts in
International Development Studies

August, 2012, Halifax, Nova Scotia

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Approved: _____
Dr. John Measor
Thesis Supervisor

Approved: _____
Dr. Anthony O'Malley
First Reader

Approved: _____
Dr. Stephen Brown
External Examiner

Date: August 16, 2012



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Abstract

Kenya has increasingly been the focus of China's development assistance over the last decade. Thus, the country has received billions of dollars worth of aid from China to develop industries, expand infrastructure and encourage trade. Indeed, 'China's approach' to development assistance, as it has been termed, has been welcomed by the Kenyan government because it is viewed as a means to help the country improve its dire social and economic standing. However, the consequences have yet to be studied and the negative impact of China's approach has yet to be analyzed. As a result, the objectives this thesis include empirically establishing the implications of China's approach to official development assistance, merging trade, foreign direct investment (FDI), and bilateral assistance, is having on Kenya. This thesis utilized a variety of complimentary methodological approaches in order to ascertain the implications of China's approach. The evidence to support this qualitative thesis is based on both primary and secondary sources. Throughout this thesis, I will argue that current trends all point to China's economic and geo-strategic needs rather than Kenya's developmental needs.

August 16, 2012

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Abbreviations and Acronyms

ADS	Approved Destination Status
AERC	Africa Economic Research Consortium
AfDB	African Development Bank
CADB	China Agricultural Development Bank
CBIK	Centre for Business Information Kenya
CDB	China Development Bank
EAC	East African Community
EPC	Export Promotion Council
EPZ	Export Processing Zone
EU	European Union
Exim Bank	China Export-Import Bank
FDI	Foreign Direct Investments
FOCAC	Forum on China - African Cooperation
ICC	International Criminal Court
ICT	Information and Communications Technology
IDP	Investment Development Path
IFIs	International Financial Institutions
IMF	International Monetary Fund
ISI	Import Substitution Industrialization
KANU	Kenya African National Union
KeNHA	Kenya National Highways Authority
KenInvest	Kenya Investment Authority
MDG	Millennium Development Goals
MNC	Multinational Corporation
MOFCOM	Ministry of Commerce of China
MOU	Memorandum of Understanding
ODA	Official Development Assistance
ODM	Orange Democratic Movement
OECD	Organisation for Economic Co-operation and Development
OFDI	Outward Foreign Direct Investment
PNU	Party of National Unity
SAP	Structural Adjustment Programme
SME	Small and Medium Enterprise
SOEs	State Owned Enterprises
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
ZTE	Zhongxing Telecommunication Equipment Corporation

Chapter 1: Introduction

1.1: Background: posing the problem

Since 2000, Kenya has emerged as a large recipient of China's development assistance and consequently bilateral cooperation between the two countries has increased at a rapid pace. Accordingly, Kenya has received billions of dollars worth of development loans and grants from China to improve social development, expand infrastructure and encourage trade. To facilitate this expanding bilateral relationship, Kenya is home to the largest Chinese embassy, in terms of size and the number of staff, on the African continent (Onjala, 2008b, p. 4). The Kenyan government has actively sought and welcomed China's assistance because it is viewed as an antidote to the failed aid prescriptions of the West. The unique method employed by China to deliver its aid, commonly referred to as 'China's approach' to development assistance, is often presented as another means to help Kenya improve its dire social and economic standing. However, the consequences have yet to be studied and the negative impact of China's model has yet to be analyzed. Kenya, for instance, has a huge and growing trade deficit with China. Another dilemma has been that infrastructure aid is, in fact tied to the employment of Chinese companies and the use of Chinese-sourced materials. As a result, my thesis will study the implications China's approach to development assistance, Foreign Direct Investment (FDI), and trade are having on Kenya.

1.2: China's approach to development

China promotes an approach to development that has three components (Onjala, 2008b; Taylor, 2009; Brautigam, 2009). The first aspect of China's development assistance to

Kenya encourages trade and accordingly, China's trade with Kenya has grown substantially (and continues to grow) over the last decade (CBIK, 2011). Kenya has increased the volume of commodities sent to China, in return for low-cost manufactured goods. The second characteristic encourages direct investments of Chinese companies in Kenya through state-backed loans. FDI from China has flowed into Kenya from both State Owned Enterprises (SOEs) and private Chinese enterprises. Examples of China's direct investment in Kenya include the creation of textile industries within Export Processing Zones (EPZs), Chinese vehicle companies opening assembly plants, and even the country's booming Information and Communication Technologies (ICTs) sector is financed with the help of Chinese multinationals. The final component of China's approach directly allocates aid to certain projects, such as the construction of hospitals and schools, capacity building in areas such as Small and Medium Enterprises (SME), as well as agriculture, while another portion of the aid funds educational exchanges between the two countries (Kaplinsky, McCormick, & Morris, 2007, p. 32). These three intertwined elements of China's development assistance are promoted for Kenya to embrace.

The theoretical core at the centre of China's foreign aid policy approach is the concept of 'sovereignty'. This approach is heavily influenced by China's own experience as a developmental state. In contrast, the dominant Western model has increasingly focused on inserting and attaching numerous conditions on aid recipients so as to improve the development 'project'. As a result, the Western model fermented a backlash with many positing that these conditions infringe on developing countries' ability to choose their own development path. However, China emphasizes, within its foreign

policy, the idea of non-interference in the domestic politics of recipient countries, including the notion that each country is ultimately responsible for the path of development that it chooses (China, 2011). This includes allowing the recipient country to prioritize their development projects. With those core theoretical underpinnings, China emphasizes a 'win-win' relationship when it comes to the assistance that it gives developing countries. The 'win' for developing countries is a willing destination of traded goods, improved infrastructure and investment into the social sectors like education and health. The 'win' for China includes increased access to natural resources, access to more consumers for its goods, and most importantly international diplomatic support (Taylor, 2006). Parallel to these foreign policies is the 'Go Global' policy, which encourages Chinese companies to expand outside its own borders. All in all, China has become a significant player in the development arena.

China's economic and political rise has shifted global discourse surrounding development. The global power dynamic is pivoting eastwards towards China. As a result, China has increasingly been projecting its political as well as economic power. China is now the world's second largest economy, with a growing middle class, fuelling China's insatiable appetite for natural resources. The African continent is one place that China has turned to address these needs. For these reasons, China has been building roads, ports and supporting agricultural initiatives all over Africa. In turn, African governments have been looking to China as an alternative to the World Bank and International Monetary Fund (IMF) as the Chinese state has been more willing to give

“soft” loans to African countries¹. China has surpassed the World Bank as the largest donor to developing countries (PRI, 2011). These loans have been building everything from dams (e.g. Ethiopia) to railroads between Tanzania, Rwanda and Burundi (Foster, Butterfield, Chen, & Pushak, 2008). Kenya is not an exception to the trend of turning towards China.

1.3: Objectives

The objectives of this thesis are three-fold: firstly, to provide a snapshot of China’s involvement in Kenya vis-à-vis bilateral cooperation; secondly, to critically assess bilateral cooperation between these two countries; and thirdly, to critically appraise the substantial criticisms levelled at Chinese international cooperation in Africa, and more specifically, in Kenya. One argument presented focuses on the lack of transparency in the aid agreements that have been signed between African states and China. The conditions placed upon the recipient country are not open to public scrutiny. The discourse usually portrays Sino-African relations in generally Western-centred terms. In this portrayal the West views Africa as a “moral cause” and China views Africa as a “business opportunity” (Mohan & Power, 2008, p. 26). Another criticism of Chinese involvement on the African continent has been viewed as part of a neo-colonial bond. Moreover, most discussions involving China usually portray it in terms of colonial dialogue such as ‘scramble’, ‘mad dash’ and ‘resource grab’, among others (Tan-Mullins, Mohan, & Power, 2010). While China’s focus on providing infrastructure aid projects can be linked to their resource needs Chinese aid is nonetheless viewed to be more responsive and is

¹ The loans provided by China have lower interest rates, longer repayment schedule and are sometimes forgivable.

undertaken faster, although this is done at the expense of environmental and human rights concerns. Moreover, concerns about the flood of cheaper Chinese manufactured goods have had a negative effect on the industrial capacity of the African countries that have welcomed the Chinese aid. Another criticism is China's policy of non-interference into the host country's domestic politics and reification of sovereignty, which helps to stymie internal dissent in the recipient country. In the case of Kenya these same critical issues are raised by people both inside and outside of government.

China and Kenya have had documented contact since the Middle Ages (Files, 1972). However, China's influence declined with the arrival of colonialism on the shores of Kenya and East Africa. During this period, China itself went through a phase of retrenchment with Western forces surrounding China and containing it. This began to change, however, with the 1949 establishment of the People's Republic of China (PRC). Moreover, when communist China settled into power, the focus turned to supporting like minded causes around the world (Brautigam, 2009). Accordingly, a focus was placed on developing countries that were starting to gain independence during the 1960s. Concurrently, in the late 1950s Kenya witnessed an independence movement that had taken inspiration from Asian and other African countries. In 1963, Kenya won its independence from Great Britain, and shortly thereafter China diplomatically embraced a newly independent Kenya.

1.4: Research focus

Recently, Kenya has pivoted towards China to secure development assistance. Although, Kenya and China have had a cordial diplomatic relationship since 1960s, a major shift in how China granted development assistance in the 1990s came into effect – this was the

same period that China opened economically to the world. As a result, the way China provided aid to other countries placed its economic interests above all. Indeed, by the early 1990s, Kenya too was coerced by IFIs into dismantling barriers to trade, resulting in trade with countries such as China growing dramatically. By 2006, the pre-existing relationship with China was reinforced when the two countries signed a cooperation agreement with an emphasis on encouraging trade between the two countries. This is also the time when China's current development approach started to fully emerge; firstly, China's development strategy in Kenya focuses on encouraging trade. In fact, between 2000 and 2010 trade has grown by a factor of more than ten times. Indeed by 2010, the amount Kenya imports from China has grown past \$1.5 billion, while the Kenya's export to China slightly increased to \$30 million (CBIK, 2011). More specifically, Kenya imports manufactured goods from China, while, on the other hand, it exports agricultural products such as teas, coffee, and cut flowers to China. The trade between the two countries has been growing at rapid rate, which is lauded by both the Kenyan and Chinese governments as proof that trade will help Kenya's economic advancement.

Secondly, China's approach to development heavily promotes FDI as part of the 'win-win' strategy. Kenya attracts a small but growing investment capital from China. Moreover, this is promoted as a good way for Kenyan companies to work together with Chinese companies to help promote the industrialization of the country (Onjala, 2008b). Additionally, China advances the idea that this element assists with the transfer of technology and industrial know-how to benefit Kenya, a consequence of the 2006 agreement between Kenya and China signed when the Chinese President, Hu Jintao, visited Nairobi. Hence, China has encouraged many Chinese companies to setup shop in

Kenya ranging from car assembly, services, information and communication technologies (ICT) to the textile industry in the Export Processing Zones (EPZs). Another example has been Chinese oil companies which were, in 2006, given six blocks to explore for oil. In 2007, another Chinese company bought into a titanium mineral mine for close to \$10 million in Rift Valley region (Onjala, 2008b).

Finally, China's approach to development also includes development assistance. The main focus areas for Chinese assistance to Kenya have been geared towards 'turn-key' infrastructure projects in Kenya, but to also build up capacities within the country through the building of schools, hospitals and education exchange programs. In the 2006 agreement, China pledged to increase this component of its development approach (Onjala, 2008b). Within two years of this agreement being signed, China became one of Kenya's largest sources development aid. Joseph Onjala (2008b) noted "aid from China has become a very strong component of the foreign development assistance received in Kenya" (p. 39). In fact, China is now, according to 2012 Kenyan government development estimates, the largest bilateral donor to Kenya.

1.5: Methodology

This thesis will employ a variety of complimentary methodological approaches in order to ascertain the implications of China's approach to development assistance, Foreign Direct Investment (FDI), and trade with Kenya. The evidence to support the thesis is based on both primary and secondary sources. The primary research relies on informal interviews in Kenya in June and July 2012. This was followed up by semi-structured interviews administered through emails and telephone communications from December 2011 to January 2012. Other primary documents that were taken into account included

government policy documents, archives, debates in the Kenyan parliament and both Kenyan and Chinese government press releases. Furthermore, secondary data was gathered from documentary reviews of surveys, news reports, as well as scholarly research publications.

One methodology for this research was semi-structured interviews. Preliminary outreach was conducted in an informal manner over the summer months of June - July 2011 in Kenya. During this phase of the research, I identified many issues perceived to be of great significance to understanding the relationship. Moreover, this approach was beneficial to the discovery of key informants who were then invited to become formal research participants for the interviews. As I started out I relied on the Nairobi-based Africa Economic Research Consortium (AERC) which extensively studies China's rise in Africa through in-depth country case studies. The AERC was helpful in identifying various Chinese-funded projects in the country and the policy implications of the relationship. Another organization that I collaborated with was the Institute for Development Studies at University of Nairobi, with the help of both Dr. Joseph Onjala and Dr. Dorothy McCormick, which also assisted in pinpointing key informants, particularly within the Kenyan state. These informal conversations were crucial to understanding the main issues surrounding the increased reliance on the Chinese model of development as it emerged in Kenya. Following the initial contact, key informant interviews were conducted via e-mail and/or telephone. The objective of these interviews was to include a broad segment of individuals from government, academia, and civil society. This research approach allows the research to assess if China's approach is gaining acceptance of policy and decision makers.

Key informants were chosen because they “have special knowledge on a given topic” (Mikkelsen, 2005, p. 172) and therefore key informant interviews also “can provide insight about a particular topic” (Mikkelsen, 2005, p. 172). The main goal of the key informant interviews was to get specific inputs from people who have direct knowledge about Chinese influence in Kenya. The importance of seeking out individuals directly linked to policy makers can better explain trends, opinions and understanding about this particular subject. The concept of chain interviews will be crucial to this methodology. Semi-structured and conversational interviews were employed for gathering data. As a rule, this methodology is employed since “questions emerge from the immediate context and when asked in the natural course of things; there is no predetermination of question topics or wording” (Mikkelsen, 2005, p. 171). Moreover, this methodological approach was chosen because it allowed the research participants the freedom to explore the given subject. It is important to note that, while this method is hard to organise into clear data and hard to interpret, it was crucial to understanding the nuanced issues involved with Kenya’s increased reliance on China’s approach to development.

Once identified, the research participants first received an e-mail message inviting them to be part of the research. Then, they were given the opportunity to either answer questions through e-mail or through direct telephone conversation. I contacted more than twenty potential interviewees, of those six participants responded through email and two research participants chose to reply through telephone. The interviewees included individuals from government agencies (six participants), academia (one participant) and civil society (more specifically a research institute) (one participant). The research

participants came from a cross-section of Kenyan government ministries and agencies; including the Ministry of Trade, the Treasury, and the Ministry of Planning. Government agencies included members of *parastatal*² agencies such as the Export Promotion Council (EPC), the Kenya National Highway Authority, the Export Processing Zones Authority, and the Kenya Investment Authority. Other research participants included members from the Chinese embassy and the Kenyan High Commission in Ottawa. Due to their location in the ‘West’, the embassies provided a unique vantage point to the raging debate surrounding China’s increasing role in Africa. In addition to answering basic questions about China’s aid policies, the Chinese embassy in Ottawa assisted by providing internal policy documents, and they also helped in reaching out to China’s Ministry of Foreign Affairs in Beijing. The Kenyan embassy was particularly helpful in substantiating the divergence between Western and Chinese aid approaches. However, due to the sensitive nature and positions occupied by the interviewees, most of these interviews were conducted under the condition that I would neither reveal nor quote the people who spoke to me directly, so that they would feel free to speak candidly.

Other research methods included a primary documentary review and an archival search in Kenya. These primary documents included national and global economic indicators. For example, government documents included the *Statistical Abstract* from the Kenya National Bureau of Statistics, *Economic Survey of Kenya* and the *Development Expenditure Estimates*. The documentary review will be used in such a way to further understand how the economy in the country functions. The objective of the documentary search is to find out through empirical evidence what China’s impact on Kenyan society

² *Parastatals* are arms-length government agencies such as state owned-corporations, and highway authorities.

might be. Moreover, the documentary review will not only focus on the specific sectors that are affected, but also provide an overall understanding of the influence of China in Kenya.

One document of particular consequence was Kenya's *Vision 2030*³; this document outlines the country's development agenda for the foreseeable future. This document is referenced throughout this thesis because it was often referred to by many interviewees. The objectives of this all-encompassing policy is summarised as "the national long-term development blue-print that aims to transform Kenya into a newly industrialising, middle-income country providing a high quality of life to all its citizens by 2030 in a clean and secure environment" (Kenya, 2007, p. 1). The Vision has various economic and social pillars that have defined strategies and projects to help the entire country unlock its full economic potential and improve its development indicators (Otieno & Ndung'u, 2010, p. 43). Accordingly, the Kenyan government often refers all subsequent policies and laws back to their compatibility with the design outlined in the document. This document has also resulted in the creation of its own Ministry, the Ministry of Planning and National Development. This Ministry provided several documents for this research including all available yearly progress reports. Finally, the Ministry officials also sat down with me to explain how China is playing a role in Kenya's development objectives.

Through the online portal *Google Books*, I was able to access the official debates occurring in the National Assembly of Kenya. The official parliamentary proceedings and records, also commonly referred to as Hansard, were accessed in a searchable format

³ The Vision was created with the assistance of OECD's Development Assistance Committee, along with the World Bank, the IMF and various UN agencies.

through this portal. The debates occurring in parliament were a microcosm of the larger debate surrounding China's development approach in the country. It is important to note, the debates in parliament although illuminating, can be ill-informed and by their nature adversarial, and thus often may obfuscate the issues involved. Another source that was used in this thesis was Wikileaks, which added unique insights that otherwise were not publicly available. Wikileaks is a website which made classified documents from the U.S. embassy in Nairobi available to the public un-redacted. Some of the documents confirmed America's perspective on China's role in Kenya. The cables also provided new information relating to Chinese military-related activities in the country, as well as allegations of Chinese companies' corrupt practices in winning bids. Although diplomatic cables provided some additional information, it was decidedly for American domestic consumption which could be as biased.

Existing data from surveys, universities and even local governments can be found throughout the documentary review (Perecman & Curran, 2006). This type of research also included looking at archives; although this was not the primary method used in this thesis. According to Sage encyclopaedia archival research is "defined as locating, evaluating, and systematic interpretation and analysis of sources found in archives" (Curting, 2004, p. 20). Some of the data contained in these types of documents include historical development assistance; but also bilateral items such as trade volume and people directly employed through trade with China. This gave me a more nuanced historical context of the impact of China on Kenya. Moreover, archives are a treasure trove of information, particularly related to the government policy documents. The archives provided a pattern that related to the research question and objectives. I was able

to gather insightful documents from the Kenya National Archives, including declassified agreements, secret cabinet committee meetings minutes and previous government policies.

Other documents studied included the World Bank's *World Development Indicators*, the United Nations Development Programme's *Development Cooperation Reports*, well as the IMF's *Direction of Trade Statistics*. Particular attention was paid to documents with information on Foreign Direct Investments (FDI). A definitive source of FDI data was the United Nations Conference on Trade and Development. The information and data gathered from these documents was very helpful during the interview phase of the primary research.

Due to the secretive nature of the relationship between the governments of Kenya and China, newspapers were secondary sources frequently utilized in this thesis, in conjunction with the other methods such as interviews. For various reasons, China does not publish official reports pertaining to its development assistance⁴. One way that China publicizes the aid that it grants is through newspapers, both local and official Chinese media. As a result, newspaper reports were frequently cited throughout this thesis. This thesis cited local newspapers such as the *Daily Nation*, the *Business Daily*, which along with *allafrica.com* (a pan-Africa news aggregate news website) proved invaluable. Chinese news dailies included *People's Daily*, *china.org.cn* as well as China's official news agency *Xinhua*. However, there are many risks associated with relying on newspaper accounts, as Brautigam (2009) notes "[j]ournalists have given us quick sketches, but these impressions are often very partial, and sometimes, even in the best

⁴ For comprehensive reasons as to why the government China is hesitant to publish its official foreign aid consult Alden (2009, pp. 22-23), Brautigam (2009, pp. 162-165).

newspapers, surprisingly wrong” (p. 20). This was backed up by many informants that I interviewed by relating to me that accounts printed in newspapers were often exaggerated and over-estimated the figures involved.

This thesis has evolved since I first proposed it – it began as a comparison between the Western and Chinese approaches and how it was playing out in Africa by using Kenya as a case study. However, as the research progressed I decided to focus on only Kenya–China rather than partaking in the often adversarial dynamic that oftentimes pervades China’s role in Africa. By focusing on the evidence on the Kenya-China relationship, this thesis would avoid the comparative dynamic often present when China’s development is explored. As I started undertaking the research, the underlying assumptions that I initially started with including the idea that China’s approach was fundamentally different from the dominant Western approach changed immediately after arriving in Kenya because the evidence suggested that it was similar in many ways. My original plan while in the country was to gather as many documents as possible that would outline the aid estimates that China granted. However, these documents were virtually impossible to get. I encountered various difficulties in obtaining bilateral agreements between the two countries; the only agreements were obtained from the national archives from at least thirty years ago, and the most current figures were obtained from the UNDP’s *Development Cooperation Reports*, which ceased being published in 2006 as annual reports⁵. The other means that I gained authoritative aid figures was through individual interviews with Ministries and agencies officials. The FDI data was gained from various *parastatals* that sent me the information. Finally, the

⁵ The UNDP’s *Development Cooperation Reports* changed focus and now publish figures relating to the MDGs.

informal conversations with different officials in government painted a clear picture of China's development focus in which Kenya which has immensely influenced the objectives and outcomes of this thesis.

However, secrecy was pervasive, with most government officials asking that no part of the conversations or interviews be used in the final thesis. I encountered the most resistance from Kenya's Ministry of Foreign Affairs, which refused to even let me into the Ministry's building until a Permanent Secretary from another Ministry wrote a personalized note. The Permanent Secretary was particularly interested in my research topic. Once inside the Ministry's building, I returned on four different occasions without ever being granted any information – be it policy documents, bilateral agreements, or being granted an interview with any staff of the Ministry. I also tried contacting the Ministry through email and telephone without any success. This was in contrast to the other Ministries that assisted in identifying interview participants.

In summary, the purpose of this research is to determine what impact China's approach to development is having on the Kenya. This research utilized key informant interviews, archival research, as well as primary and secondary documentary reviews. These research methodologies were chosen because they are designed to allow the full picture to emerge of how Kenya is impacted by the rise of China as a development partner. The three methods employed by this research paper will be marshalled to establish whether Kenya is benefiting or is being harmed by the Chinese model of development.

1.6: Structure of the thesis

This thesis study is organized as such: the second Chapter will present the various theories on international development and international cooperation since the end of the Second World War. The second Chapter is organized into four sections – the first section will look at the dominant theoretical approaches in international development from development economics in the 1950s to the present post-Washington consensus. By tracing and placing the various theoretical debates in wider milieu, this Chapter hopes to expose the competing paradigms within development discourse in the global agenda. The second section examines the leading theories that have influenced China's international development agenda and how they have played in the wider world. The third section within this Chapter will then place the competing visions about the role of development in the east African context and finally by looking at how the various theories played out in the Kenyan praxis.

The third Chapter begins by looking at the Kenya–China relationship through a historical lens. The relationship between the two countries has greatly influenced how the two countries interact with each other today starting with the pre-colonial era to post-independence. The rest of the Chapter assesses China's development approach and then presents the data that reviews how each of the approach's components (trade, FDI, and aid) are playing out in Kenya. Further, the third Chapter provides examples of the direction of trade with China and where it is heading. Next, an analysis of China's FDI is studied and the economic sectors which have attracted Chinese investments highlighted. The final segment of this Chapter provides the evidence of development assistance from

China and which projects are funded through Chinese grants. All in all, this Chapter establishes a baseline understanding of the bilateral relationship.

The fourth Chapter brings together the data collected from my field research along with Kenya's development policies and the scholarly debate surrounding China's role in the country. This Chapter aims to answer the central question of this thesis by looking at the relationship holistically – for instance, this Chapter identifies the challenges and opportunities that are presented by Kenya's 'look east' policy and what it means for its overall development objectives. Moreover, this Chapter identifies some of the negative impacts that Chinese competition is having on Kenya. Even so it also presents the positive trends that are linked to China's dramatic rise as Kenya's development partner. Ultimately, a framework of analysis is utilized in order to place the complimentary/competitive and direct/indirect aspects of the relationship into perspective.

Finally, the fifth Chapter summarizes this thesis by presenting the main findings and offers a brief glimpse of the direction the Kenya-China relationship is taking. Moreover, this thesis aims to identify the main areas of weakness in the relationship. However, this conclusion aims to stay away from offering an enmeshment of blanket recommendations but will instead target its recommendation in specific areas that the author believes would have a profound impact on Kenya's development objectives.

1.7: Argument

The central question that will guide this paper is: in what ways does China's approach of development assistance, foreign direct investment (FDI), and trade impact Kenya? A corollary question includes: what impact will Kenya's embrace of China's approach have

to its development policy? Throughout this thesis, I will argue that current trends all point to China's economic and geo-strategic needs having precedence in the bilateral relationship over Kenya's developmental needs.

Chapter 2: Literature review

2.1: International cooperation and development

Since the end of the Second World War, international cooperation and international development have become intertwined⁶. One influential motivation behind international cooperation, guiding the relationship between developed and developing nations, has been international development. The Second World War was a watershed with regards to international cooperation; the international community recognized that increased global alignment was one way to avoid a similar catastrophic event in the future. Thus, the new project of international development, as devised by United States President Harry Truman, was designed to enhance the economic and social well-being of the entire worldwide population⁷. Today, international development is one of the defining features of global politics (Leys, 1996; Black, 2007). To that end, various overarching goals have been presented as to why development is beneficial for all countries. First, cooperation between rich and poor countries should improve humanity's condition. Second, 'cooperative arrangements' would help achieve efficiency within the global economic system. These two social and economic ideals have been immensely influential in the overall development agenda (Garrett, 1992). Third, development assistance was tied to efforts by both the United States and the Soviet Union to gain influence over newly independent countries (Hunt, 1989). In order to achieve these goals; various bilateral and multilateral institutions were created to further the development project.

⁶ For the purposes of this paper, development assistance after WW II will be explored. For the history of international development prior to WW II consult Cowen & Shenton (1995).

⁷ For a comprehensive history of the development project see Leys, (1996); Martinussen, (1997); Mohan & Power, (2008)

Forums for dialogue along with institutions to facilitate dialogue were created and many argued that the world would become safer and could avoid future antagonisms through these mechanisms. The United Nations (UN) system along with its multitude of sister organizations came into existence and became entrenched in the overall international cooperation agenda. The multilateral mechanisms instituted under the UN were intended to help enhance global collaboration in such matters as trade, security and social protection (Martinussen, 1997). For instance, one of the guiding principles within the United Nations was the goal of employing the multilateral system to help develop the world. In the preamble of the UN charter was "to promote social progress and better standards of life in larger freedom" and "to employ international machinery for the promotion of the economic and social advancement of all peoples" (Fuhrer, 1996, p. 4). As a result, the UN system became one of the leading multilateral agencies to deliver international development. The many development agencies created through the UN system were tasked with defining, distributing and managing development assistance.

The UN was one of the most prominent institutions for international cooperation, along with the Bretton Woods institutions that were created to help regulate the world economy which became the most visible purveyors of development assistance globally (Leys, 1996; Black, 2007). The World Bank gave loans that would help improve the poor economies. The International Monetary Fund (IMF) was tasked with regulating capital flows and help short-term balance of payment issues that arose (Moss, 2007). Consequently, the World Bank and the IMF became the largest financier and donors to the developing countries (Black, 2007).

Another venue of delivering development assistance, in addition to the multilateral development agencies, is through bilateral agreements (direct country-to-country agreements). Each developed country launched its own development agency that could also distribute the assistance. Examples of this are USAID in the United States, CIDA in Canada, and DFID in the United Kingdom (Moss, 2007). Consequently, the various agencies began to compete against each other, creating a multitude of methods of distributing, defining, and assessing development aid. As a result, one institution created as a way to help set the standards and track bilateral assistance was the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD). The OECD, a grouping of the largest, capitalist, industrialised economies, became an important part of defining development assistance (Fuhrer, 1996). The OECD created an understanding of how and where the richest countries spent their official development assistance (ODA)⁸ (Moss, 2007). Through the DAC, countries would declare all forms of aid including technical, grants, and loans they had provided to developing countries.

Historically, development assistance – technical and financial aid granted to poor countries – were corollary to Western Europe’s political decline, the United States and the Soviet Union ascendance to global supremacy, and most importantly, the transitioning of many colonies into independent states. It should be noted, however, that development itself can be traced further back to the Enlightenment period (Cowen & Shenton, 1995; Veltmeyer, 2001). During this period, many colonized countries

⁸ ODA is, according to the OECD: “official transactions which are made with the main objective of promoting the economic and social development of developing countries ODA is non-military aid. Financial aid is given on ‘concessional’ terms” (OECD, 2012)

throughout much of Africa and Asia agitated for independence fuelled, in part, by strong nationalist movements that took inspiration from India's independence. Western countries, acknowledging that independence was inevitable, started the process of transferring sovereignty to the local populations⁹. One of the earliest examples of development assistance was the European Recovery Program (more widely known as the Marshall Plan) in which the United States granted massive monetary aid to war ravaged Western Europe (Sogge, 2002; Black, 2007). The success of the Marshall Plan in helping with the quick recovery of Western Europe was viewed as a defining moment in development discourse. With the successful Marshall Plan as an example, a similar strategy of delivering aid was employed to poor post-colonial countries (Fuhrer, 1996). Development of these former colonies was perceived to be the best way to integrate them into the global economy. However, another overriding factor was, as Thomas W. Dichter (2003) noted, "[i]n the heady days after the war, progress was seen as a right that no country should be denied" (p. 54). Additionally, development assistance was viewed as the right remedy to speed the process of social and economic development of poor countries. Accordingly, various theories and praxis were promoted as to how to achieve development.

2.1.1: Development theories

Early on, development itself was viewed as strictly economic in nature; thus, earlier development theories focused on how countries grew economically. For example, the 'big push' (Rosenstein-Rodan), the different stages of growth (Rostow), the dualist

⁹ For more information on how African countries, in particular, were granted/gained sovereignty refer to: Yansane (1980); Harbeson and Rothchild (2009).

structure of developing countries (Lewis), and the centre-periphery structure of the world economy (Prebisch) were concerned with economic systems (Bowen, 1998; Pronk, 2004). In order for developing countries to improve their economic capabilities, development assistance would be applied in such a way so as to transition developing countries from being primary commodity exporters and into industrialized nations. Development assistance would provide poor countries what they lacked, namely a capital infusion as a catalyst to start the development process. As Maggie Black (2007) noted, “aid on a massive scale, furnished by the industrialized world led by the US and the ex-colonial powers, would fuel a ‘big-push’, enabling development in poor countries to take-off” (p. 31). Thus, Economic Growth Theory (also commonly referred to as development economics) emerged in early development discourse. Economic growth theorists believed in three overarching themes; the first being the division of labour, the second being the expansion of trade, and third the accumulation of capital (Stilwell, 2006). Developing countries would economically grow by adopting policies to improve economic efficiency and integrate their economies globally. Robert Solow’s ‘Theory of Economic Growth’, often cited as the theoretical groundwork of development economics, articulated how growth can lead to economic development. Solow (1956) argued the source of economic growth is predicated upon the ability to inject capital into the economic system in developed countries; and for the developing countries Solow advocated for capital to be directed towards ‘modern industries’ and the wage labour sector. In a cyclical process, capital accumulation is used to invest in new technology, resulting in greater specialization (Solow, 1956). Capital accumulation, a theory with a long history but greatly expanded upon by Sir Arthur Lewis, necessitates that capital be hoarded by a

small class of people. These few ‘elites’ would have the capability to acquire and reinvest this capital for the benefit of the entire population. At the heart of the argument is that the capitalist class has a better capacity to invest the capital rather than the majority of the population that would spend it unproductively (Lewis, 1954), eventually, the reinvestment of the capital leads to development (Weaver & Jameson, 1978).

Ultimately, it was hoped that development assistance would help modernize ‘backward’ countries. Modernization theory, closely associated with economic growth theory, arose out of a discourse that believed that development in itself should modernize societies (Toye, 1987; Martinussen, 1997). This theory, originating from the United States, was perceived to be the primary objective of development during its prime in the 1940s and 1950s. The main theorist who is often cited as an important figure in modernization theory is W.W. Rostow. Rostow relied on W. Arthur Lewis’ *Theory of Economic Growth* as the basis of modernization theory; according to Lewis, the genesis of development was labour supply, with capital accumulation being another important factor. Later, Rostow, in his *The Stages of Economic Growth*, explained the importance of creating a political and economic system which fostered favourable conditions to facilitate economic growth (Martinussen, 1997).

According to Rostow’s stages, all societies start at the same stage. These societies move up through these stages before reaching the apogee like Western capitalist countries, especially the United States. The first stage is a traditional society, a subsistence society, in which science and technology play little part. This is a society that only makes enough to feed itself (Rostow, 1991). The second stage, pre-conditions for take-off, is another stage that Rostow uses to determine if a society is economically

advancing. This occurs when the society starts saving and acquiring capital which leads to “the blessings and choices” opened up by compound interest. The third stage, the take-off, is when a society starts using economic models as the basis for development. The society starts developing specific sectors and has, for the most part, abandoned traditions for the economic process. The fourth stage, the drive to maturity, is when a society starts moving away from producing just what is required, by generating a surplus. The society starts diversifying the goods made these investments start to be felt by the poorest of that particular society. The final stage is the age of high-mass consumption. This is when people earn enough money to spend on other goods not just basic living items (Rostow, 1991). According to Rostow this is what is experienced in the developed world. Of these five stages, the in-between stages (2-4) were the most important because this meant that societies in general were developing, not just the economy (Menzel, 2006).

At its height, modernization theory was used to explain social, economic and political aspects of development (Jiafeng, 2009). John Martinussen (1997) describes the theory as a “process whereby the traditional and backward third world countries developed towards greater similarity with the western, or rather, the north-western world” (p. 38). The idea was that developing countries needed to imitate the industrialized north, meaning that development had a similar path projection. This implied that countries in the industrialized north had reached the apex of human and economic development and developing countries had to reach the same level (Teivainen, 2009). A capitalist system, with similar production systems, was another. Consequently, various criticisms of the dominant liberal theories of international development emerged.

2.1.2: Critical theories

Throughout this period, development discourse was closely associated with a capitalistic system. Aguibou Y. Yansane (1980) argued that the promotion of development is fundamentally a capitalist cause – for example, the expansionist nature of the capitalist system means it is always searching for new markets and resources to help it grow. Indeed, this has been a constant of the Marxist critique of the development project which has fixated on reproducing the capitalist economic structure. Furthermore, the capitalist system was at the heart of setting up the centre-periphery dynamic that has greatly impacted development of the Global South. Many Marxist scholars pointed out how the international economic system is today is very much like the colonial system that took raw materials and resources for very low prices and helped fuel the manufacturing sectors in the North (Toye, 1987). With many arguing the form of capitalism advocated for liberal development theorists has been detrimental to developing countries. For example, developing countries rarely benefit from the value added to the materials that they send to the North.

One critique from the Marxist perspective was expressed through Structuralist theory. Raul Prebisch (1959) argued that the economic imbalances created by the international trade system were skewed to favour the developed countries. For example, structuralists pointed to the over reliance on primary exports as the main source of income for developing countries, in the long run as Diana Hunt (1989) noted, “the situation for primary exports would worsen rather than improve” (p. 44). Indeed, dependent countries have very little control or influence on their economies because they are locked into the international capitalist division of labour. The countries have no input

into what to make and how to make it (Kaufman, Chernotsky, & Geller, 1975). Latin America is often cited as an example of this dependency. Latin America was placed into three distinct phases of dependency; the first phase was the period immediately after they achieved independence. The second was during the industrial revolution by which the Northern economies relied on the raw materials provided by Latin America. The last phase was after the great depression when the Latin American economies tried to industrialize, however, fell into a greater dependency (Kaufman, Chernotsky, & Geller, 1975). Dependency theorists argued that development policies promoted by the IFIs were disadvantageous to developing countries. The theory, first proposed by Fernando Henrique Cardoso and Enzo Faletto in the book *Dependency and Development in Latin America* (1979) also came out of the Marxist paradigm (Hunt, 1989). According to Martinussen (1997), Cardoso and Faletto postulated that dependency was so pervasive that it infiltrated the relationship within the society. For instance, the unbalanced structure within developing countries ultimately served the elites by replicating that system. In the theory, closely aligned with centre-periphery theory, states that developing countries are part of an unfair capitalist system which favours the industrialized, developed centres instead of the agrarian based periphery (Heller, Rueschemeyer, & Snyder, 2009).

An influential dependency theorist, Ruy Marini (1991), argued that although countries in Latin America had achieved independence in the 1800s, they were still dependent on the capitalist system of trade. These newly independent countries were inserted in the capital system and the international division of labour. The terms of trade have created a “super-exploit”; the world economy was turned into a cycle of exploitation of the underdeveloped countries. This, thus, creates a stable system by which the raw

materials are supplied by the developing countries to the industrialized economies. Marini posited that an unequal exchange between the centre and the periphery always creates a dependency because the values added to items have a higher return on income. However, when primary goods increase in price this does not necessarily mean that depended countries will develop faster (Martin, 2009).

A similar critique was the centre-periphery concept, which viewed the world as divided into two parts. One part, the centre, controlled world capital, more stable and with a higher income; the other part was the periphery which provided the raw materials and also depended on the centre. As Wim Ettema (1983) explains the theory as such there “is always a distinction between strong and weak regions, with the first conditioning the latter. The former are called the Centre, core region or metropolis, the latter constitute the periphery subordinate to it” (Ettema, 1983, p. 107). Centre-periphery theory contends that the current economic global setup has certain disadvantages for developing countries—particularly, trade is viewed as the biggest indicator of how developed countries interacted with their developing counterparts. The centre-periphery model traces the political economy of developing countries to colonialism and imperialism. The relationships that resulted from the colonial period are used to explain the centre-periphery paradigm. The argument presented by the centre-periphery theorists postulates that colonialism greatly impacted how the world economy was organized. The hegemonic capitalist system of international trade grew out of this colonial relationship. The centre-periphery theorists like Prebisch (1959) believed that the best way to move from the periphery to the centre was to industrialize. This was best done by strategic planning and creating protective barriers. Prebisch defined import substitution industrialization (ISI) as

“an increase in the proportion of goods that is supplied from domestic sources and not necessarily as a reduction in the ratio of imports to the total income” (Prebisch, 1959, p. 253). The creation of an industrial sector was crucial for the development of the periphery countries. They advocated industrial substitution policy to create industries.

By the end of the 1970s the development project was seen as a failure by both liberal and Marxist scholars (Yansane, 1980; Bauer, 1984). Indeed, criticism of the dominant development paradigms began to arise particularly with regards to the relationship between rich and poor countries. Various scholars argued that the nature of assistance has fostered an aid dependency in developing countries. For example, many countries rely on the aid to fund basic government services. Development assistance itself then became a source of contention, should aid be increased or taken away? The proponents of aid argued that it should be increased for most poor countries with increased conditionalities attached. However, the opponents argued that aid itself was the root cause of under-development by limiting the recipient country’s ability to choose a path out of poverty. A consensus seemed to have coalesced around the idea that the development project was failing. Many billions of dollars had been spent on developing countries, yet the economic indicators in developing countries had not improved (Yansane, 1980; Bauer, 1984; Leys, 1996).

2.1.3: The neoliberal shift

A backlash from the perceived failures of state-led development began to take hold in the 1980s after the arrival of the neoliberal revolution. Earlier, development was a state-led endeavour and thus, when countries were given development assistance, primacy was given to the state. As noted by P.T. Bauer (1984) “[s]ince the Second World War, it has

been a major axiom of the mainstream development literature that comprehensive central planning is indispensable for progress of poor countries” (p. 19). The donor countries and agencies endorsed the state-led model, because at the time the state was viewed as the best conduit to achieve the goals of development. In other words, the state would design the objectives and goals of development. Then assistance from developed countries would be diverted into projects acknowledged as crucial for development. One factor was the global downturn during the 1970s that was exacerbated with the oil crisis, with many developing countries’ economies stagnated. Another factor included neoliberal ideals of reducing the role of the state in economic affairs thereby encouraging less reliance on assistance and more trade. A shift happened during this period when some aid recipient countries moved away from import-substitution industrialisation to the export-led model that occurred with the increased liberalization. The aims of such development assistance have been controversial and its benefits began to be disputed. This backlash was articulated by Bauer (an advisor to the former British Prime Minister Margaret Thatcher), arguing that previous approaches of using the state to foster the economy through policies such as protectionism, state planning, and import-substitution industrialization (ISI) were misguided and development assistance prolonged poor countries negative economic status.

The effects of foreign aid have in fact been quite different. It is foreign aid, for instance, that has brought into existence the Third World (also called the South), and which thus underlies the so-called dialogue or confrontation. Foreign aid is the source of the North-South conflict, not its solution. The paramount significance of aid lies in this very important, perhaps momentous, political result. A further pervasive consequence of aid has been to promote or exacerbate the politicization of life in aid-receiving countries. These major results have been

damaging both to the West and to the peoples of the less developed world. (Bauer, 1984, p. 38)

To redress the development project's failure, further conditions were placed on recipient countries. Although conditionalities have always been part of the aid system, the new development agenda resulted in more stringent and direct conditions. The collapse of primary commodities in the 1970s coupled with a debt crisis led to many developing countries agreeing to the new terms and conditions from the International Finance Institutions (IFIs) and donor countries before being able to access development assistance (Goldin, Rogers, & Stern, 2002). The imposed conditionalities ranged from economic to political and later social in nature. Western donors argued, through economic incentives, aid is more effective by using 'positive' conditionalities to promote human rights, instituting democracy, instil the primacy of the rule of law, and good governance (Lirong, 2011). Accordingly, Structural Adjustment Policies (SAPs) were introduced in the 1980s making assistance conditional on implementing policies such as deregulation, liberalization, privatization and reducing government spending (Rodrik, 2007). One economic conditionality was to encourage the liberalization of the market, forcing many countries to abandon the state-led development model. Additionally, this was meant to open up the developing countries' vast labour and natural resources for exploitation from the more efficient private sector. Another important concept of the new development approach was deregulation, which called for the removal of as many regulatory barriers hindering private enterprises (both domestic and international). Indeed, states in the developing countries were seen as the biggest obstacle to economic growth and

development. It was believed that less government interference would encourage both economic growth and modernisation in the developing countries (Harvey, 2005).

Political conditionalities became another integral part of the new development policies. These included reforming the political structures necessitating more democratic methods to governing. For example, governments were required to hold multi-party elections, encourage the decentralization of political power, and open the decision-making process (Rodrik, 2007). By adopting these policies, it was argued, developing governments would be more accountable to the international donors and their own citizens. But ultimately, by opening up the countries, it would endear developing countries to outside investors. The foreign investment and capital flows attracted would help ease some of the development problems faced by developing countries thus helping to spur economic growth (Mencinger, 2003).

Accordingly, one theory notes that development could be achieved through foreign direct investment¹⁰. Although widely acknowledged as a trade mechanism, some have argued that FDI is an important contributor to development. Essentially, FDI is a tool for development. For example, it can help to acquire new technologies and improve human resources (Dunning, 2002). Moreover, FDI is an integral part of internationalization (Kayam & Hisarciklilar, 2009). Indeed, FDI is often viewed as a more stable form of capital investment, and it would help with the balance of payment of countries as well as assisting with economic growth. Thus, FDI would be more conducive for development (Moss, Ramachandran, & Shah, 2005). Some theories have been formulated to evaluate how FDI can be used as a means for development. With an

¹⁰ FDI is defined to include equity capital, reinvested earnings and intra-company loans.

increase in the rise of foreign direct investment globally, one concept that has come to the fore has been the 'Investment Development Path'

The Investment Development Path (IDP), like Rustow's 'stages' theory, is placed into five distinct categories to study both inward and outward FDI. According to John H. Dunning (2002), the first stage of this attracts very little FDI due to the lack of infrastructure and government policy that would be conducive to attracting inward investments while outward investment would be almost non-existent. The local governments should invest in basic infrastructure and implement social and economic structural changes that would be advantageous to companies. The second stage is characterized by a growing inward FDI but still very low for outward FDI; a reason being the country created a small industrial base. Nevertheless, most of the investment is still directed towards natural resources. This stage is where government policy can create a 'virtuous' cycle to benefit the country (Dunning, 2002, p. 140). The third stage is where the outward flows start outpacing the inward investments as the local population has accrued higher incomes from the previous stage. The fourth stage is when the domestic companies can compete globally. The inward investments play a small role in the development of the country. The outward flows start going to countries that placed lower in the stages. The fifth and final stage is when equilibrium is reached between inward and outward investments. Multinational enterprises become the norm and capital is very fluid between countries (Dunning, 2002; Boudier-Bensebaa, 2008).

However, other theorists such as Sanjaya Lall (2000) argued that the economic benefits of FDI are frequently exaggerated and the biggest impact that arises out of FDI is usually the improvement of human capital. Indeed, FDI's impact on development has

been very hard to empirically demonstrate (Boudier-Bensebaa, 2008). The biggest beneficiaries of FDI are often the big corporations that have the capacity to move their operations to other less costly locales. The often contradictory nature of FDI is summed by Lall as follows:

The complexity of the FDI package also means that there may be *trade-offs* between different benefits and objectives. For instance, countries may have to choose between investments that offer short as opposed to long term benefits; the former may lead to static gains but not necessarily to dynamic ones. A large inflow of FDI can add to foreign exchange and investment resources in a host economy, but it may lead to a crowding out of local firms or create exchange rate problems. The desire to generate employment may lead governments to favour labour-intensive, low technology investments... (Lall, 2000, p. 8)

Moreover, FDI as a development tool itself is often negligible, most theorists point out that as the economy grows it is usually followed by increased direct investments. Thus, some have concluded “OFDI seems to follow economic development automatically” (Liu, Buck, & Shu, 2005, p. 113). As a result, an argument presented is that increased spending for such programs as education and human-resource development are the most favourable opportunity for attracting FDI. As the United Nations Conference on Trade and Development (UNCTAD) noted “many countries are in outright competition with each other to attract FDI” (Agosin & Prieto, 1993, p. 63). This competition was particularly pervasive within developing countries. Developing countries aggressively turned towards FDI as a way to access capital that had dried up during the 1980s. Enticements included such tools as tax incentives, subsidies and removing restrictions on the movement of capital (Carkovic & Levine, 2005).

The increased interconnected world led to a shift in development discourse. This major shift in the international sphere began to take hold with the collapse of the Soviet Union. Concurrently, by the mid-1990s donor countries and IFIs started implementing amended development policies by adding a ‘social’ aspect to earlier neoliberal prescriptions (Veltmeyer, 2001). Indeed, a vigorous debate ensued questioning the role of SAP conditionalities in causing the economic and social decline in many developing economies during the previous decade. Some hypothesized that recipient countries’ half-hearted attempt at implementing the SAPs resulted in their failure. However, others blamed, among other things, the restrictive conditions which plagued the normal functioning of the state in the developing countries (Leys, 1996; Harvey, 2005). It has now been widely acknowledged that the neoliberal policy prescriptions have not delivered the desired outcome for developing countries, especially in the African context. Subsequently, an alternative approach to the dominant Western approach, both ‘Washington Consensus’ and post-Washington Consensus, has emerged. The beginning of the twenty-first century has witnessed the emergence of international relations realignment. Countries in the Global South are shifting some of their focus elsewhere. Some have termed this shift a ‘South-South’ relationship; others have termed this ‘South-East’ relationship, or even ‘Africa-East’ (Shaw, 2010, p. 13). Emerging economies such as India, United Arab Emirates, and South Korea are changing the rules of development assistance (Woods, 2008). This led Fantu Cheru and Cyril Obi (2010) to conclude the “West no longer enjoys a monopoly of influence over Africa’s future development” (p. 1). One such country, China, emerged as an alternative source of development assistance to the dominant Western approach.

2.3: China and the West: competing visions on international cooperation

Over the last two decades, China's power and influence politically and economically has grown immensely (Kang, 2007; Brautigam, 2009). Prior to the communist takeover in 1949, China underwent a period of political retrenchment partly as a result of underdevelopment, poverty, and economic decline. However, China began its slow rise after the Second World War (Wenping, 2010). The bi-polar nature of global politics influenced China's relationship with the rest of the world – for instance, China's foreign aid objectives aligned politically and strategically with that of the Soviet Union (Taylor, 2006). Consequently, China's government provided assistance to other likeminded, communist causes. One early form of aid dispersed by China was often linked to anti-colonial independence movements (Alden, Large, & de Oliveira, 2008). Indeed, the distribution of aid explicitly promoted by the country as anti-Western, anti-colonial, and a new form of South–South cooperation. As a result, when countries in Africa and Asia started gaining independence in the 1950s and 1960s, China sought them out as natural allies. Interestingly, China distributed development assistance to countries with higher economic and social indicators than its own. (Copper, 1975; Alden, Large, & de Oliveira, 2008). Another purpose of its aid was to export communism globally.

At the height of the Cold War, China broke with the Soviet Union (Wenping, 2010). Subsequently, China portrayed itself as a leader of the developing countries; these developing countries would constitute a separate entity from a bi-polar world. The communist world led by the Soviet Union and the capitalist world led by the United States. Thus, a new entity comprised of a majority of developing countries worldwide called the Non-Aligned Movement (NAM) came into existence. The entity was inspired

by a treaty signed in 1954 between India and China called the 'Five Principles of Peaceful Coexistence'. The other inspiration was the Bandung conference between Asian and African countries in 1955 (Fifield, 1958). The Chinese government termed this approach as the 'Three World' theory (Taylor, 2006) – China's Three World theory was constructed upon the foundations of its anti-hegemonic agenda directed at both the United States and the Soviet Union. Indeed, China argued for greater options in the international system. However, many pointed out the option offered by China was only intended to boost China's influence. The Three World theory was designed to 'allow Chinese leadership of the Third World' (Taylor, 2006, p. 44). Indeed, this theory placed China firmly at the centre of international affairs often with a support constituency consisting of other developing countries. One direct benefit from this approach included mainland China's ascension to a permanent seat on the United Nations Security Council, replacing the Republic of China (Taiwan) (Onjala, 2008a).

However, during the 1980s, China withdrew from the international political arena due to shifts in the internal political sphere within the country. An internal power struggle, which arose from both the failure of the Cultural Revolution and the death Mao Zedong, led to an increased focus on domestic issues. By the end of the same decade, China was faced with a major upheaval throughout the country, leading to calls for political and economic reforms which coalesced around the iconic protests in Beijing's Tiananmen Square. The government sent in the military to remove the protests, leading to many deaths. The images of the protests (and the government reaction to them) were broadcast throughout the world. By the 1990s the country attempted an image makeover after the Tiananmen massacre. One consequence was a policy shift in how foreign aid

was distributed in an attempt to reduce the international outcry stemming from the Tiananmen massacre (Brautigam, 2009). At the same time, China was also opening itself up to the world economically (Onjala, 2008a; Wenping, 2010). This new strategy has been associated with 'soft power' theory (Taylor, 2006; Alden, Large, & de Oliveira, 2008). This approach claimed that China's rise as a global power would be benign and favourable for developing countries. A concept within this theory is accents a 'peaceful rise' which would prove beneficial to the countries that trade and cooperate with China. Moreover, this approach portrayed China's rise as inevitable and thus other developing countries would benefit by supporting it through bilateral agreements and the various multilateral institutions. Importantly, this approach acknowledged that China is politically and economically growing hence this approach would help it diversify its economic links as well as its political links (Alden, Large, & de Oliveira, 2008).

Notably, the shift in how China granted development assistance occurred at the beginning of the 1990s. As a result, the way China provided aid to other countries placed economic interests above all. Moreover, this shift was accompanied by China opening itself up economically to the world. Most importantly, China's foreign policy interests were at the heart of how development assistance would be granted. These foreign policy goals included supporting the 'One China' policy, support at international forums such as the United Nations, and securing natural resources to help sustain its rapid economic growth. The new approach to China's development assistance would have three focus areas which would incorporate reductions of debt, promotion of investments and assistance in human-resource development (Onjala, 2008a). Furthermore, China intricately linked the three disparate approaches to maximize the benefits of its

development assistance. As such, China's approach of linking FDI, trade and development assistance is important to its foreign policy. An argument by John Franklin Copper (1975) presages that this approach can be traced to the historical nature of the China's international relations: "China's traditional style of foreign relations gave emphasis to the tribute mission, whereby foreign countries brought gifts to the Chinese emperor and received more valuable gifts or trade concessions in return" (p. 4). This strategy is evident in the manner by which China emphasises a mutually beneficial assistance as an integral part of its overall development assistance agenda.

Subsequently, important policy changes occurred, the first was government ministry functions were bifurcated: a commercial arm and a governmental sector. The second was to create policy banks which would help expand the influence of Chinese foreign policy. Consequently, the government termed this new policy as the 'Going Global' policy. The policy banks resulted in the creation of the China Export-Import Bank (Exim Bank), China Development Bank (CDB), and China Agricultural Development Bank (CADB) in support of the new policy shift (Brautigam, 2009). These banks were explicitly a tool of government policy. These policy banks were separate from the other commercial banks that were also encouraged to invest around the world. Indeed, the new policy banks became important instruments of the government's foreign aid. The policy banks coalesced around a strategy of combining development aid, bilateral cooperation, and trade into one overarching strategy.

To coordinate this new policy, the Ministry of Commerce (MOFCOM) became the lead department responsible for devising policy and implementing development assistance. As a result, the small foreign aid department was taken over by MOFCOM

and its mandate was linked into the three goals (trade, FDI, and assistance) set out by China's aid agenda. These changes included turning away from direct aid projects such as building stadiums and government buildings. The policy change was part of China's move to focus on investments that would help Chinese companies expand globally. In addition, the Chinese government would also provide other types of support, such as risk assessment, export tax exemptions and insurance (Brautigam, 2009).

Above all, the 'going global' policy was intended to assist Chinese companies expand beyond the country's own borders as the companies were encouraged to seek out projects that would be 'mutually beneficial' to the beneficiary countries as well their own bottom line. As a consequence, companies primarily in low-intensity manufacturing, resource exploration, and agriculture were initially the targets of this policy. As Deborah Brautigam (2009) noted, "[t]he new aid program was deliberately shaped to assist Chinese firms to enter unfamiliar region[s] with daunting challenges" (p. 81). As a result, aid was tied to Chinese companies that would set up projects in the recipient country but the products would be, for the most part, destined for China. For instance, light industries no longer competitive in China were persuaded to relocate to cheaper locales in Africa. This strategy would help Chinese companies involved in light industries like textiles, often the first casualty of economic progress and development within a country, keep their competitive edge. As the policy evolved, the government, through the policy banks, started to move up the value chain by giving preferential loans to Chinese construction companies so they could compete against more established companies from the West for projects on the continent. Now, the government is encouraging heavy industries such as car assembly plants to open new branches on the continent (Brautigam, 2009). In

contrast, the one industry that was exempted from this policy was the pharmaceutical industry which was still encouraged to support the Chinese medical teams and help supply Chinese built hospitals without having to buy medical supplies from Chinese companies. Thus, a consensus term has emerged to promote this new model to African countries, in particular: China's approach.

China's foreign policy approach to development assistance emphasizes FDI as essential to development of both itself and the recipient country. China argues that the FDI approach advocated is a direct transfer of capital to developing countries. Japan was an early advocate of this approach to development assistance. Although FDI is traditionally not considered to be development aid, China actively promotes the investment into certain sectors within the recipient country. An important theory employed to explain these benefits is the 'Flying-Geese' (FG) theory. According to this theory "latecomers successfully adopt a strategy of entering sectors in which they have a rising comparative advantage and import technology from a mature economy whose advantage in that industry is declining" (Geda & Meskel, 2010, p. 101). One vehicle to deliver FDI is China's State-Owned Enterprises (SEOs) which are encouraged to actively seek investment opportunities that would have a direct correlation with the development of the recipient country (Alden, Large, & de Oliveira, 2008). China claims that by promoting FDI as a form of development assistance, it is helping developing countries gain access to capital otherwise lacking in many developing countries as MNC and independent investors find developing countries too risky to invest in.

Importantly, China has emphasized this strategy as part of a 'win-win' relationship when it comes to the development assistance that it gives to countries

particularly developing countries. The ‘win’ for developing countries includes increased trade, improved infrastructure and investment into the social sectors like education and health. The ‘win’ for China would include increased access to their natural wealth, access to more consumers for its goods, and most importantly diplomatic support. China invests heavily in projects such as hydroelectric power stations and railroads. These projects are financed by two state-owned banks, the China Development Bank and the China Export-Import (Exim) Bank. These two banks have overtaken the World Bank as the biggest financier of development projects in developing countries. For instance, in 2010, the World Bank issued \$100 billion while the two Chinese banks issued \$110 billion to developing countries (Butagira, 2011; Semakula, 2011).

The method by which China delivers assistance is itself unique. In most instances direct aid, grants, and loans delivered are not accompanied with monetary transfer from China to the recipient country but are transferred directly to the contractor that delivers the aid. This process has been termed the ‘Angola Mode’ by the World Bank. The Angola Mode works thusly: the loan or grant is never given to the recipient country, rather the Chinese companies build the infrastructure and it is paid by the Chinese government directly. The recipient country pays for this through licenses that are awarded to Chinese companies. The Chinese company in turn pays off the loan directly to the Chinese bank. In fact, this is the most-used method to back loans and grants given to African countries. Moreover, the Angola mode is designed to reduce the risk for China while at the same time it ensures that access to natural resources, which are then exported to China. Chris Alden and Ana Cristina Alves (2008) argue that Angola mode is a Chinese risk management strategy that would help solve local problems such as

corruption and favouritism. The recipient government chooses the project that needs to be built. Many critics in and out of the continent argue that this process is not in the best interest of African countries, because it binds their resources to long-term deals with Chinese state-backed companies, not to mention the many other problems that are associated with Chinese companies, such as poor labour and environmental records as well as a lack of transparency (Alden, Large, & de Oliveira, 2008).

As a result, China's involvement in Africa has aroused suspicion and has been heavily criticized. These criticisms have been directed at many aspects of the Chinese policy in Africa, including that it does not care about the environmental, human rights and ethical concerns resulting from its engagement. Chinese companies have been accused of ignoring local laws that protect the environment or even basic labour standards that protect workers. Other critics such as Shaun Breslin and Ian Taylor (2008) argue that this is part of a double standard that the West has when it comes to China. For instance, the West has ignored human and environmental concerns when it came to China so it could access its vast market. However, when China started competing directly with the West in developing countries that is when human and environmental ideals came into play.

Another criticism is China's non-interference policy, which emphasises its disengagement in the domestic country's internal mechanism. One of the consistent criticisms of China's approach to aid is that it supports despotic regimes on the continent because they prolong undemocratic leaders in countries such as Sudan, Zimbabwe, and the Democratic Republic of the Congo (DRC), through the loans and grants China showers upon them (Davies, Edinger, Tay, & Naidu, 2008). Furthermore, many of these

regimes trade away many natural resources, which a majority of their people do not benefit from. Some critics have called this relationship a new form of imperialism that is labelled 'Sino-Imperialism', Mark T. Jones (2011) noted, "whilst seemingly subtle and in nature, is seeing African nations or those who lead, sell off fishing rights, precious mineral resources, agricultural land, forests and in effect the birthright of future generations" (2011, online). This is in stark contrast with the emphasis of Western donors place on norms of human rights and liberal democracy. Equally important, China asserts the importance of economic rights and rights of subsistence, but advocates for the political non-interference policy.

Another critical theory often applied to China's development assistance is 'rogue aid'; a term coined by Moisés Naím in *Foreign Policy* magazine. Rogue aid was defined by Naím (2007) as "development assistance that is nondemocratic in origin and nontransparent in practice; its effect is typically to stifle real progress while hurting average citizens" (online). This theorem posits that assistance from rogue nations, authoritarian and undemocratic regimes are undermining aid that is meant to improve the lives of vast majority of the world's poor. The objective of this rogue aid is often to help the donors access the recipient country's natural resources and gain international backing, in contrast to the allegedly laudable aid agenda of structural and economic reform set out by multilateral institutions such as the IFIs, and the DAC (Woods, 2008). As a result, Western donors are undercut by aid that often comes with very few strings attached and, importantly, rogue donors are the principal beneficiary of the aid that they provide. Furthermore, proponents of this theory hypothesize that aid from rogue donors is detrimental to developing countries' likelihood of tackling the root causes of their under-

development. Hence, the European Union has been heavily courting China, a large non-Western donor, to adhere to guidelines instituted by the DAC. However, this theory has been heavily criticized for the lack of empirical studies to prove its thesis. One study concluded “[b]ased on China’s aid allocation decisions, it seems that fears that Chinese aid undermines the efforts of other donors to promote democracy and good governance are exaggerated” (Dreher & Fuchs, 2011, p. 27). Moreover, the new aid donors are viewed as threats rather than as a viable approach to the local conditions. For example, critics of this theory point to the overly bureaucratic, top-down approach to Western development assistance (Chahoud, 2007).

Another criticism is with regards to the economic benefits for Africa. China presents the argument that through trade with China, Africa will grow economically and develop – however, many argue that Africa is trapped in a similar relationship with Western countries. Moreover, the benefits of the relationship with China have not yet come to fruition. Davis *et al* (2008) concluded “[w]hat is clear is that aid, mainly in the form of concessional loans, but also commercial financing, serves as a platform for mainly Chinese state-aligned enterprises to establish a foothold in the African market” (p. 54). This strategy is evident in the manner by which China emphasises trade as an integral part of its overall development assistance agenda. Indeed, China ties its infrastructure aid to its own companies. Moreover, the development assistance that China provides has conditions attached. Nevertheless, China prides its approach as one that does not have conditions attached. In fact, jobs that are created with the Chinese funded projects are with mostly Chinese workers that are brought in. Accordingly, the local populace, for the most part, are not employed during the construction of the projects.

Finally, another argument surrounding discourse of the increased Sino-African relationship usually compares with the language that describes the West. According to Giles Mohan and Marcus Power (2008), the West views Africa as a 'moral cause' and China views Africa as a 'business opportunity'. However, most of the discussions involving China has usually portrayed it in terms of colonial dialogue such as 'scramble', 'mad dash' and 'resource grab' among others. Moreover, this relationship is now deeper and more entrenched with private Chinese enterprises also directly involved with the African states. Some have argued that Chinese foreign policy, which advocates for non-interference, is not very different than the 'liberal ideal'; the importance of the capitalist market but with the state as an important controller (Mohan & Power, 2008).

The West and China have a diverging vision of the role of development assistance and how it should be granted has played out throughout the continent of Africa. More specifically, the two visions have been starkly contested in a region of Africa that has been traditionally considered an area under Western influence. East Africa has witnessed considerable international attention over the last 50 years; the region has received a large amount of development assistance throughout its post-independence period.

2.4: International cooperation and development in East Africa

East Africa was part of the European 'scramble' for Africa that took place in the nineteenth century. Uganda became a protectorate of the United Kingdom, Kenya was a British colony, while Tanzania, Rwanda and Burundi became colonies of Germany. Following the First World War, the German colonies were handed over to the victorious allied countries (Sircar, 1990) with Tanzania transferred to the British while Rwanda and Burundi were assigned to Belgium. All of five countries experienced different methods of

governance during their period of European colonisation. The British encouraged the settlement of some of their colonies with Kenya hosting sizeable number of British colonists. The region was part of an imperial race for the control of trade in the region. The British, in particular, developed a sophisticated transportation network throughout the region, connecting the hinterland to the coast. The British created these infrastructure projects that criss-crossed the region, a colonial development strategy to exploit the regions resources. The most famous was the Uganda railway that connected the Kenyan coastal city of Mombasa to the heart of Africa. However, this pattern of British colonial development fit what Elliott P. Skinner (1980) identified as non-development noting that East African “economies were geared to the production of ... export crops and to extractive industries. There was little or no industrial development” (p. 73). Uganda was the treasure the British had coveted, overlooking Kenya, and on their way to the natural resources that were in Uganda. Uganda was described by Winston Churchill as the “pearl” of Africa, which was the opposite of resource-poor Kenya. In contrast, Kenya did not have easily accessible mineral wealth with the only resource it possessed agricultural lands (Collier & Lal, 1986). When the East African countries finally achieved independence, they had very little (if any) industrial capacity.

The East African region was, like most of Africa, a testing ground for the differing theories of development, particularly after sovereignty was gained from European countries starting in the early 1960s. A theory which influenced the newly independent countries was African Socialism¹¹. The overarching theory was summarized

¹¹ African Socialism was propagated by the early post-colonial leaders of Ghana, Kwame Nkrumah, Julius Nyerere of Tanzania, Tom Mboya of Kenya, and Léopold Senghor of Senegal, the theory was also influenced by the pan African ideas of W. E. B. Du Bois and George Padmore.

as “the ideology thus embodies a cluster of ideas through which African leaders are searching for some common identity” (Friedland & Rosberg, 1967, p. 4). The three EAC states asserted that African Socialism would transition the new countries into the era after colonialism and that it would be employed as the development model throughout the region. It should be noted that African Socialism was influenced by economic development, which was the dominant development ideology of the time (Friedland & Rosberg, 1967, p. 5), including the state’s role of in helping to accumulate capital for further development. Another tenet of the theory was Pan-Africanism, a concept with a long history, which encouraged the unity of the continent as it was emerging from colonialism. However, what African Socialism meant to each country became contested – for example, the first president of Tanzania, Julius Nyerere, claimed that African Socialism entailed development at the village or community level. Nyerere labeled this version of African Socialism as *Ujamaa or Familyhood*; which he differentiated from the two other dominant ideologies as such “it is opposed to capitalism, which seeks to build a happy society on the Exploitation of Man by Man; and it is equally opposed to doctrinaire Socialism which seeks to build its happy society on a philosophy of Inevitable Conflict between Man and Man” (Nyerere, 1962, p. 7). The Tanzania adaptation of the theory became a leading source of antagonism with the West, which viewed Tanzania as turning towards the Soviet sphere of influence. Uganda, before its civil war, was sympathetic towards Nyerere’s version of African Socialism.

At the time, the three East African countries were economically and politically integrated into EAC, and the differing ideologies were heavily touted by the three leaders. A divergence within African socialism became evident in East Africa, and

debates raged as to which would deliver better development outcomes, a socialist Tanzania model (*Ujamaa*) or an inherently liberal Kenyan model (*Harambee* – meaning let us all pull together). Within the EAC, Kenya promoted a one-party political system with a capitalistic economic model, while Tanzania promoted a one-party socialist state. These models of development had their positives that each touted, Kenya achieved remarkable growth in the early years, and Tanzania achieved a fairly equitable society. Kenya's model of capitalism was referred to as *Patron-Client Capitalism*¹² (Barkan, 1994, p. 15). Thus, a uniquely Kenyan model heavily influenced its economic and social governance, resulting in a development approach called *Harambee* which “entailed the formation of community based organizations for the purposes of implementing small-scale self-help development projects” (Barkan, 1994, p. 19). Essentially, rural communities would come together to build the required social infrastructure such as schools, clinics and water wells. *Harambee* ensured that, although mostly based in rural areas, which fit into the capitalist model of development adopted after independence; most projects received virtually no state funds, although state approval was required for an organization to be labeled as such. Anne Nangulu-Akuyu (2007) succinctly concluded that the end result of the policy was that “despite the euphoria of independence, decolonization in Kenya ... appears to have permitted a significant deepening of the new nation's participation in the production networks of the world's capitalist economy” (Nangulu-Ayuku, 2007, p. 134). Inequality increased in the country, although Kenya enjoyed remarkable economic growth in the decade after independence.

¹² This is, sometimes also referred to as clientelism, defined as “a form of politics in which ties between leaders and followers are personal” (Rothstein, 1979, p. 25).

However, in the 1970s, the region as a whole struggled to economically develop; its economies, after showing promise in the 1960s, stagnated by the end of 1970s and in some cases even shrank, despite having pursued development models required by Western donor countries. These development models required the newly independent countries to take on heavy debt burdens. When some East African countries started experiencing civil war and economic downturn, they had difficulty repaying these loans.

For some countries in East Africa, an over-reliance on development assistance was required to supplement their budgets. The nature of development assistance itself has gone through transformations throughout its history in the region. Development assistance became an entrenched philosophy that governs the relationship between developed and developing countries, with many questioning the role of development itself. For instance Yansane (1980) noted “often this independence of flag did not involve any major structural changes, and thus it led to few changes in people’s lives” (p. 3). Indeed, the pattern that followed most of the development assistance in the world also held true for East Africa. This form of control was best described by the first president of Ghana as “[t]he essence of neo-colonialism is that the state which is subject to it is, in theory, independent and has all the trappings of international sovereignty. In reality its economic system and thus its internal policy is directed from the outside” (Nkrumah, 1965, p. IX). For example, they termed this aid relationship as ‘neo-colonial’ in nature (Yansane, 1980). Indeed, many scholars posit that development assistance is not a ‘charitable’ donation. Critics often point to the trading relationship as one of the biggest indicators of how much a developed country provided to the recipient country. In a study by Jean-Claude Berthelemy and Ariane Tichit (2004) noted, bilateral assistance is

intricately linked to the interests of the donor country: “[b]ilateral trade has a strong and significantly positive impact on aid allocation” (p. 263). Thus, trade is often part of any development agreements between rich and poor countries. Many argued that Western countries promoted economic policies that were similar to the colonial practice used before East African countries gained independence. East Africa became a supplier of raw goods, and materials and industry was discouraged.

This discrepancy became even more glaring because the majority of the population did not see any major changes in the governance structure with the exception of a few elites who gained more power that had been granted to them with the achievement of independence. The international institutions under the UN system generally were allied with Western goals of development. One notable exception to this was Tanzania, which was linked to the socialist method of development. Tanzania was firmly non-aligned; accepting assistance from both the West and the Communist bloc. Moreover, it was also closely linked with China with the construction of the Tanzania-Zambia Railway (TAZARA)¹³ in the 1970s by an estimated 50,000 Chinese workers (Monson, 2008, p. 6) a signature project. On the other hand, Kenya also experienced the development project from a unique vantage point as it embraced a decidedly pro-Western and at its core capitalist paradigm.

2.5: International cooperation and development assistance in Kenya

Kenya’s experience with development assistance is similar to many other East African countries. However, Kenya was unique in the sense that it was relatively stable compared to its neighbouring countries. One benefit of such stability was that Kenya rapidly

¹³ For background on the TAZARA and its impact on Tanzania consult Monson (2008).

industrialised in the decade after independence. Even so, Kenya received development assistance because its economy was weak, and a large segment of its population lived in poverty. Moreover, Kenya relied on aid to help fund the government (Mosley, 1991). The development assistance that Kenya received was directed towards improving infrastructure such as building roads and railroads. Another portion of the assistance was converted into loans to help finance capital-intensive industries. For instance, the country's development policy called for aid to be invested in such industries as cement factories, sugar refineries, and telecommunication infrastructure (Holtham & Hazlewood, 1976). Notably, the development assistance that Kenya received during this period originated from Western countries.

Kenya relied on multilateral organizations such as the United Nations, and its agencies to gain access to development aid. In fact, the United Nations African headquarters was located in Nairobi and many international agencies and organizations soon located there as well. Additionally, Kenya was part of the Non-Aligned Movement meant to resist the global superpowers' influences. This did not mean that Kenya was politically neutral as it was under heavy influence of Western countries. Kenya was very much linked to its neighbours originally as part of the East Africa Community (EAC) and its trade heavily relied on the neighbouring countries. The country's political stability relative to its neighbours helped the country attract investors from around the world. Uganda, Ethiopia and Somalia experienced civil strife that resulted in many refugees settling in Kenya. Moreover, the perception that it had successfully transitioned from colonialism to a developing country attracted international attention. The country's

membership in the multitude of international organisations helped the country find investors and donors alike.

The United Kingdom, the former colonizer of Kenya, has been the largest provider of aid (Holtham & Hazlewood, 1976). Similarly, Kenya has been a large recipient from other Western countries, as well Western-based multilateral agencies such as the International Monetary Fund (IMF) and the World Bank (Njeru, 2003). In the 1960s, Kenya was viewed as one of the success stories of using aid for development. During this period, Kenya experienced high economic growth rates and it increased some social indicators as growth in the decade after independence averaged six percent of GDP (Collier & Lal, 1986, p. 73). The biggest economic sector, agriculture, was the driving force behind this impressive growth. However, Kenya's impressive growth came to a halt by the middle of the 1970s as Kenya experienced economic stagnation while at the same time most of the loans that it had taken on in the aftermath of independence came due. Moreover, a large portion of the aid that Kenya received from many donor countries was classified as technical assistance, and loans, rather than direct aid (Mosley, 1991). Technical aid was mostly delivered through 'experts' that donor countries would send to Kenya. Yet, the country was still required to repay these loans. By the 1980s, the perceived failure of the state-led development model combined with a political shift in Western countries resulted in a change in the way that development assistance was granted.

Kenya was not spared when the age of increased conditionalities arrived in the 1980s. Consequently, Kenya became involved in constant negotiations and conflicts with donor agencies and countries that led to aid being frozen multiple times. Structural

adjustment programs were implemented that would help to liberalize the economy, privatize government services and decentralize power (Mosley, 1991). Furthermore, this was part of the democratization process that was intended to help make the government be more accountable to its citizens. Additionally, the Kenyan government was required to sign agreements that ranged from civil service reform to specific economic programs (Cohen, 1995). All of these reforms were implemented as part of Structural Adjustment Programs (SAPs) that were to be completed in return for development assistance from the World Bank. Consequently, the increased conditions that Kenya had to comply with resulted in an adversarial relationship with donor countries and International Finance Institutions (IFIs).

Kenya has gone back and forth with aid being given before being promptly frozen around every three years from the 1980s until the middle of the 1990s. The first time that Kenya had its development assistance frozen was in 1982 when the required policy reforms were not implemented. It took two years, 1984, before funding would resume, after the country experienced a severe drought and the aid that was provided was for food aid (Njeru, 2003). Paul Mosley (1991) described, the relationship between Kenya and the World Bank as exasperating, as “few country lending experiences have given the Bank so much cause for frustration” (p. 247). According to James Njeru (2003), Kenya’s economic decline can be charted to the periods that aid was suspended. The last attempt was “with the help of the World Bank, a team of experts from the private sector and international organizations (popularly known as the Economic Recovery Team or the ‘Dream Team’) was recruited into the civil service to initiate the economic recovery and ensure economic reforms and good governance at the treasury” (Njeru, 2003, p. 12). The

other donor agencies take a cue from the Washington institutions as to how to distribute funds to Kenya. If one of them withholds funds or loans, then inevitably Kenya experienced huge budgetary shortfalls as a large portion of Kenya's government is funded by aid from donor countries. However, after years of decline in development assistance for Kenya, it started to increase to record levels in 1990. This period saw increased conditionalities placed on Kenya that included democratization and this process saw Kenya hold its first multiparty elections in 1992. The levels of aid that Kenya received would never reach that of 1982 after the first freeze on aid until the middle of the 2000s.

Kenya's development has been hampered by economic and social stagnation since the country gained independence. As a result, the country endured various development approaches prescribed by Western countries and multilateral agencies. Therefore, some politicians have placed the blame of Kenya's lack of development on the conditions that were placed on the country by these outside actors. Consequently, critics have urged Kenya to look elsewhere for development assistance that would remove the conditionalities that were perceived to be at the heart of Western-led approach to development assistance. Accordingly, the approach offered by China has been promoted as a solution. China promotes an approach to development that has three components. The first aspect of China's development assistance to Kenya encourages trade. China's trade with Kenya has grown substantially (and continues to grow) over the last decade. The second characteristic is to encourage direct investments of Chinese companies in Kenya through state-backed loans. The final component is development aid in which China directly gives aid to certain projects such as building hospitals, infrastructure

projects, and funding educational exchanges. These three intertwined elements of China's development assistance have been promoted by China as an alternative for Kenya to embrace. Having reviewed the theoretical context behind Kenya's development, the next Chapter systematically assesses China's approach to development assistance and how it is playing out in the Kenyan environment.

Chapter 3: China's approach: a case study of Kenya

3.1: Background: the bilateral relationship in context

3.1.1: Pre-independence

The relationship between Kenya and China can be documented as far back as 545 BCE (Snow, 1988, p. 3). Chinese traders and diplomatic missions left evidence along the East African coast between Zanzibar and Somalia¹⁴. Indeed, Chinese artefacts such as coins, porcelains and pottery, as well as Chinese imperial accounts have affirmed this prior contact (Filesi, 1972; Snow, 1988). For a variety of reasons, in the fifteenth century China pulled back from its expeditions to the African continent, starting with a proclamation by Emperor Hsuan-te which decreed “the building of ships to go to the barbarian countries shall everywhere be stopped” (Hutchison, 1975, p. 11). By the nineteenth century China retrenched, and Western forces had begun to assert their presence on the continent. Philip Snow (1988) observed one direct consequence included that “contact had passed into the hands of the Europeans with their small ships and their unimpressive goods. Much of the old trade filtered now through [the Europeans]” (p. 36). Gradually, the exploration and trading missions by the European powers into Africa evolved into colonialism. Accordingly, the relationship between Africa and China virtually ceased to exist.

¹⁴ For further studies of China's historic interaction with Africa consult Filesi (1972); Hutchison (1975); Snow (1988).

Therefore, a 500-year gap between ‘official’¹⁵ contact of the Africa-China relationship came to a pass, with the next official account being the Bandung Conference 1955 (Hutchison, 1975, p. 11). Change came, however, with the communist takeover of China in 1949. As communist China settled into power, the focus turned to supporting like-minded causes around the world (Brautigam, 2009). Above all, China viewed independence struggles across Africa as interconnected and linked to the socialist movements that had taken hold in Eastern Europe and East Asia. More importantly, they believed that the Chinese version of communism could serve as a model for development; particularly, through revolution and self-help (Cooley, 1965, p. 4). An example would be Mao’s theory of a ‘people’s war’ which could be replicated in one part of Africa before spreading throughout the continent (Copper, 1975, p. 86). In an effort to foster discourse on African independence, China helped to create the ‘Afro-Asian Solidarity Council’ in 1957 as a forum to propagate Chinese influence and promote Chinese leadership in Africa (Neuhauser, 1968). Concurrently, during the 1950s, one colony agitating for independence was Kenya.

Kenya was formally colonized by Great Britain in 1895, although Vasco da Gama had established economic links on behalf of Portugal as early as 1498 (Eliot, 1905, p. 14). The Portuguese established trading posts to the south, in what is now Tanzania and Mozambique. In fact, the Portuguese effectively colonized Kenya’s coast by the mid-1500s (Eliot, 1905). Starting in the 1840s, British explorers in search for the source of the Nile helped to establish British claim over East Africa (Gray, 1965, p. 213). Importantly, European powers set out to assert their claim over Africa at the 1884-85 Berlin

¹⁵ Official accounts indicate that Chinese government stopped their missions to Africa. As Snow (1988) noted the Portuguese became the middle men between Africa and China.

Conference and by 1886, East Africa was divided up between Britain and Germany as part of the ‘Anglo-German Partition Agreement’ (Flint, 1965, p. 389). In the agreement, the Imperial British East Africa Company was granted exclusive economic rights in Kenya and Uganda. Accordingly, the company expanded into the interior of Africa by building roads and communication infrastructure into Uganda. However, in 1894 the company had its charter revoked by the British parliament and in 1895, Uganda became a British Protectorate and what is now known as Kenya became a settlement colony of the British (Eliot, 1905; Flint, 1965, p. 389) resulting in colonists arriving as an elite managerial *caste* from both the United Kingdom and the Indian *Raj*. Kenya’s quest for independence, built on much opposition to British imperial rule, came to a head in the 1950s, with the outbreak of the ‘Mau Mau’ uprisings in 1951, which had an influential Marxist element to its leadership attracting Chinese attention (Masta, 2009). In fact, as Jomo Kenyatta, Kenya’s revolutionary leader, languished in prison for almost a decade, China consistently called for his release (Ning-I, 1961).

3.1.2: Post-independence period

After a long struggle against the British for independence, Kenya won self-government on December 12, 1963. Soon after independence, Kenya established a diplomatic relationship with China. Markedly, Kenya recognized the People’s Republic of China (PRC) instead of the Republic of China (Taiwan). This allowed for the reciprocal recognition of an independent Kenya and therefore, on December 14, 1963 the PRC was the fourth country to recognize Kenyan independence (Onjala, 2008b, p. 4). A short five months later, Kenya secured its first development assistance from China. According to Kenyan cabinet committee minutes, the earliest form of assistance took the form of

technical assistance¹⁶ directed towards the Ministry of Agricultural and Animal Husbandry. Another component of that agreement was that China would provide Kenya with a loan of \$70 million and most importantly, China agreed to finance future development projects¹⁷. By December 10, 1964, the two countries had reaffirmed earlier agreements to help build sugar and textile factories with an agreement calling for exchanges of expertise between the two countries such as China's dispatch of three experts to Kenya to teach bamboo weaving while Kenya would send trainees to China to learn ivory carving¹⁸. In exchange, for such technical aid, Kenya would repay the loans through the goods that it sold directly to China (Masta, 2009, p. 386). Table 3.1 illustrates the loans and grants initially received from China after Kenya gained independence. Notably, China adhered to similar Western development assistance theories dominant during this period. Development economics, namely, advocated for massive capital infusion into developing countries to propel their development. As Peter Andrews Poole (1966) noted:

The Chinese economic aid program, though patterned on the Western model, has evolved certain distinctive characteristics; some of these have enhanced its value to aid recipients, while others have led to serious friction between Peking and the recipient states. Among the essentially positive features of Chinese foreign aid activities have been: (1) the provision of credits without interest or at very low rates of interest; (2) an emphasis on small,

¹⁶ OECD defines technical assistance as: "(a) grants to nationals of aid recipient countries receiving education or training at home or abroad, and (b) payments to consultants, advisers and similar personnel as well as teachers and administrators serving in recipient countries (including the cost of associated equipment)"(OECD, 2012).

¹⁷ See annex 2: The cabinet meeting minutes; the Kenya National Archives: File TR/U/PV4/Tourism, Nairobi.

¹⁸ See annex 3: The protocol: Kenya National Archives (KNA), File AE/446, Ministry of Commerce and Industry, Nairobi.

uncomplicated, light industrial projects that can be put into operation quickly and which yield some tangible benefits promptly to the recipient state; and (3) the practice of insisting that Chinese technicians live at the level of their host country counter-parts (a practice that parallels that of the American Peace Corps). (Poole, 1966, p. 623)

Table 3.1: Initial aid from China to Kenya

Date	Type of assistance	Amount	Source
May 1964	Gift: 200-bed hospital, a technical school for 1000 students, credit financing of food processing and a radio station.	\$2.8 million	Hevi (1966); Copper (1975, 108)
May 1964	Loan: 5-year repayment schedule; to be used to pay for Chinese technicians.	\$25 million	Colley (1965); KNA
June 1964	Loan: to build sugar factories and textile factories	\$70 million (F65 million) ¹⁹	KNA Masta (2009)

However, a backlash against Chinese influence and China's support for revolutionary movements across Africa through its potential Kenyan base started to ferment within Kenya, and the agreement was never finalized (Masta, 2009). Indeed, Chinese premier Chou En-lai, after having visited ten African countries, including Kenya, noted the "excellent revolutionary situation in Africa" (Masta, 2009, p. 386). Such concerns were not without merit, on May 15, 1965, Kenyan police seized 75 tons of Chinese weaponry whose destination and recipients were unknown (Cooley, 1965, p. 57; Copper, 1975, p. 109). Moreover, around the same time, it emerged that China had supported and supplied both armies during the Kenya-Somalia war (Copper, 1975). Additionally, the Kenyan government did not want to be seen as getting aid from the communist bloc. At the height of the Cold War, the US and Soviet Union were in competition to gain influence over African countries – and Kenya was receiving a majority of its development assistance

¹⁹ This loan was never finalized because it was canceled by Kenya.

from US allied countries. For instance, in 1964, the same year that China agreed to assist Kenya; the latter also received \$300 million in development funds from the UK alone (Copper, 1975, p. 109). More generally, the decline of the Kenya-China relationship was linked to the overall decline of the revolutionary left in Kenya, which had fought for independence (Masta, 2009, p. 110). At its lowest, China (along with the Soviet Union) was accused by Jomo Kenyatta's Kenya African National Union (KANU), of funding opposition groups to the tune of \$1.5 million - \$4 million²⁰. As a result, three members of the Chinese consulate were declared *persona non grata*, including the Chinese *chargé d'affaires* (Li Chieh), a clerk and a third secretary along with a journalist affiliated with the *New China News Agency* (Xinhua) who was directly linked to the storming of the KANU's headquarters (Larkin, 1971, p. 136). The diplomatic antagonism reached its peak when Minister for Economic Planning, Tom Mboya, equated Chinese activities in the country with that of the United States: as being imperialistic in nature (Hutchison, 1975, p. 151). Mboya's comments resulted in China's harsh criticism of the minister as being a stooge of the US and in 1967, China's expelling of Kenya's ambassador in Beijing (Chege, 2008). Bruce D. Larkin (1971) noted that Chinese support for anti-Kenyatta forces:

in supporting a minority faction or selected members of a governing party, China was indiscreet to say the least. Perhaps she erred, or perhaps she took a calculated risk. China was not alone in having diplomats and newsmen expelled from Kenya. China's action can be judged careless or unwise or miscalculated, but they were not incompatible with policy preparation. Chinese in

²⁰ This was converted into today's dollar figures using www.measuringworth.com's GDP deflator index: a number that represents the "average price" of all the goods and services produced in the economy. The original amount was £100,000-£400,000.

Nairobi could have hardly refused an approach from Oginga Odinga; it is even hard to imagine they could have forgone approaching him on their own initiative. Such a move would have been among the most obvious available preparatory steps. A policy of preparation can never be entirely free of risks. (Larkin, 1971, pp. 204-205).

As a result, the relationship between the two states went through a quiet period and due to the lack of effective diplomatic representation in each other's capitals, Chinese development activities in the country came to halt (Chege, 2008). As Jane Masta (2009) noted "China and Kenya had severed diplomatic relations in all but name" (p. 387). Some attributed this decline as part of Western 'machinations' to guide Kenya away from China (Masta, 2009, p. 385). However, by the 1970s, China itself had retrenched politically and in spite of such disquiet, the relationship between the two countries remained cordial with Kenya maintaining their recognition and relationship with mainland China instead of Taiwan (Onjala, 2008b, p. 4).

In the 1970s, Kenya underwent a period of domestic political turmoil that resulted in drastic structural changes to the country. First, a political split between the leading members of government resulted in a period of political uncertainty. An economic decline soon followed, helped along by the 1973 oil crisis. For instance, in 1972 Kenya had an astounding annual GDP growth rate of 17% but by 1975, the growth had slowed to less than 1% (World Bank, 2012b, online). This resulted in Kenya's external debt (comprising of debt to multi-lateral, bilateral, commercial, and export credits) rising dramatically from \$581 million in 1972 to \$1.3 billion in 1975, in current US dollar figures (World Bank, 2012a, online). Moreover, the decline saw Kenya rely more heavily on development assistance to help meet its needs. For instance, development assistance

more than doubled during this period, from \$66.85 million to \$124.82 million (World Bank, 2012b) and by the end of the decade, Kenya was in dire economic straits with both external loans and ODA contributing a large portion of government revenues. Subsequently, external debt almost approached unmanageable levels during this decade, with reliance on hard currency-generating agricultural goods, particularly coffee, to acquire national income. Coincidentally, at the beginning of the decade coffee prices increased drastically helping to offset some of the balance of trade problems. However, this too was offset by increases in the price of oil raising energy costs by as much as 35% (Hansard, 1980, pp. 5-7). Consequently, Kenya spent close to 40% of its export earnings to import oil (Martin, 2011, p. 69). Inflation became another problem that affected the country, averaging 10-20% in the 1970s (Legovini, 2002, p. 4). Although, in the 1970s Kenya was receiving more in loans and ODA, the relationship with Western countries were starting to turn sour, which alongside a dramatic economic decline forced it to look elsewhere for increasing levels of assistance. Debt repayment levels became hard to achieve, and Western countries and institutions started requiring more stringent conditions before granting rollover and new loans. Thus, as the decade came to a close, Kenya started to re-examine its frayed relationship with China – coincidentally, under the leadership of Deng Xiaoping, China was in the process of transforming its economy and instituting an outward policy (Onjala, 2008b, p. 5).

3.1.3: Rapprochement

Within this context, the two countries entered into negotiations in 1978 with their bilateral relationship quickly warming. Shortly thereafter, President Daniel Arap Moi visited China to sign the first bilateral treaty between the two countries since the 1960s

(Masta, 2009, p. 387). The agreement that was struck covered both economic and cultural activities in both countries. A focus of the new bilateral treaty was culture, with the agreement detailing areas such as the hosting of visiting scholars and writers as well as the exhibitions of culture and art. Education, included as part of the cultural component, was crafted to facilitate grants and scholarships for students to study in both countries. Moreover, higher institutions of learning were encouraged to help coordinate the two countries' educational capacities and to engender collaborative efforts.

The second aspect of the treaty agreed to increased economic co-operation, particularly in rural areas. China agreed to help fund various infrastructure projects within the Kenyan agri-economy, including technical and other assistance to subsistence farmers. Another area of focus was industries based on urban industrial estates. The most notable project out of this renewed rapport was the construction of the Moi Sports Complex in Nairobi which was set to host the 1983 All-Africa Games. China agreed to cover 85% of the estimated costs to finance and construct the complex.²¹

Following such tentative steps in the 1980s, China instituted outward – looking policies such as the ‘going global’ policy in the 1990s, with one of the beneficiaries of such efforts being Kenya. In the 1990s, China, under a similar arrangement such as the Moi sports complex construction, helped to erect the Moi Teaching and Referral Hospital in Eldoret. This expansive Chinese policy directly impacted Kenya with a prominent shift in China’s aid policies. Like for the rest of Africa, the main focus areas for Chinese development assistance to Kenya became focused on general infrastructure, with a

²¹ See annex 3: The cooperation agreements: KNA, File AE/446, Ministry of Commerce and Industry, Nairobi.

commensurate build-up of economic linkages, allowing for easier access to the Kenyan market through a reduction of tariffs for both countries' products and services. The linking of FDI to the aid regime was another important shift. Finally, development assistance started to become a significant element to China's peaceful rise policy. This culminated with China and Kenya signing a total of twelve bilateral accords between 2004 and 2006, which expanded into a range of fields including the economy, technology, energy, tourism, health, aviation, media, archaeology and education (Xinhua, 2006, online; Onjala, 2008b, annex A). Consequently, various overarching themes have arisen from Kenya's relationship with China – particularly, what has been labelled as 'China's approach' encapsulating trade, FDI, and development assistance. China's approach in Kenya will be detailed in the following three sections. Therefore, China is often presented as a new development partner. The debates have come to encapsulate how China's approach fills Kenya's developmental void. On the other hand, China is a self-interested competitor to Kenya or even that China has imperialistic and colonial impulses. Given these points, China's approach will be analyzed in the next Chapter.

3.2: Trade

3.2.1: Background

Kenya's development policy called for increased reliance on trade to improve its development indicators. This included moving away from an overreliance on the agricultural sector and to diversify its industrial and manufacturing base. In the advent of liberalized trade in the 1980s, Kenya opened its economy by reducing tariffs, eliminating regulations and the removal of price controls (Kenya, 2010a). This move can be traced back to the liberalization of its economy in the late 1980s as part of the Structural

Adjustment Programs (SAPs) mandated by the IFIs. For instance, one condition placed on Kenya, in the 1990s, in order to access aid, was to open its market and step away from state-led industrialization. Accordingly, market liberalization led to lowering of tariffs and reduction of non-tariff barriers such as protective measures to promote industries within Kenya. Further, the implementation of a trade regime guided by market-driven principles under the World Trade Organization (WTO) came into effect in 1995. Subsequently, imports grew noticeably, an annual average of 6.1% to 22.5% between the periods 1998-2002 and 2003-2007 respectively. Meanwhile, over the same periods, exports grew from an average of 6.6% to 10%. One consequence of this was that Kenya's trade deficit doubled from \$55 million to \$105 million over the same period (Kenya, 2010a, p. 11). At the same time, Kenya's economy was underperforming compared to its neighbours – a research analysis compiled for the United States Congress concluded: “Kenya has one of Africa's worst performing economies, notwithstanding a pick-up of economic growth in the past three years” (US, 2007, p. 9). Even today, Kenya relies on a small number of primary products as its main exports and agricultural products account for more than 50% of its total exports (Kenya, 2010a).

Such influences can be seen through Kenya's post-colonial trade with China. In the decade prior to Kenya's independence, between 1950 and 1960, trade between the two states was almost non-existent. In the year that Kenya gained independence, Kenya's total trade with China was valued \$1.2 million²² (Chege, 2008, p. 18). Kenya traded raw commodities such as sisal fibre, and raw cotton and in exchange China sent Kenya base metals, fabrics, and sundry manufactured goods (Chege, 2008, p. 18). Thus, across

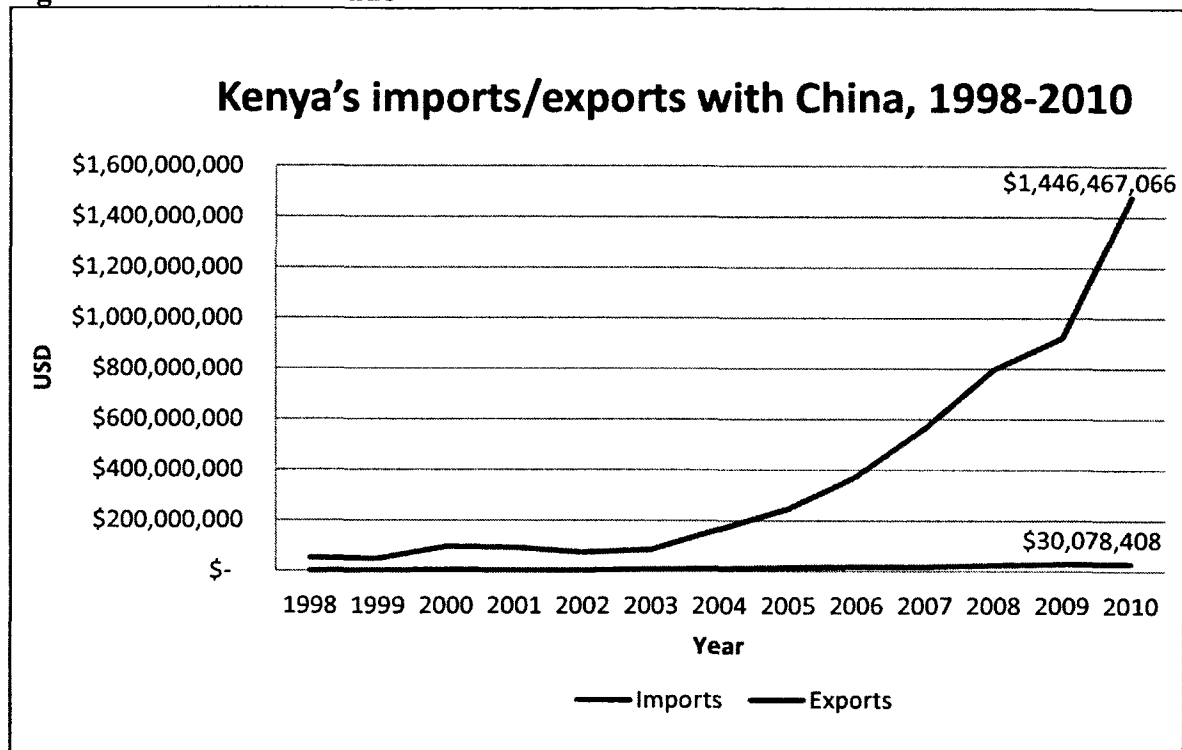
²² This figure is based on the prevailing exchange rate.

Kenya's early years as an independent nation, it enjoyed a positive balance of trade with China, often to the tune of three times (Chege, 2008). However, over the 1980s, trade levels between the two countries developed a new equilibrium. While Kenya continued to export around \$10 million worth of goods to China, it now imported roughly \$20 million from an ever growing China, resulting in a negative trade balance of \$10 million. This discrepancy escalated, with 1993 as the turning point by which time the balance of trade changed dramatically in favour of China. For example, in 1993, Kenya imported slightly over \$20 million while by the next year it had jumped to over \$80 million (Chege, 2008, p. 22). This negative balance in trade has grown unabated ever since. This is, in contrast to other African countries which trade 'hard commodities' or oil to enjoy a positive trade balance with China.

Recently, China has emphasized trade as integral segment of its peaceful development' policy, which prioritizes its own development but importantly: "it should seek mutual benefit and common development with other countries in keeping with the trend of economic globalization, and it should work together with other countries to build a harmonious world of durable peace and common prosperity. This is a path of scientific, independent, open, peaceful, cooperative and common development" (China, 2011, online). For this reason, China has managed to use an export-led model to rapidly industrialize and is now labelled the 'world's factory'. Further, China's approach to development assistance places emphasis on the developmental impacts of trade. As Brautigam (2009) noted China utilized 'compensatory trade' to exploit its own resources

and help it transition from mainly a subsistence economy to an industrial one²³. China views trade as part of its 'win-win' strategy from which a developing country can benefit from deeper relations with its burgeoning economy. Thus, trade between Kenya and China is an essential element of the relationship between the two states. Figure 3.1 illustrates this growing trade link between the two countries.

Figure 3.1: Balance of trade



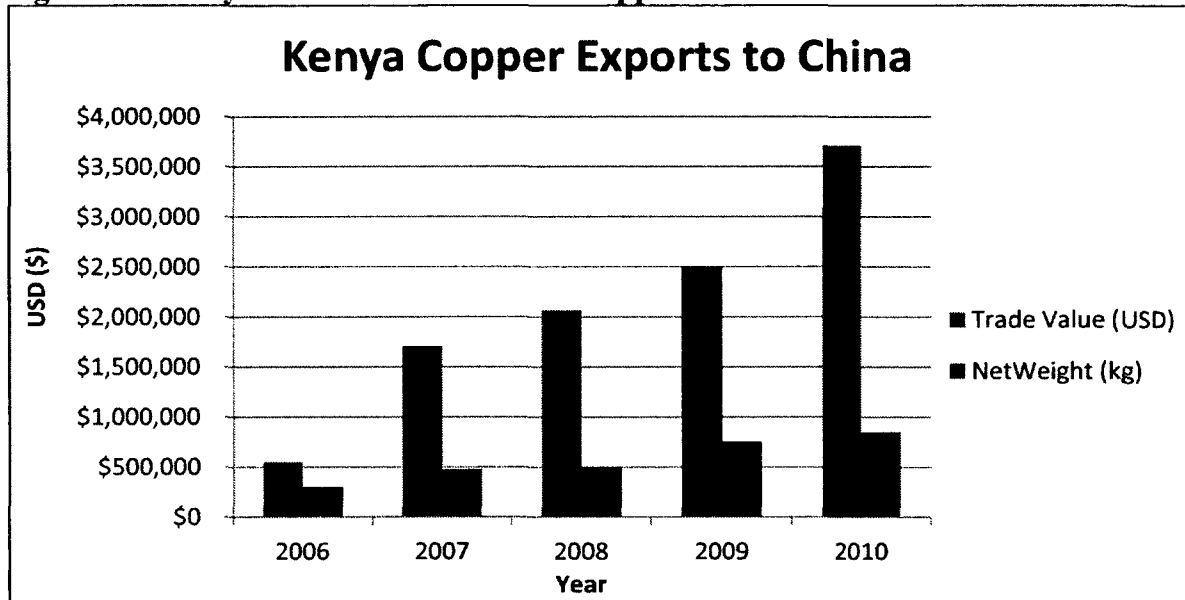
Source: CBIK; Kenya National Bureau of Statistics; UN COMTRADE; author's calculations

One example, copper prices have risen from under \$2000 per ton to almost \$7700 between the 2000 and 2010 according to the US geological survey. This dramatic increase in metalliferous ores is partly attributed to demand from China, which contributed 30% of global demand growth between 1999 and 2004 (Goldstein, Pinaud, &

²³ Compensatory trade is defined as: the sale of goods and services with payment in the form of goods rather than cash. For example, the sale of manufacturing equipment by a U.S. firm to several Asian businesses that promise payment in the form of goods to be produced by the equipment.

Reisen, 2008, p. 33). Accordingly, Kenya has seen its copper exports to China grow marginally from 2006 to 2010. More importantly, the earnings from its copper exports to China have increased dramatically from slightly over \$500,000 in 2006 to almost \$4 million in 2010. This can be best illustrated in Figure 3.2.

Figure 3.2: Kenya's increased returns on copper



Source: Data UN COMTRADE SITC 7403 (online)

However, one industry that has faced increased competition from China is the dry cell batteries industry. Estimates peg imported batteries from China now account for some 60% of the country's market share because they were cheaper than locally produced batteries, although a significant portion of them are fake or illegal (Kagwe, 2012, online). For example, one state owned company, Jinzhong Battery Company, in 2005 quickly achieved a remarkable market share of 40% in Kenya through its Rhinoceros branded products (Asia Times Online, 2005, online). In response, a local battery manufacturer, Eveready East Africa, threatened to relocate from Kenya to Egypt unless a ban was put in place to protect local manufacturers from the less expensive Chinese products (Mwanza,

2011, online). Since 2007 the Kenyan Battery Manufacturers Association has been actively lobbying for a ban on Chinese batteries claiming that Chinese batteries were flooding the Kenyan market. As a result, the Kenyan government adopted a proactive measure and banned Asian batteries (almost exclusively Chinese made, but a small percentage could be traced to Malaysia) from entering the country (Eveready East Africa, 2011).

Kenya's other dominant trade partners include the United Arab Emirates, which supplies 90% of the oil consumed in the country and other African countries: Uganda, Tanzania, and Sudan. Moreover, the European Union, United States, and Pakistan round out the other principal trade partners. The other East African Community states are principal destination of goods from Kenya with the leading exports from Kenya to EAC countries being manufactured goods, fuel and lubricants and machinery and other equipments. (Kenya, 2010a, p. 18). There is a caveat attached to this: Kenya re-exports²⁴ many goods to the other landlocked countries, which count towards Kenya's export ratios. The impact of this re-export to Kenya's economy cannot be directly quantified; however, anecdotally, Kenya claims significant tariff loss due to traders claiming goods entering Kenya are destined for another EAC member. When the goods reach the second country, for example Tanzania, they are then repackaged and brought back into Kenya. An example of this phenomenon was Kingsoft toilet papers imported from China, which was supposed to be charged an import duty of 25%, an excise duty of 10% and a value-added tax of 18% to enter Kenya but avoided all the other taxes by paying only the

²⁴ The OECD defines Re-exports as "foreign goods exported in the same state as previously imported, from the free circulation area, premises for inward processing or industrial free zones, directly to the rest of the world and from premises for customs warehousing or commercial free zones, to the rest of the world" (OECD, 2001).

customs tax at the port of entry (Mombasa). More specifically, Kingsoft transited the goods to Tanzania, repackaged the toilet paper and then brought it back into Kenya (Muwanga, 2011, online).

Another important trading partner is India, which often competes directly with China in the country. However, China has received all the attention, resulting in India being labelled as ‘sleep walking’ throughout Africa (Naidu, 2010, p. 39). Markedly, India has recently refocused on Africa as India hosted an India–Africa summit in 2008 and pledged to aid Africa in exchange for India’s access into African economies (Naidu, 2010, p. 42). A consequence of the summit was that India has courted African countries in a similar fashion as China – through concessionary loans, human-resource development, and capacity-building – with an added emphasis on the information and communication sector. Modern Kenya and India have had economic linkages that were helped by the British transfer of Indians into Kenya during the colonial period. Ever since, Kenya has had a significant Indian minority, in addition to the business traders who arrived after independence (Indian Embassy, 2009, online). These small-business owners became important players in the import-export segment of Kenya, helping India achieve a foothold into the country. Moreover, local Indian construction companies play a significant role in the infrastructure projects in Kenya. In 1981, the two countries signed a trade agreement which declared goods from each country would be accorded the Most Favoured Nation status. Consequently, India has been consistently one of Kenya’s top trading partners even after independence. Trade between the two reached \$1.2 billion in 2008; again, Kenya imports manufactured goods, pharmaceuticals and chemicals, while exporting cashews, horticulture and leather products (Indian Embassy, 2009, online).

However, even with this expanded trade, the imports from China are more diversified than both UAE and India (Juma, 2012).

Between 2000 and 2009, imports from China grew by more than a factor of ten. Indeed by 2010, the amount Kenya imports from China has grown past \$1.5 billion, while Kenya's export to China had not kept pace with China's imports – increasing to \$30 million²⁵. Kenya continued to export mostly agricultural commodities and food stuffs to China. Table 3.3 illustrates the top ten products sent to China in 2010, which included tea, leather and copper, with scrap metals and waste products also making it into the top ten exports list. Table 3.4 lists the top ten imports from China.

Table 3.2: Top ten exports from Kenya to China (2010)

Items	Value (USD)
Tea and mate.	5,028,599
Jute and other textile bast fibres.	3,836,792
Leather	3,583,255
Copper	3,522,820
Non-ferrous base metal waste and scrap.	3,080,327
Oil seeds and oleaginous fruits.	3,047,566
Fish	1,694,169
Fruit and nuts	1,278,839
Iron ore and concentrates	1,229,177
Waste, parings and scrap, of plastics.	959,355

Source: Centre for Business Information Kenya; author's calculations

Table 3.3: Top 10 imports from China (2010)

Items	Value (USD)
Telecommunications equipment.	205,824,363
Electrical machinery and apparatus.	95,834,773
Automatic data processing machines.	72,158,150
Machine-tools.	69,408,556
Knitted or crocheted fabrics.	39,129,370
Rubber tyres.	33,483,959
Mechanical handling equipment	32,286,838
Motorcycles	31,633,609

²⁵ These figures were acquired from Centre for Business information Kenya (CBIK).

Tubes and pipes	30,657,338
Aircraft and associated equipment	27,921,680

Source: Centre for Business Information Kenya; author's calculations

The one-sided trend in trade and the overall negative trade balance led to calls from both Kenya and China to see such discrepancies redressed and rebalanced. Towards that end, in 2007 China and Kenya signed a Memorandum of Understanding (MOU) to improve the economic linkages between the two (Kenya and China, 2007). The same year, the Kenya-China Economic and Trade Cooperation information portal was created for Kenyan and Chinese business to enter into partnerships. In a newspaper interview, a former Chinese ambassador to Kenya was quoted as saying "[t]he goods we exchange are certainly very different in nature and cannot attract similar returns, but we need to move beyond commodities and also look at services such tourism. Kenya greatly benefits from such service sectors and factoring this can help redefine the scale of imbalance" (Odhiambo, 2011, online). As a result, China agreed to assist Kenya in various sectors in the economy such as the informal sector, agriculture, tourism, and solar energy industry. China also agreed to improve the infrastructure within Kenya to create efficiencies through the rehabilitation of existing roads, the building of new roads and railroads, as well as finance a new sea port and expansion of the largest airport. China also pointed towards the transfer of some manufacturing to Kenya, thereby helping to slow and reverse the trade balance between the countries (People's Daily, 2011, online). The following four sections will study areas where China has been most active in Kenya. These areas, Jua Kali, infrastructure, energy and tourism, have been touted as important areas that will help Kenya reduce its trade deficit with China.

3.2.2: Jua Kali

Kenya has been plagued by underdevelopment. In 2011 it was ranked 143rd (out of 185) in the world by the United Nations Development Programs' Human Development Index (UNDP, 2012, p. 126). The country relies on informal jobs to absorb a majority of its unemployed. These types of jobs are often in the small and micro-enterprises and have been labelled '*jua kali*', which literally means 'hot sun' because the jobs often entail setting up informal jobs by the side of the road to sell a small amount of goods and agricultural products. These jobs have accounted for 98% of all businesses in Kenya (Gadzala, 2009, p. 204). More specifically, the informal sector provided employment to 7.5 million Kenyans in 2007, and created 427,000 new jobs in addition to 420,000 during the previous year (Kenya, 2010a, p. 13). This constituted 89.9 per cent of all the new jobs created outside the small-scale agricultural sector and pastoralist activities (Kenya, 2010a).

One problem often cited as an impediment to small and micro enterprises is the lack of access to capital. As a result, China agreed, at the 2009 FOCAC summit, to help provide loans – to be distributed by its policy banks – to small and medium enterprises (SME) throughout Africa. China pledged to make available \$10 billion concessional loans to encourage trade, and another \$5 billion directed specifically towards small and medium enterprises (Taylor, 2011, p. 84). Kenya was the first country in Africa to access this fund (Equity Bank, 2010, online). China has placed an emphasis on supporting small businesses in Kenya. In 2009, China Development Bank (CDB), in conjunction with a local bank (Equity Bank of Kenya) entered into an agreement by which CDB would provide \$50 million in loans to small and medium enterprises (Xinhua, 2010, online). The

deal was hailed as a great way for SMEs to access loans at the cheapest rate available in the country – a 3-7 year repayment period, and an interest rate of 7-9% (Equity Bank, 2010). Further, the agreement between the banks stipulated supporting youth and farmers by discounting the interest rate from anywhere from 1-3% off the base rate. Subsequently, the initial loan of \$2.25 million from the CDB was used to expand two tea factories, the Mataara Tea Factory Expansion Project and the Kapkoros Tea Factory Project, which according to CDB's annual report "created 170 jobs for local people and stimulated an export volume of US\$11.5 million" (CDB, 2011, p. 18). In essence, these are some of the direct jobs that China points to as integral to the 'win-win' policy which supports the 'self help' of its approach's recipients.

3.2.3: Infrastructure

In order to improve its economic output, Kenya has signalled that it needs to invest large amounts of revenues into infrastructure. Through its *Vision 2030*, Kenya has identified and prioritized various projects that are needed to improve its transportation, energy and telecommunication infrastructure. The poor state of infrastructure has been blamed for hampering the business climate in the country (Kenya, 2010a). The World Bank summarised the critical role infrastructure plays in lifting a country's development indicators as such:

Infrastructure is a key ingredient for achieving all the [Millennium Development Goals]. Safe drinking and convenient water supplies save time and arrest the spread of a range of serious diseases—including diarrhea, a leading cause of infant mortality and malnutrition. Electricity powers health and education services and boosts the productivity of small businesses. Road networks provide links to

global and local markets. ICTs democratize access to information and reduce transport costs by allowing people to conduct transactions remotely. (World Bank, 2010a, p. 2)

After the multi-lateral institutions – especially the World Bank and the African Development Bank – China has been a leading bilateral financier of essential infrastructure projects in Kenya. China, since the FOCAC summit in 2000, has become a substantial player in infrastructure projects in Kenya; whether upgrading the national airport, constructing roads, or the building of a new sea port (World Bank, 2008). China and Chinese contractors have been active in projects such as the rehabilitation and expansion of the Jomo Kenyatta Airport in Nairobi. The airport was originally designed to handle 2.3 million passengers annually; however, its capacity has been consistently rising from 4.3 million in 2005 to 6.3 million in 2007 (Kenya, 2010b, p. 165). This is in addition to the increased air cargo arriving from China. In fact, Kenyan Airways recently added cargo routes to Guangzhou, one of the largest manufacturing centres in China, to accommodate the increased trade (Okulo, 2012, online). Another is tourism, which will be analyzed in more depth in the subsequent section, which has been steadily rising with the figure for 2011 standing at 37,000 tourists (Kenya, 2011d). Hence, in 2008, the government started the process of renovating and expanding the airport to handle the increased passenger and cargo traffic. The companies that won the first two phases were Chinese firms – Wu Yi (\$30 million) and China National Aero-Technology International Engineering Company (\$58 million) (Samora, 2011, online). The project was financed domestically with the remaining 10% coming from the World Bank and Agence Francaise de Developpement (AFD) (NRI, 2011, online). Eventually, revenues from the airport itself will be utilized to repay 90% the rehabilitation/expansion costs

with the residual loan being converted into a World Bank grant. Lastly, a Chinese firm won the reconstruction of Kisumu airport located near Lake Victoria, turning it into an international airport thereby reducing the need to transport goods from the Western border regions to Nairobi before being transferred to international markets. This region is where a majority of Kenya's cut flowers are grown, often destined for Europe. Moreover, the airport will be linked by a road being constructed by a Chinese contractor, Sinohydro Corporation, costing over \$68 million and also financed by the World Bank (Sangira, 2011, online).

Road construction is another area where China has been most visibly active in Kenya. Chinese construction firms have taken advantage of the 'go global' policy promoted by the Chinese government. An important distinction of Chinese construction firms noted by the World Bank (2008) is that: "Chinese contractors involved do not risk equity capital nor gain control over any foreign affiliate, they do not qualify as FDI" (p. 5). Indeed, other benefits include the reduced costs offered by Chinese contractors, which, depending on the project, can range between 20% to 50% (Kaplinsky, McCormick, & Morris, 2006, p. 19). Indeed, the Chinese firms are often credited with completing 'First World' infrastructure with 'Third World' labour costs (Alden & Davies, 2006, p. 88). There are many reasons why Chinese firms are able to compete for these projects, including access to cheap credit backed by the Chinese government, in addition to subsidies. The Chinese government has granted permission to bid on these projects to their construction companies, allowing them flexibility to bid on larger and riskier projects. Other reasons noted by Kaplincky *et al* (2006b) included that Chinese

firms often use standardized designs, the sourcing of all materials from China, and fewer concerns with regards environmental standards, in order to lower a project's costs (p. 19).

Of note, loans obtained through the World Bank, and the African Development Bank require the contracts be open to the public for review but that also the projects be unrestricted to both local and international companies bidding on them. Chinese firms have been the direct beneficiary of winning around 10% - 20% of contracts financed by the IFIs in Africa (World Bank, 2008, p. 26). Since 2004, Kenya has been extensively rebuilding its road network, with a renewed emphasis on its busiest trade routes from the coast towards the interior as well as Uganda, Ethiopia, and South Sudan. Kenya started rebuilding over 4000km of roads within the country, amounting to over 63 projects; the estimated cost of the projects was \$800 million (Kenya, 2011b, p. 27). Kenya started on these projects partly due to the large quantities of trade that rely on the nation's road network. More specifically, the road network handles 80% of all the country's passenger and cargo traffic (Kenya, 2008, p. ix). Kenya turned to the donor countries and international institutions to help fund the road construction.

Between the years 2004-2009, Chinese firms have been capturing an increasing share of the road construction projects in Kenya. Through an analysis of ongoing road construction and rehabilitation projects provided by the Ministry of Roads, it was determined that Chinese firms bid on the larger projects with a longer time duration than the Kenyan counterparts. In fact, between 2004 and 2009 of the 38 road construction projects that took place in the country; five Chinese firms were awarded contracts that averaged 91km and cost, on average, \$38 million. By comparison, the other 33 projects

awarded to local companies averaged 35km and cost \$15 million. Table 3.5 lists the construction contracts awarded to Chinese firms in Kenya.

Table 3.4: Road construction by Chinese firms 2004 - 2009

Name of Project	Contractor	Contract Sum (USD)	Length (Km)	Duration (months)
Dundori – Olkalou	China Wu Yi	42,172,473	100.3	24
Wote – Makindu	China Road	22,246,683	66	24
Isiolo – Merille	China Wu Yi	58,988,617	136	30
Emali – Loitoktok	Synohydro	51,254,672	100	30
Kipsagak – Serem	China Wu Yi	16,515,426	53.5	26

Source: Kenya (2008) annex 2; author's calculations

Meanwhile, the rehabilitation of roads has similar trends, with Chinese firms bidding on larger projects. For example, the four projects for which Chinese contractors rehabilitated an average of 51km and cost \$37 million. Kenyan firms were responsible for 27 road works averaging 50km and cost \$18 million (Kenya, 2008, annex 2 & 3). Table 3.6 catalogs Kenyan roads being rehabilitated by Chinese firms.

Table 3.5: Rehabilitation of roads by Chinese firms 2004 - 2009

Name of Project	Contractor	Contract Sum (USD)	Length (KM)	Duration (months)
Nairobi Roads	China Shengli	32,547,430	53.85	18
Mai ya Chumvi – Miritini	China Road	27,883,829	35	18
Lanet – Njoro Turn off	China Road	35,956,667	32	24
Njoro Turn off – Timboroa	China Road	53,038,158	84	30

Source: Kenya (2008) annex 3; author's calculations

More recently (2010–2012), China is financing the construction and rehabilitation of seven national highways in Kenya²⁶. More specifically, Chinese contractors are involved in construction projects valued at \$311 million. The Chinese firms are also helping to rehabilitate national highways in Kenya to the tune of \$346 million. Indeed, of the

²⁶ This information was gathered from interviews and is yet to be published by the Kenya National Highways Authority.

highway projects underway between 2010 and 2012, China is the top bilateral financier, currently standing at \$48 million. In comparison, the World Bank is the largest investor at \$105 million, followed by the African Development Bank at \$58 million, while the European Union and the OPEC countries lent \$58 million each²⁷. A vigorous debate has raged within Kenya as to how to protect local construction firms from the increased competition of Chinese firms. This debate will be assessed the next Chapter.

China has been cited by the Kenyan government as the natural partner to develop the port in Lamu, on the Indian Ocean. The port is estimated to cost in the range of \$4 billion, which cash-strapped Kenya does not have. In 2009, Kenya turned to China, after a deal with Qatar fell through, which called for Qatar to finance the new port in exchange for 40,000 hectares of agricultural land. In fact, when Kenya turned to China the Prime Minister, Raila Odinga, declared, in an interview with the *Financial Times*, “[t]he Chinese offer the full package” meaning that China would also provide financing, the technical assistance, and the construction companies to see through the project (Jopson, 2009, online). The construction of the new port in Lamu is one part of a \$24 billion infrastructure project that will include oil pipelines, railroads, and highways connecting to Ethiopia and South Sudan.

3.2.4: Energy

Another sector of focus for China, designed to help Kenya improve its economy, is to make the energy sector more reliable. Electricity generation in Kenya is hampered by low investment. There are frequent outages, at the rate 11,000 per month, meaning that the electricity supply is not consistent that damage industrial equipment, causing businesses

²⁷ These figures are courtesy Kenya National Highways Authority.

to invest in their own power generators (Disenyan, 2009, online). The Chinese government views the energy sector as a place where investments can be directed, because it is a segment in which Chinese expertise can help Kenya improve its overall energy production. One such company is Tianpu Xianxing Enterprises, which entered into a \$140 million partnership with Kenya's Electrogen Technologies to construct a solar panel factory in Nairobi to sell within the region (Disenyan, 2009). The Chinese company would invest 70% into the new venture, while 30% would come from the local company which would also provide the land for the factory. The factory would employ 200 people in Nairobi, use locally sourced material, and reduce the cost of solar panels from \$310 to \$77 (Disenyan, 2009).

In addition to solar energy, Kenya has also turned to geo-thermal energy to help meet its energy demands. Thus, the country created the Geothermal Development Company, a state enterprise, to help spur investment into that sector. One of the first deals to be signed was with TBEA International, a Chinese firm, to build a 120MW thermal plant in Longonot along the Rift Valley – the company is also building a 600MW coal-fired power station in Mombasa (Samora, 2011, online). The company is building the needed transmission lines and substations from its plants. A more substantial deal was signed between GDC, Great Wall Drilling, and financed, in part, by Exim Bank. A MOU between GDC and Great Wall Drilling granted the company the right to drill 80 wells at an estimated cost of \$400 million and 50 of which would be financed by Exim through a \$98 million loan. However, this loan did not include the equipment (such as drilling wells) that would be brought in by the company – the Kenyan government would have to

sign another agreement with China through ‘preferential export buyer’s credit’ (Kisero, 2011, online).

3.2.5: Tourism

Tourism is one area that has been heavily promoted by the two countries to boost Kenya’s foreign exchange capital. It remains one of the largest income generators for Kenya where in 2011 it generated over \$1.5 billion of direct revenue for the state (Kenya, 2011c). More specifically, tourism is 11.4% of the Kenya’s GDP total, and directly contributes 245,000 jobs (643,000 indirectly). Finally, tourism accounts for 14% of Kenya’s total exports (WT&TC, 2011, p. 3). In August 2005, a bilateral agreement on economic and technical cooperation included provisions to enhance tourism between Kenya and China. In the previous year, China also accorded Kenya its Approved Destination Status (ADS) designation in December 2004 (China, 2005). China views this as an investment for Chinese tour operators, restaurants, and hotels to cater to Chinese consumers (Kenya, 2007). The countries also signed an air services agreement that would help facilitate travel for the tourists. As a consequence, the number of tourists from China increased dramatically from 11,000 in 2005²⁸ to 37,000 by 2010, which placed China 12th overall (Kenya, 2011d), however, this fell short of Kenya’s goal to double that number by 2012 (Kenya, 2011e).

3.3: Foreign Direct Investment

The second tool within China’s approach to Kenya and other developing countries is FDI which as part of the ‘win-win’ and ‘going global’ strategies is directly linked to China’s

²⁸ These numbers from 2005 are based on the first full year since China granted Kenya Approved Destination Status (Xinhua, 2006)

ODA as well. The argument presented is that African countries in general, and Kenya specifically, lack the capital to invest in local industries that would help to propel their development. China's outward foreign investments have risen dramatically since 2000, from virtually nothing in 1979, when the country opened up economically, to \$90.6 billion in 2007 (OECD, 2008, p. 66). Moreover, 95% of China's OFDI is directed towards developing countries; interestingly, the country's OFDI is dominated by state owned enterprises to the tune of 84% of the entire outflow with the ten largest sources of Chinese investments being SOEs (OECD, 2008, p. 66). SOEs have access to cheaper financing and a longer timeframe in contrast to Western originated FDI in Africa which are dominated by private enterprises (Besada, Wang, & Whalley, 2008). As we will see in the next Chapter, the involvement of SOE has brought to the fore a variety of questions about the true intentions of China's promotion of FDI. Another reason why China has entered the African market is because "other countries have decided to withdraw or abstain from investing due to concerns regarding human rights abuses, corruption and repressive regimes" (OECD, 2008, p. 109). Half of the SOEs are in the natural resource sector and across Africa the largest concentrations of OFDI are in resource-rich countries such as Algeria, Nigeria, South Africa, Sudan and Zambia (Draper, Disenyana, & Biacuana, 2010, p. 111). However, China has been encouraging the move into other sectors such as the service industry, agricultural sector, as well as the manufacturing sectors to diversify its FDI. This has been credited with helping Africa become the second largest destination of Chinese OFDI (Broadman, 2007, p. 10)²⁹. More importantly, China has linked its FDI activities to its ODA by assisting Chinese

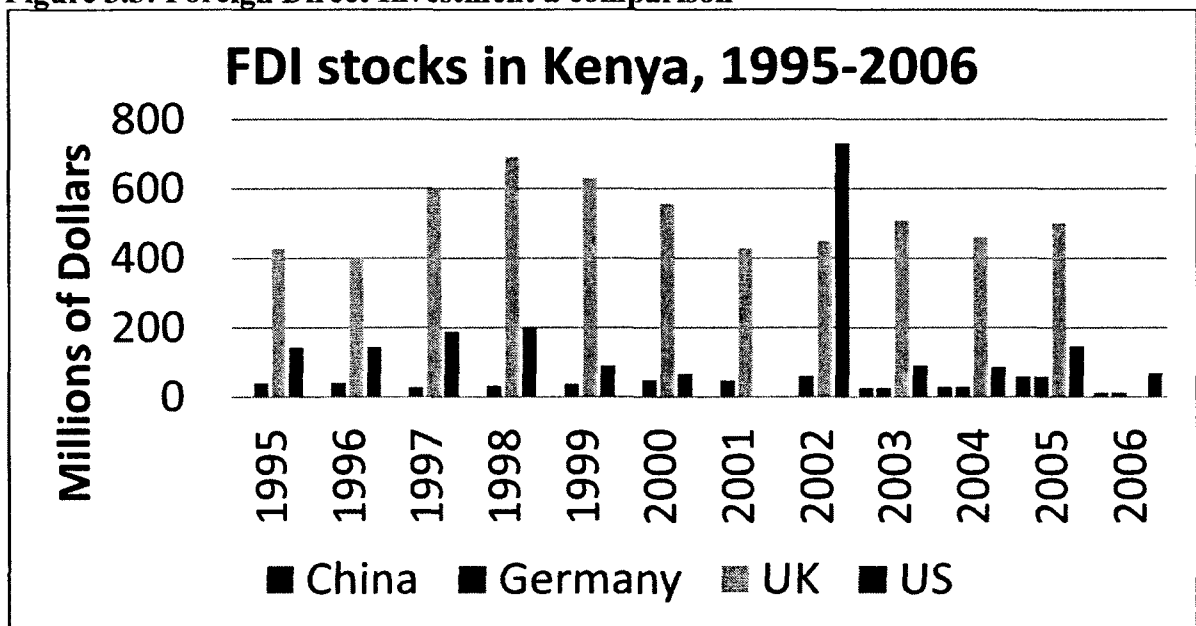
²⁹ The largest receivers of Chinese FDI are China's neighbours.

companies that invest in the construction sector (OECD, 2008, p. 67). As a result, this strategy has helped to establish internationally many large Chinese construction companies because the Chinese government's requirement for Chinese firms to serve as construction contractors and/or equipment and material suppliers for its ODA. As Kaplinsky *et al* (2007) noted, four major trends of Chinese FDI include 1) increasing investments in the energy and resource sectors 2) participation in infrastructural projects 3) contribution in global production networks, and 4) small-scale entrepreneurial investment (p. 27). These four strategies can all be witnessed in Kenya.

In such an environment, Kenya has turned to China to help increase its FDI stock. In the 1980s Kenya attracted the highest level of FDI in the region. However, in the 1990s the investment rates from outside were generally declining until Kenya established the Investment Promotion Act to allay fears over investment protection in the country (USAID, 2007). Kenya's attraction of FDI has been on the low end due to what has been perceived as a poor investment climate. In order to facilitate easier transfers of investments into the country, Kenya liberalized its investment procedures in 2004 (Kenya, 2010a). Further, the Kenyan government placed an emphasis on attracting more investments into the country as part of its *Vision 2030* in an effort to realize some of its development objectives. For example, for Kenya to achieve 'middle income' status by 2030, it needs to achieve 10% annual growth (Kenya, 2007). Yet, in 2010 it has been achieving a figure of only 6.1%, which has been attributed to the low levels in the exploitation of current capacity rather than through the acquisitions of new investments or efficiency gains (USAID, 2007). Essentially, Kenya has promoted the fact that it serves neighbouring countries as one of the strongest arguments encouraging companies

to invest in the country. Thus, Kenya is now a gateway to other East African countries, particularly through its membership in major trading blocs such as the five-country East African Community, the nineteen-country Common Market for Eastern and Southern Africa, in addition to the US-initiated African Growth and Opportunity Act (AGOA). AGOA was established by the US government as a way to incentivize African countries that embraced free-market reforms and therefore open their economies (KHRC, 2004). In spite of all such efforts, FDI in Kenya remains a minuscule component of its GDP (Mwega, 2009, p. 10). On average, Kenya receives a similar amount of funds from remittances each month (\$50 million) than it receives from an entire year's worth of FDI inflows (\$51.8 million) (Mwega, 2009, p. 12)

Figure 3.3: Foreign Direct Investment a comparison



Source: Raw data UNCTAD World Investment Directorate (2008, p. 332)

Kenya receives a small but growing pool of investment funds from China. This was one direct consequence of the 2006 agreement between Kenya and China signed when the Chinese President, Hu Jintao, visited Nairobi (Onjala, 2008b), which was

promoted as a preferred means by which Kenyan companies can work together with their Chinese counterparts to help promote the industrialization of the country (Onjala, 2008b). Additionally, China advances the notion that this is the best method to transfer technology and industrial know-how to benefit Kenya. Hence, China has encouraged many Chinese companies to set up shop in Kenya, particularly in the Export Processing Zones (EPZs). Another example of such capital flows has been Chinese oil companies, which in 2006, were given six blocks (44 500 sq miles) in Kenya's offshore territorial waters to explore for oil in (Masta, 2009, p. 400). However, by 2010, CNOOC returned one block (L2) back to the Kenyan government and was in the process of selling a second (Block 9) due to court challenges by residents contesting the method that CNOOC acquired the exploration rights (Roelf, 2010, online). It should be noted that in March 2012, an Irish oil company, Tullow Oil, reported to have discovered huge oil deposits in Kenya's Turkana region. The amount of oil discovered is estimated to be larger than that in neighbouring Uganda, and could rival South Sudan in reserves (The Guardian, 2012, online). In 2007, another Chinese company bought into a mineral mine in the Rift Valley region for close to \$10 million (Onjala, 2008b). Table 3.6 is a compilation of the largest Chinese companies in the various segments of the economy that have established facilities and services in Kenya. The table illustrates a sampling of Chinese firms with stakes in Kenya.

Table 3.6: A sample of Chinese FDI

COMPANY NAME	ACTIVITY (Year)	CAPITAL COST (foreign) '000 \$US)	CAPITAL COST (local) '000 \$US)	EMPLOYEMNT (foreign)	EMPLOYEMNT (local)
Edermann Co. Ltd	Manufacturing (2011)	425	100	10	81
Sinohydro Corporation Ltd	Energy (2009)	340	9	105	1360
Stratimes Media (K) Ltd	Telecommunication (2010)	23.4	0	7	1275
Wu yi Kenya Company Ltd	Service (2004)	42	0	10	1020
Newland Industries Ltd	Manufacturing (2001)	46	0	2	800
Boleyn Magic Wall Panel Ltd	Construction (2006)	2400	0	68	580
An- Ning Holding Ltd.	Textiles (2001)	16	0	4	168
Z and J (Kenya) Company Ltd	Construction (2009)	76	0	68	4

Source: Raw data acquired from Kenya Investment Authority

Additionally, private Chinese enterprises have matched the country's economic growth inside and outside its own borders. Jian-Ye Wang (2007) argues that "China's private sector is in the forefront of the country's external trade and investment expansion" (p. 17). These enterprises have ranged from manufacturing to the service industry. Prior to 1985, SOEs had the exclusive right to export and import goods. When that requirement was relaxed and China liberalized its economy, Kenya started to witness a small number of China-based companies enter the Kenyan market. For example, two companies (Kenboad Development Co. Ltd, and Kifaru Manufacturers Ltd) registered with the Kenya Investment Authority in 1990. These two companies employed 278 Kenyans. Ever since, the number of Chinese enterprises has gradually increased, averaging 92 local

employees and seven foreign staff and in 2010, ten Chinese companies were established.³⁰ The companies which have established themselves in Kenya are in varied industries such as manufacturing, service, and the textile industries.

One industry that is heavily touted by both the Kenyan and Chinese government is the establishment of car assembly plants. Beiqi Foton Motors was the first vehicle assembly company to open a \$15 million car assembly plant in Kenya in April 2011; the company manufactures mainly heavy vehicles such as buses, light commercial vehicles and earth movers (Juma, 2011, online). Foton plans to build 10,000 heavy vehicles per year. A second vehicle assembly company, Chery Automobile Co Ltd, plans to open its first facility in 2013 after it secures \$50 million in investments from both governments. The company intends to build 20,000 vehicles per year specifically for the African market (Gachenge, 2011, online). The arrival of the two Chinese car manufacturers into the country has resulted in other car manufacturers in Kenya expanding their current capacities. For example, in November 2011, Japan's Toyota announced that it planned to build two additional assembly plants in Kenya over the next five years to help protect its existing 65% share of the car market in the country (Kagwe, 2011, online). During that same month, India's Tata Motors declared its intention to build its first assembly plant, at a cost of \$25 million allowing for the production of 5000 vehicles per year in Kenya for the East African market (Financial Times Africa, 2011, online).

Another sector that has witnessed increased investments is information and communication technology (ICT). Kenya's recent growth is partly attributed to the ICT sector, growing at an annual rate of 23% since 2000, outperforming all other sectors in

³⁰ These figures were provided by the Kenya Investment Authority. The data included all Chinese firms that were established in Kenya from 1990 until June 2011.

the economy. The stunning growth rate of ICT led the World Bank to conclude “[w]ithout ICT, growth would have been a lackluster 2.8 percent—similar to the population growth rate—and income per capita would have stagnated” (World Bank, 2010b, p. 4).³¹ Kenya is where ‘Mobile Money’ was invented, through the partly state-owned Safaricom. Internet usage has increased dramatically from 200,000 users in 2000 to 8 million by 2010 (World Bank, 2010b, p. 16). In 2006, Kenya removed import tariffs on computers and computer components, which helped the industry grow rapidly (Masta, 2009, p. 393). One beneficiary of the rule changes was Chinese telecommunication companies such as Huawei and Zhong Xing Telecommunication Equipment Company Ltd. (ZTE) – the two most active telecommunication equipment providers in the country. For example, Huawei won a contract to help set up Telkom Kenya’s network for \$22.6 million. This is in addition to Huawei’s other contract with Safaricom’s to set up a 4G network in the country for \$1.4 billion (Kinyanjui, 2011, online). Although, Huawei started as industrial equipment suppliers they are now increasingly focused on the consumer market with cheap mobile phones. Indeed, under a tied aid project with the Kenyan government, only Chinese companies could bid for a project for a police communications system. The project is being facilitated through a \$100 million concessionary loan negotiated when Kenyan President Mwai Kibaki visited Beijing in May 2010 (Wahome, 2012, online). The linkage of FDI and development assistance from China can be witnessed such deals.

³¹ Mobile money is a phone based money transfer service.

3.4: Official Development Assistance

The final component of China's approach is development assistance. China has transformed into a major international donor of development assistance and has pledged to assist other developing countries "to the best of its abilities" (China, 2011).³² China asserts the fact that the aid it provides reaches many of the globe's poorest countries. China claims that it has provided aid to as many as 160 countries and 30 international agencies, and today it annually supports 100 countries: "China's foreign [aid] have achieved a certain scale, covered most developing countries, diversified forms and contents, and involved every area of the economic and social development of the aided countries"³³. Africa has been a special region of focus for China and it provides aid to fifty-one countries on the continent (China, 2011, online). To support such efforts, in 2000 China created the Forum on China–Africa Cooperation (FOCAC) as an opportunity for China and 'friendly' African countries to gather and coordinate their policies. Subsequently, the financial resources allocated to the aid segment have been dramatically increasing, averaging 29.4% between 2004 and 2009 (China, 2011, online). Notably, Chinese foreign aid policy has some caveats that distinguish it from other forms of aid. These include focusing on two primary delivery vehicles: first, providing financial resources (i.e. grants, interest-free loans, and concessionary loans)³⁴, and second, direct aid (i.e. infrastructure aid, technical assistance, and human-resource development).

³² China considers itself to be a developing country. This designation entails receiving a longer grace period pertaining to international agreements such as the World Trade Organization and Kyoto Protocol.

³³ Email communication, December 15, 2011. This information was received from the Chinese Embassy in Ottawa, Canada which was forwarded from the Chinese Ministry of Foreign Affairs.

³⁴ Exim defines concessionary loans as: the medium and long-term, low interest rate credit extended by China Exim bank under the designation of the Chinese government with the nature of official assistance (Exim, 2010, p. 23).

The financial component of the policy is overseen by the ‘policy’ banks such as the Export-Import Bank of China (EXIM), the Agricultural Development Bank of China (ADBC), and China Development Bank (CDB). Although these policy banks are similar to OECD export credit banks, what is unique is the enormous amount of money they lend; for example, Exim Bank is now larger than all other OECD export credit banks combined (Moss, 2011, p. 238). Exim Bank is by far the largest of these banks and is responsible for the delivery of all concessionary loans granted by the Chinese state (EXIM, 2010). Indeed, the company’s annual report noted the bank’s objectives: “While standing firmly behind Chinese companies to support their overseas investment, the Bank spared no efforts in advocating the concept of China’s peaceful development, building mutual trust relations, clearing up confusion and misunderstandings, and guiding the international public opinion towards the correct direction” (EXIM, 2010, p. 48). Importantly, the company has staked its success on the ability to measure developing countries’ access to China’s promised financial assistance.

Interest-free loans are the second segment of the monetary aid promoted by China; these interest-free loans, with a twenty-year repayment period, are often directed towards the construction of public goods such as hospitals and schools. Grants are used to train, house, and construct basic infrastructure in developing countries such as Kenya (China, 2011). Kenya has been a recipient of the various methods of assistance provided by China including both financial and direct aid.

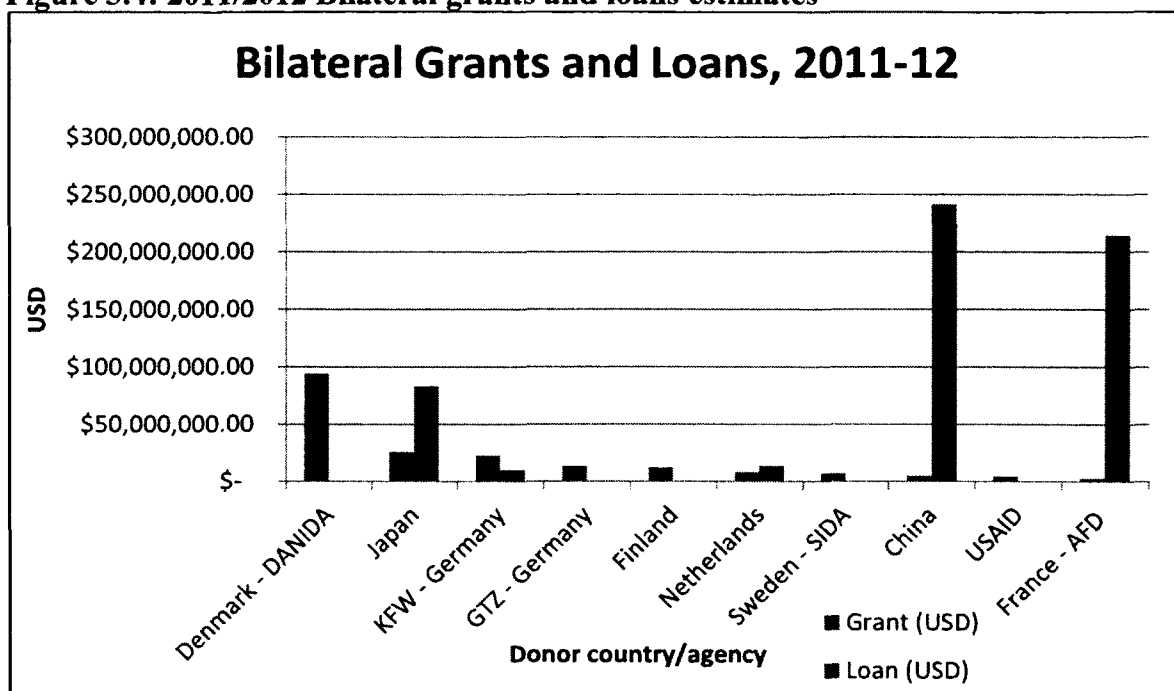
The direct aid component delivers assistance of ‘completed’ projects with the help of China’s companies, which include designing, surveying, and finally constructing infrastructure projects in the target country. China has noted it “has made full use of the

mature technologies and relative low cost of manpower to help other developing countries construct a host of infrastructure projects in transportation, communication, power supply, etc” (China, 2011, p. 16) According to China’s foreign aid policy document (2011), these types of completed projects constitute 40% of China’s foreign aid. Additionally, these completed projects numbered around 2000 by the end of 2009 (excluding projects completed through loans). The human-resource development segment has traditionally been one of the most consistent forms of aid that China provides. This type of aid usually includes the training of people from developing countries, whereby the Chinese government pays for participants from target countries to attend training sessions in China. As a result, since the 1950s, 4000 training sessions per year take place and the outcome is over 120,000 individuals were trained in areas such as agriculture, health, and public administration by 2009 (China, 2011). Another area of focus explicitly promoted by the Chinese government has been in the medical arena. The Chinese government has agreed to help African governments reach their United Nations’ mandated Millennium Development Goals (MDGs) by focusing on their health needs. The country has committed to providing medical teams, equipment, and training to African countries particularly through the FOCAC summit. As a consequence, the pharmaceuticals provided by China to developing countries have no strings attached. For example, China built an anti-malaria vaccine factory and provided the necessary equipment and training to Tanzanians (Brautigam, 2009). Another area of focus has been agriculture, with more of the direct aid in the dispatch of technical experts into the developing country to assist in the building of increased local agricultural capacity. The training of local expertise in focus areas of such as farm irrigation and the ability to use

agricultural equipment to help mechanize farming has been common (China, 2011). Education and educational exchanges are another part of the direct aid, as China provides aid for students to attend Chinese schools and the building of schools in the recipient country. Finally, industrial aid is designed to help developing countries create and improve the industrial sector where a lack of industry is viewed as the reason why many developing countries as see a negative transfer of income to industrialized countries.

In Kenya, Chinese direct aid grants have been geared towards infrastructure projects, often utilized by a large segment of people in the country, such as the construction of schools and hospitals. In the 2006 agreement, China promised to increase this component of its development approach (Onjala, 2008b). Within two years of this agreement being signed, China became one of Kenya's largest sources development aid. More significantly, China's aid to Kenya "has become a very strong component of the foreign development assistance received in Kenya" (Onjala, 2008b, p. 39). Figure 3.3 compares the largest bilateral donors to Kenya, and the most recent figures (2011/2012) confirm that China is the largest source of loans and is the eighth largest source of grants.

Figure 3.4: 2011/2012 Bilateral grants and loans estimates

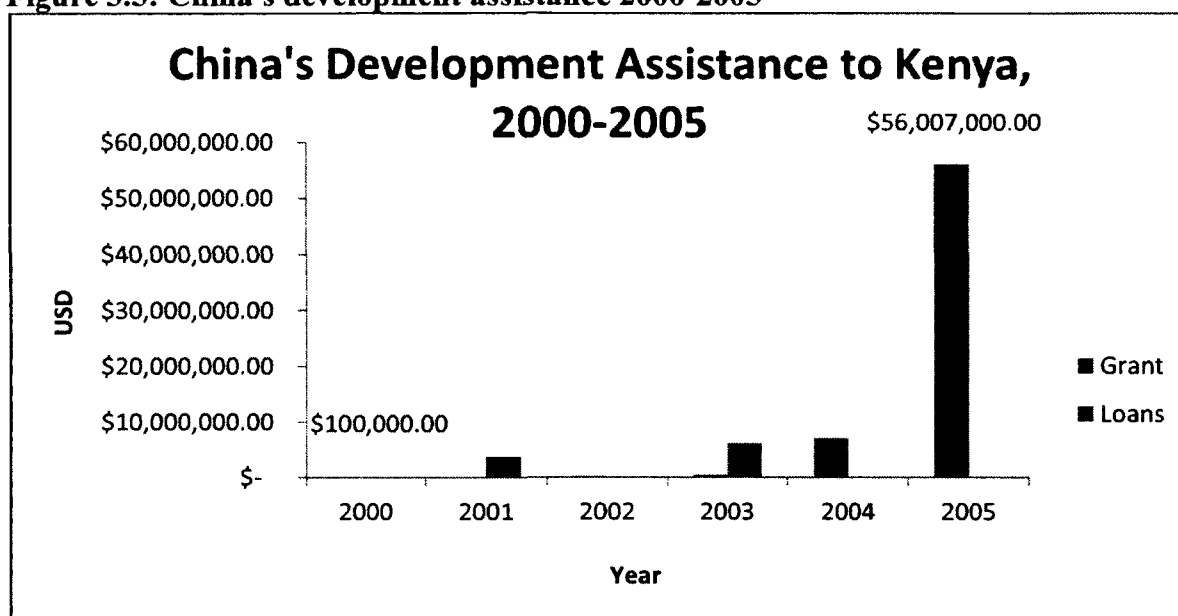


Source: Data Government of Kenya 2011/2012 Estimates of Development Expenditure (2011d, p. xi)

China's aid has witnessed a dramatic rise, particularly since 2001. Although figures from 2006-2010 have been hard to verify due to the lack of reporting³⁵, Figure 3.4 shows China's growing development assistance.

³⁵ The UNDP's *Development Cooperation Reports* ceased being published in 2006.

Figure 3.5: China's development assistance 2000-2005



Source: UNDP Development Cooperation Report Kenya various (UNDP, 2005, p. 38; UNDP, 2006, p. 40)

In the 2011/2012 period, Chinese development assistance to Kenya has come to depend more heavily on loans rather than grants, as compared to Figure 3.4. Now, China has committed more than \$240 million in loans, particularly in large infrastructure projects. In fiscal year 2011/2012, the one grant that China pledged was directed to a portion of a highway that was being constructed by Chinese firm. Table 3.8 summarises the assistance China has contributed towards Kenya's budget estimates in the fiscal year 2011/2012.

Table 3.7: China's development assistance to Kenya in 2011/2012 fiscal year

Assistance category	Project	Amount
Grant	Gambogi – Serem road	\$4,836,993
Loan	Kenya Power and Distribution System and Modernization Project	\$49,579,183
	Kenya e-Government	\$1,408,720
	Nairobi Eastern and Northern bypass Project	\$26,602,435
	Nairobi–Thika Highway Improvement Project (LOT 3)	\$48,367,689
	Drilling of Olkaria IV Geothermal Wells	\$38,694,151
	Universities and Technical Training Institutes (TIVET)	\$29,867,002
	Enterprise Messaging and Collaboration System (EMACS)	\$46,916,586
	Total	\$241,432,992
Total Commitments		\$246,269,985

Source: Data Government of Kenya 2011/2012 Estimates of Development Expenditure (Kenya, 2011d, p. xxiii)

Agriculture is Kenya's largest source of employment and income; the majority of Kenyans depend on agriculture for their livelihood. It is responsible for 26% of Kenya's GDP, second only the service sector (Kenya, 2010b). More than 70% of the labour force is employed in the agricultural sector; it produces 23% of value added, and 8% of merchandise exports. It also provides raw materials for Kenya's agro-industries, which account for 70% of its industrial production (Legovini, 2002, p. 6). Half of the sector's output remains subsistence production. However, due to Kenya's heavy reliance on the agricultural sector, and especially on rain-fed agriculture, it is left vulnerable to cycles of boom and bust (US, 2007, p. 9). China has promoted its development in the agriculture sector to help Kenya to improve its resiliency as a sector.

Kenya and China signed a MOU in 2011 to increase cooperation in the agricultural sector through an initiative to increase Kenyan capacity while they also agreed to "collaboration as agricultural mechanization, waste water management, agro-

processing and machinery and collaboration with [Kenya Agricultural Research Institute] in water harvesting and remote sensing” (Ministry of Commerce of China, 2011, online). Consequently, Kenya has received increased technical assistance and training in the agriculture sector from China. For instance, one form of assistance publicized was an exchange between Lanzhou University and various agricultural departments and agencies within Kenya. This exchange was meant to assist Kenya improve its capacity in dealing with water conservation and research into water conservation (Ministry of Commerce of China, 2011). The tours by members of the university included the training of Kenyans in coping with drought conditions that afflicted the country in 2011. Moreover, the Chinese university delegation delivered free equipment and other technologies to be utilized in Kenya (Ministry of Commerce of China, 2011).

Finally, China has increasingly focused on small projects that could be quickly constructed and used. In 2007, China provided scholarships to forty Kenyans to attend universities in China, and pledged to double that number (Ministry of Foreign Affairs, 2007, online). In that same year, China provided a \$3 million grant to the Kenyan army to buy spare parts for its Chinese-built air planes (US Embassy in Nairobi, 2008, online). In 2010, China also built a new 112-bed hospital on the outskirts of Nairobi at a cost of \$6 million and provided \$3 million in equipment (The Standard, 2011, online). Additionally, in 2010, China built two schools (Mihang’o Primary School in Nairobi and Eronge Primary School in North Mugirango), costing more than \$120,000 (Guangyuan, 2010, online). The Chinese embassy provided office equipment to the Kenyan National Assembly, donated by the National Committee of the Chinese People’s Political Consultative Conference (CPPCC) in November 2011 (Chinese Embassy in Kenya,

2011a, online). The Chinese also donated more \$20 million in emergency food aid to Kenya during its drought in 2011 including 2500 tons of rice destined to the Turkana region of Kenya (Embassy of China in Kenya, 2011b, online).

3.5: Conclusion

This Chapter has provided data from the three distinct methods and illuminated applications of China's approach to development assistance in Kenya. Since Kenya's independence, China has been an active development donor. In the 1960s, China promoted a development model based on communist ideology and Kenya received development assistance that would help the global socialist movement. In the 1970s, with Kenya cementing ties with the West and China distracted with internal concerns, the relationship cooled. However, in the 1980s the relationship warmed when Daniel arap Moi became president, followed by his visit to Beijing, resulting in China constructing the Moi sports complex.

More recently, China's ascendancy as a global economic power has seen it increase its presence in Kenya through trade, FDI and direct aid. China is now Kenya's largest bilateral donor. Trade between the two countries has grown exponentially over the last decade and Chinese companies have an ever-expanding presence in the country. The FDI component has grown and an increasing number of Chinese multinational companies are starting to locate 'branch' plants in Kenya. Indeed, Chinese construction firms are dominating when it comes to large (with a longer period) construction projects in the country. The development assistance provided by China is mainly delivered through concessionary loans – and the grant aspect of China's approach is minuscule compared to the loans. As will be discussed in the next Chapter, the empirical evidence suggests that

China's approach seems to be benefiting China's needs and interests rather than Kenya's developmental requirements. However, as we will see in the next Chapter, Kenya has unquestioningly embraced China and its approach to development.

Chapter 4: Analysis and discussion

4.1: Making Sense of the Kenya–China Relationship

Having reviewed the empirical evidence in the third Chapter, this Chapter evaluates the impact and the debates surrounding China's approach to development assistance, trade, foreign direct investment (FDI), and aid to Kenya. This Chapter aims to bring together field interviews, the aforementioned review of development policies, and the scholarly debates explored in the literature review in order to articulate the development implications for Kenya. The previous Chapter contextualized the relationship by assessing how each component of the approach is currently playing out in Kenya. Historically, the two countries have had a warm relationship which resulted in development assistance being granted to Kenya in exchange for diplomatic support. More recently, China's three-pronged approach to development assistance has been credited by the Kenyan government as a factor in helping to transform its development path; President Kibaki even declared that China is a "genuine development partner" (Presidential Press Service, 2009). Based on the data provided in the previous Chapter, it is apparent that China's development approach is having mixed results in Kenya. The first approach assessed found trade between the two countries is growing at an increasingly rapid pace and indeed China is now Kenya's largest source of imports. The implications, however, in order to redress the growing trade imbalance, have included both Kenya and China publicly stating that diversifying Kenya's exports should be the principal way to negate this imbalance. Nonetheless, alternatives include seeing China focus infrastructure projects to help Kenya maximize its economic efficiency as well as

the encouragement of additional Chinese investment into Kenya. Such efforts have resulted in various Chinese individuals and companies investing in the country. Finally, China's aid has been primarily geared towards capacity building and infrastructure projects that are billed as mutually beneficial. This Chapter critically assesses the development implications by utilizing a framework of analysis of the various aspects of the relationship and what this all means for Kenya's stated developmental objectives. Ultimately, the argument of this thesis is: current trends all point to China's economic and geo-strategic needs rather than Kenya's developmental needs.

4.2: A framework of analysis

To that end, a framework that assesses the impact of China's approach to development needs to be applied so as to examine its full effects on Kenya. This thesis has adapted a framework developed by Raphael Kaplinsky, Dorothy McCormick, and Mike Morris (2007) which analyzed the impact that China's approach is having on Sub-Saharan Africa (SSA). This framework attempts to systematically evaluate China's impact even when lacking definitive data. The accessible data provides significant information regarding monetary amounts granted, the direction of trade and the destination of investment capital. However, often lacking is how to interpret that data. The purpose of the framework is to dig deeper into the existing data to find out in what ways African countries are benefiting as well as how they are losing? Moreover, in which sectors are African countries most or least competitive? (Kaplinsky, McCormick, & Morris, 2008, p. 2) By employing a systemic method to identify these positive and negative impacts allows for a more nuanced and robust analysis which, in turn, provides insightful recommendations. While acknowledging the existence of other factors such as the

environment, institutional participation and financial flows, the authors utilized the framework to evaluate China's impact on trade, FDI, and aid across SSA (Kaplinsky, McCormick, & Morris, 2007, p. 13). The authors theorized, in each of the three areas of study, that China is either *complementary* or *competitive* (sometimes both) when it comes to the relationship with SSA. However, it should be noted that not all categories can be plugged into the framework. For instance, they pointed out that China can be a source of low-cost goods, but it could also be the result in the closing of uncompetitive industries in SSA, which provide employment in the small but vital industrial sector. Nevertheless, they found that China is competitive in many other aspects that would be detrimental to SSA. China, in each of these methods, can also be either direct or indirect. In this case, China could directly import a product from an SSA country, but it could also be responsible for the increase in consumer prices of products (Kaplinsky, McCormick, & Morris, 2007, p. 13). This Chapter applies this framework to Kenya, and in some instances will modify it to fit the local situation in the country using relevant examples that were discussed in this and the previous Chapter.

The first component of the framework is trade. China is now Kenya's largest bilateral trading partner. As was illustrated above the trade deficit between the two countries, especially since in 1993 when Kenya implemented SAP mandated free-market reforms, has increased dramatically in favour of China. The goods exported by Kenya still constitute a similar basket of goods as a decade ago (primary commodities), but the goods coming into Kenya have diversified (manufactured goods). Kenya has seen a direct impact on one product that is traded with China as it increased dramatically in price; a phenomenon which can be directly contributed to China's rising demand. The product in

question is copper as was illustrated in figure 4.1, which highlighted the increase in copper prices as evidenced in figure 4.2, whereby the revenues generated by the exports of Kenyan copper as a result of the increase in global prices.

A second component is Chinese direct investments in the country which have been one of the most visible aspects of China's approach. We have observed Chinese companies open automobile assembly plants and the Information and Communication Technologies (ICT) sector is integrated with Chinese technology. Chinese companies have established themselves in Kenya's EPZs. Chinese entrepreneurs are being assisted by the Chinese government to relocate some operations to Kenya, however, it should be noted that China and Kenya are competitors for investments globally. The East African Community (EAC) member states, of which Kenya is the largest economy, are also direct competitors for Chinese investments in the region.

The third and final component of the framework is development aid. Chinese grants have been mainly directed towards capacity building such as the training of public servants, and extending scholarships to Kenyan students. The Kenyan government has been able to access concessional loans and export credits from China. The concessional loans are largest component of the aid component of the approach. The neglected network of roads are finally being rebuilt and expanded due largely to Chinese loans and grants.

Table 4.1: A framework to analyze China's development approach's impact on Kenya

Trade		Direct impact	Indirect impact
	Complementary	* Copper prices * Iron ore * Consumer goods * Tourism	* Increased competition for Kenyan goods
	Competitive	* Kenyan batteries * Chinese labour cost * Textiles	* Loss of market share * Increasing food prices
Production and FDI		Direct	Indirect
	Complementary	* automobile assembly * Information and Communication sector	* Access to a larger amount of investment and financing options
	Competitive	* The hoarding acquired of technologies * Increased capital reinvestment cost	* Increased competition from other jurisdictions * The other East African Community members
Development Assistance		Direct	Indirect
	Complementary	* grants for schools * road construction * anti-malarial medicine * Scholarships	
	Competitive		* Aid to neighbouring countries

Source: adapted from Kaplinsky, McCormick, and Morris (2007, p. 35)

4.3: A survey of Kenyan attitudes on China

As a starting point, a survey of the attitudes and perceptions of Kenyans will be utilized to establish the Kenya–China relationship in a wider milieu. By acknowledging how Kenyans, in general, view China, this thesis can then provide a cogent analysis of the development implications. In a study completed by the Pew Research Center, through its annual *Global Attitudes Survey* of twenty-three nations, China and Chinese companies were found to be viewed positively in Kenya, with many Kenyans believing that such

relations to be a positive influence in the country.³⁶ When Kenyans were asked “Will China replace the U.S. as the world’s leading superpower?” opinion in the country was split; 44% of respondents answered that indeed China has already replaced or will soon replace the US as the world’s superpower, while in contrast, 43% of respondents answered that China will never replace the US as the world’s preeminent power (Pew Research Center, 2011, p. 1).³⁷ In the same survey, more Kenyans perceived China’s growing military rise as a good thing (62%), as opposed to it being a bad thing (29%) (Pew Research Center, 2011, p. 7). Moreover, Kenyans generally viewed China’s economic rise as favourable, an overwhelming majority (85%)³⁸ believed that China economic rise was a good thing as compared to a bad thing (12%) (Pew Research Center, 2011, p. 7). Finally, Kenyans have had a consistently positive view of China over the last three years, a finding that shows Kenyans differ from many other countries sampled which generally view China in a negative light. For example in 2009, when asked “Do you have a [favourable] or [unfavourable] view of China?” 73% of respondents had a favourable opinion, which ranked Kenya as third highest among the nations surveyed. In 2010, even more Kenyans (86%) viewed China in a positive light; though this shrunk in 2011, when a total of 71% replied that China is a positive manner. Having acknowledged the generally positive view held by Kenyans towards China, this thesis explores one area

³⁶ In the survey, 1004 adult Kenyans were surveyed face to face between March 24 and April 5, 2011 with a margin of error of +/-4.0%, of the 23 countries surveyed, Kenya was the only African country (Pew Research Center, 2011).

³⁷ Interestingly, Kenya’s numbers are split compared to Western European countries that overwhelmingly believe that China will replace or has already replaced the US as the world’s superpower, for example, France (72%), Britain (65%), and Germany (61%). Kenya’s figures are split in a similar fashion as American respondents (46%) who answered that China will replace or has already replaced the US as the world’s superpower versus (45%) who believed that it will never over take the US (Pew Research Center, 2011, p. 7).

³⁸ However, more Kenyan (62%) believed that the US to be the current leading economic power in the world, China came in a distant second at 20% followed by Japan at 7% (Pew Research Center, 2011, p. 16).

that illustrates China's growing political influence over the Kenyan government, China's unwavering support during the International Criminal Court (ICC) process. China's support has exposed its entrenched influence in country, although the ICC trials have divided Kenyans themselves.

4.3.1: The ICC, Kenya, and China

China has emerged a strong defender of Kenya's sovereignty through its stated policy of non-interference, best exemplified within the International Criminal Court (ICC) trials. The ICC investigated members of the Kenyan government in the aftermath of the 2007/08 post-election violence in Kenya. In December 2007, the country became engulfed in post-election violence, which erupted following a contested election between the opposition leader Raila Odinga and his Orange Democratic Movement (ODM) and the sitting President Mwai Kibaki's Party of National Unity (PNU). While ODM won the most seats (92) in parliament, with other opposition parties winning 27 seats in the national assembly in addition to the PNU's 34 seats (Prunier, 2008, online), the conflict revolved around the presidential contest. Although Kibaki was declared the winner of the presidency by a slim margin (2.5%) many independent observers, and later the independent electoral commissioner, claimed Odinga to have won the presidency (Prunier, 2008, online). The opposition, with evidence from European Union election observer's, alleged that the Kibaki government committed election fraud on a grand scale in many districts throughout the country (Branch, 2011, pp. 269-271). In spite of these challenges, Kibaki did not relinquish the presidency, inviting a crisis in the country as both men vied for power. In the ensuing chaos, ethnic violence saw at least 1,133 people

killed and many hundreds of thousands internally displaced (Aljazeera, 2008, online; AFP, 2012, online).

Under dire circumstances, the major political parties agreed to form a government of national unity in an effort to end the turmoil and restore peace. The agreement stipulated that Kibaki remain as president but with Odinga as Prime Minister and other opposition leaders elevated to Vice Presidents and Deputy Prime Ministers. In the aftermath of the violence, many sought to try to find the root cause of the violence. As a start, the Commission of Inquiry into Post-Election Violence (commonly referred to as the Waki Commission after its chairman) was established to “to investigate the facts and circumstances surrounding the violence, the conduct of state security agencies in their handling of it, and to make recommendations concerning these and other matters” (Waki, 2008, p. 1). Indeed, the report concluded that anyone found to have instigated or participated in the violence should not be given amnesty and also should be prosecuted under national and international law (Waki, 2008, p. 468). However, due to the nature of the national unity agreement, prosecution of some of the prominent members became virtually impossible. A law that would establish a tribunal to put on trial those responsible failed to pass parliament on three separate occasions (Brown & Sriram, 2012, p. 245).

Therefore, the ICC stepped in as a response to the perceived failure of local authorities to try to bring to justice some of the perpetrators of the violence. Kenya adamantly protested the decision by arguing that it could (and would) bring to justice anyone responsible for the violence on its own. For this reason, Kenya lobbied the United Nations to try to prevent the ICC from putting on trial six prominent supporters from both

major parties. One of the strongest supporters of Kenya's call to stay the ICC charges against the six was China³⁹. In fact, China on various occasions stated its support for the Kenyan government by arguing that this was a matter of national sovereignty. Rather than trying the six outside the country, which many (including members of parliament) assumed would create a backlash in Kenya and possibly result in more violence, China assisted Kenya in trying to defer the case for one year so as it could establish its own laws to put the accused on trial (Gevers & Du Plessis, 2011, p. 3). China's vice premier, Wang Qishan, when visiting Kenya in 2008, affirmed China's position on the ICC with regards to Kenya as "China supported home grown solutions that would help Kenya overcome any challenges it faced including the ICC process" (Presidential Press Service, 2008, online). At the UN, China also held further informal meetings with other countries to try to stop the ICC charges against the Kenyan nationals (Ochami, 2011, online). China went even further when, holding the rotating presidency of the United Nations Security Council, it placed the concerns of Kenya on the agenda to try to convince other Security Council members adamantly opposed to the deferral. In spite of these efforts, in March 2012, the ICC confirmed the charges and proceeded to take them to trial (AFP, 2012).

China's policy of non-interference and deference towards national sovereignty has brought to the fore, as many argue, the entrenchment of national political and economic elites in developmental countries like Kenya. Denis M. Tull (2006) argues that these policies benefit "unsavoury regimes [and are], likely to undermine existing efforts at political liberalisation at large. Revenues from trade (and taxes), development assistance and other means of support widen the margins of manoeuvre of Africa's

³⁹ China is not a signatory to the Rome Statute of the International Criminal Court which resulted in the creation of the ICC and it is often critical of the ICC and its decisions (Jianping & Zhixiang, 2005).

autocrats, and help them to rein in domestic demands for democracy and the respect for human rights” (Tull, 2006, p. 474). In Kenya, the Chinese government adamantly defended the Kenyan political elite, who have returned the embrace – best illustrated when the Kenyan president claimed he is an advocate of the now official ‘Look-East’ policy starting in 2011 (Xinhua, 2012).

The basis behind the protection of the Kenyans from the ICC has been the diverging interpretation of human rights (Brown & Sriram, 2008, p. 252). The Chinese government has always asserted human rights should be considered within the purview of national sovereignty. For example, Taylor (2009) noted, “[t]he persistent call by Western leaders to universalize “international human rights” – which implicitly boil down to Western capitalist values – can be countered by Beijing and its African allies as reflecting neo-colonial impulses. Conversely, however, China’s leaders may be seeking to rationalize their policies on human rights in ways that universalize China’s post-Mao developmental trajectories” (Taylor, 2009, p. 171). In Kenya, this policy was most evident in China’s unwavering support to defer the ICC case.

Ultimately, China’s support for a ‘home grown’ solution in the Kenyan context can be traced to its own geo-political interests. As the ICC process has advanced, China’s support for the Kenyan government is often compared to China’s support of other illiberal regimes throughout the world. Brown and Sriram (2008) went further by concluding “China is a natural ‘alternative partner of pariah states’” (p. 263). This strategy, some have claimed, works for China through its support of pariah states ensuring China’s own human rights record is not subject to international criticism in forums like the UN Human Rights Council (Copson, 2007, p. 63). Along with other

factors such as the Chinese government lack of action against pariah regimes which abuse human rights is motivated by its desire to protect its access to their resources and markets. It should be noted that China's influence over these types of government can sometimes be exaggerated and in many instances they do not have decisive influence over the offending countries. However, in Kenya, China's unwavering support for members within the government has demonstrated that China is protecting its strong ally both politically and economically, especially in the East African context. China's support has raised questions as to what the Kenyan political elites have given to China in return for its support, however, without access to the inner workings of the Kenyan government or bilateral documents this research could not definitively conclude that China had received a direct *quid pro quo*. Importantly, what the ICC process has confirmed, at least anecdotally, is my argument that China seems to support Kenya because it furthers its economic and geostrategic needs rather than letting the perpetrators of the election violence be put to an impartial trial.

4.4: Trade: challenges and opportunities

To review, in Chapter 3 the data relating to the trade component of China's approach showed that bilateral trade has grown dramatically, particularly over the last decade. Indeed, when the trade relationship is investigated more thoroughly, the research uncovered that trade is overwhelmingly in favour of China. When we look at the goods exported to China, we notice that Kenya relies on primary commodities such as tea, fruits, and fish. However, China exports value-added manufactured goods such as telecommunication equipment, machinery, and textiles to the Kenyan market. As was observed in Figure 3.1 in the previous Chapter, this bodes poorly for Kenya's *net-barter*

terms of trade which favoured China, to the tune of \$1.5 billion in 2010 (CBIK, 2011).⁴⁰

This raises crucial questions: what is the wider significance of China's trading relationship with Kenya and how will this impact Kenya's developmental plans?

To begin, Kenya has promoted the idea of diversifying its economy away from being commodity centric to one that is industrial in nature. The orientation towards industrial trade would result in a largely export-led economy particularly of manufactured products. The export-led model was utilized by East Asian economies, including China, to help them rapidly industrialize in the 1980s (Xu, 2010, p. 20). However, Kenya's industrialization efforts have come under significant pressure due to Chinese competition, as evidenced by the goods imported into the Kenyan market. Such cheap Chinese goods are double-edged in their effects. Chinese goods have negatively impacted Kenya's small but vital industrial sector by depriving them of a home market. This has been noticed by the Kenyan Government, best illustrated by a question put forward by a member of the opposition when asking what the government would be doing to stop this negative trend "most of the factories in this country have closed down because of cheap imports from China...as long as we encourage cheap imports from China, most of our factories will close down and we will not be able to generate employment for our people" (Hansard, 2011, p. 5). The government responded by reminding the opposition member that Kenya's free market policy encourages Kenyan companies "to compete with foreign companies and improve their efficiencies" (Hansard, 2011, p. 5). The current dominant international economic order, which China has wholeheartedly embraced, is often at the centre of the discourse.

⁴⁰ Net-barter terms of trade are measured by the ratio between the unit value (price) index of exports and that of the imports (Goldstein, Pinaud, & Reisen, 2008, p. 35).

As Adama Gaye (2008) noted, “[w]hatever one thinks of Chinese methods, it must be granted that the Chinese have a perfect understanding of a liberal economy, including the huge opportunities it offers as well as well as the many flaws” (p. 134). This line of analysis was also articulated by Ian Taylor (2009) when he posited, “Chinese economic policies, if at times arguably neomercantilist, are fundamentally capitalist. The post-Mao Chinese leadership is thus doing precisely what the West wants it to do and yet it is, on occasion castigated for doing so in areas formally held to be in the West’s sphere of influence” (p. 178). Further, Michael Chege (2008) also argues that fears about China are overstated and that this mainly due the fact China is challenging the current world order by being more nimble in the African market (p. 37). Others, such as David Harvey, have gone further by asserting that China is part of a global political and economic order that has transported a capitalist regime through a process of ‘accumulation by dispossession’ (Carmody, 2011, p. 69). Marcus Power and Giles Mohan have labeled this ‘Chinese Neoliberalism’ which has its own characteristics, but which is centred on the international market – attracting FDI, technology transfer, and an abundant supply of cheap labour (Power & Mohan, 2011, p. 51). Importantly, the market fundamentalism that swept the world became a conduit for China to move into African countries.

Beginning in the 1980s, Kenya implemented neoliberal reforms as part of Structural Adjustment Programs (SAPs) mandated by the IFIs, these reforms also necessitated the removal of trade barriers to international trade. These perceived barriers to international trade included the restriction of financials flows, the removal of tariffs to protect local industries, and the strict enforcement of intellectual property rights. Consequently, SAPs were implemented in areas traditionally left under the direction of

the recipient countries, including policies that related to industry, market liberalization and privatization (Chang, 2008, p. 32). Additionally, countries were encouraged to devalue their currencies, remove price controls on consumer goods as well as policies that ‘let the market work’ (Meilink, 1996, p. 3). In Kenya, SAPs became entrenched in government policies after the country experienced a balance of payments crisis as the 1970s came to a close. In the early 1990s, the government had capitulated to donor countries and IFIs after its SAP credits were suspended and started instituting neoliberal policies that pried open the country’s market. A confluence of events led to the dramatic shift in policies which included: “the liberalization of imports and exports, the removal of exchange controls and freed exchange mechanisms; [and] removed barriers to foreign investment” (Meilink, 1996, p. 11). As mentioned in the previous chapter, especially in 1993, a direct outcome included a striking rise in China’s imports into Kenya, this shift to free markets resulted in a number of Chinese companies taking advantage of a less strict business environment which has provided stiff competition to local industries (Chege, 2008, p. 22). Markedly, China has extended its reach into the Kenya natural resource sector.

As illustrated in the previous Chapter, Kenya’s small but significant mineral exports have yielded better returns due to China’s demand for natural resources. Andrea Goldstein, Nicolas Pinaud, and Helmut Reisen (2008) posited that China can be directly credited with the increased demand for such raw materials globally. The authors argue that African markets are doubly benefiting, firstly, as consumers of the cheap Chinese-made goods and additionally as African investors benefit from lower capital costs with an increased access to more products. Secondly, as noted by Goldstein, Pinaud, and Reisen

(2008), many African countries such as Kenya can benefit in some instances because the commodities they are sending to China are increasing in price and the cost of the goods imported are reduced (pp. 34-35). However, this can be a double-edged sword because Kenya can also negatively affected by the increase in prices of commodities as a resource-poor country. This is particularly true in the case of oil, which has increased in price due to the emerging economies ever-increasing demand (Goldstein, Pinaud, & Reisen, 2008, p. 40). This has raised questions about the true beneficiary of China's resource thirst framing how its development aid is granted in Kenya.

Some have pointed to China's strategy of securing natural resources through bilateral agreements rather than trying to acquire them through the open market, especially in the energy sector (Zafar, 2007, p. 120). In Kenya, the oil for aid strategy was most visible in a 2006 oil agreement the two countries signed. This was reinforced in 2010, when the Kenyan president signed an agreement to transfer oil exploration rights for six blocks in exchange for \$7.5 million in aid grants (Foreign Confidential, 2006, online). Even though, this agreement called for lower exploration fees than both what the Spanish and Swedish oil companies offered to the Kenyan government (The China Monitor, 2006, p. 12). At the time of the agreement, no large oil deposits had been found in Kenyan territory, yet China persuaded the Kenyan government to remove some oil exploration blocs from the open bidding process in exchange for aid.

In Kenya, warnings have been issued with regards to China's move into the resource sector, within which Chinese firms, both state-owned and private, are now major players. Chinese firms have been rewarded with rights in coal mines, the previously mentioned exploration of oil, and into titanium (Onjala, 2008b, p. 20; Mullin, 2009, p.

53) However, Joseph Onjala (2008b) also pointed that “if the underlying goal of China’s aid [to Kenya] is the drive to access raw materials and markets in Kenya, it will hurt Kenya’s economy in the long run by undermining the ability of local firms to exploit the same market and resources” (p. 42). For this reason, many have argued that the ‘Angola mode’ of aid delivery is very much evident in Kenya, including the fact that China ties the aid which it gives to Kenya. To illustrate, the assistance that has been made available is transferred to Chinese companies to build projects. It should be noted that the Kenyan government denies this comparison and in fact, one government official denied the Angola mode applies to Kenya when directly asked in an interview with this researcher.

Kenya’s embrace of China exposed the growing tensions with its traditional Western donors. For example, a row which became public when German ambassador to Kenya Margit Hellwig-Boette and her French counterpart Etienne de Poncins voiced concerns that the Kenyan president was refusing to meet with Western envoys under the belief the Kenyan government was giving priority to the Chinese government. The response from the Kenyan government was the “President has been strategic and has not been unreachable to any nation that works for the good of the Kenyan people and appreciates the role played by external partners in endeavours to uplift the lives of Kenyans and citizens of neighbouring states” (Kibirenge, 2012, online). Consequently, the Kenyan government has been cautioned, by the US Secretary of State Hillary Clinton among others, of blindly following China’s approach to the detriment of other donors, which could bind the country to China (Momanyi, 2010). Furthermore, in bid to match China’s economic rise in Africa, the United States government released a new Africa strategy that closely resembles China’s approach emphasizing trade and investment while

reducing the grant provisions, in addition to democratic ideals and security (The White House, 2012). Meanwhile, the EU has tried, with little success, to engage China directly by proposing the establishment of a tri-lateral method between China, EU, and Africa to cooperate (Lirong, 2011, p. 5).

Accordingly, some negative intentions of China's financing of transportation infrastructure in Kenya are frequently raised. Many claim such projects facilitate easier access to these raw commodities (Alden, 2007, p. 44; de Oliveira, 2008, p. 97). China's focus on infrastructure has aroused suspicion that it is simply acting in its own self-interest in order to access the resources of Kenya's neighbours who have proven caches of natural resources such as crude oil, cobalt, and diamonds (Nibishaka, 2011, p. 7). For example, Daniel Fiott (2010) asserted that the Chinese government "seized on the opportunity to develop major transport links to support its own economic interests" (p. 8). This hypothesis had already been widely circulated, as noted by a report in an American news service that "[c]ountries such as Uganda, Rwanda, Burundi, the eastern Democratic Republic of the Congo and Ethiopia rely on Kenya to export their vast deposits of oil and minerals. Infrastructure development in Kenya is crucial to the economic prosperity of the entire region" (Onyiego, 2010, online). Likewise, in a prominent example, the U.S. Secretary of State, Hillary Clinton, while traveling in Tanzania and Zambia in June 2011, warned against what she termed 'new colonialism' in reference to China and its approach in Africa.⁴¹ Clinton warned against investors and countries only interested in Africa's natural resources and reinforcing the power of the elites (AP, 2011). This forceful

⁴¹ Although she did not mention China by name, the Chinese government responded through a state-owned newspaper to this by claiming that Clinton was simply "China-bashing" again (Liang, 2011).

pushback by Western countries regarding China's involvement in Africa - and Kenya specifically - has exposed the inherent suspicion China's forceful role engenders.

4.4.1: Infrastructure assistance – the core of China's approach

In Kenya's 2011/2012 budget, China is the largest source of funds to construct roads, railroads, along with general infrastructure upgrades in Kenya, surpassing all DAC states as illustrated in Figure 3.3 in the previous Chapter. To reiterate, since 2006, China has provided more than \$250 million to build and rehabilitate more than 900km of roads in Kenya (Fiott, 2010, p. 8; Kenya, 2011d, p. xi). For this reason, both the Kenyan and Chinese government have stressed that these projects should be considered to be 'win-win'. The Kenyan president, while visiting China in 2010, proclaimed that China is "a critical ally in Kenya's economic revival that has led to major infrastructural development in the country" (China Daily, 2010, online). Kenya's Prime Minister (and opposition leader), Raila Odinga, also reiterated this shift by stating, "Kenya and China have graduated into all-weather and all-time friends" (Chinese embassy in Kenya, 2012a, online). Undoubtedly, Kenya has been able to point to various projects that have been undertaken due to Chinese loans and grants, however, various questions have been raised about the true implications of China's aid in the infrastructure sector.

Essentially, arguments in favour of China's role in Kenya rest on the idea that it is the most appropriate development partner that can assist Kenya to improve its basic infrastructure. In an interview with a staff member of Kenya's High Commission in Ottawa, they noted that China's focus on infrastructure addresses an area that is often

neglected by Western countries in their aid programs.⁴² While the interviewee added that this does not mean Western aid is not needed or unwelcome, nonetheless, Western aid focused more on the governance and the furtherance of Millennium Development Goals (MDGs) or similar policies. Thus, in Kenya, aid is not a field of competition between the two approaches. China's aid is geared towards the improvement of infrastructure while Western aid focuses more on matters of governance and social development. Indeed, China is implementing a strategy similar to that first propagated by development theorists in the 1950s, strategies that focused on letting the recipient state take the lead in distributing aid while also placing a heavy emphasis on capital infusion in large-scale projects (Brautigam, 2009). Equally important is the idea that China's delivery of aid is more direct and the reason why countries such as Kenya are attracted to it is due to "its bare-bones bureaucratic simplicity, in comparison to the donor red tape that is in part motivated [by] the Paris Declaration toward higher efficiency through improved coordination between donors. Once agreed on at the political level, China-funded projects are completed by Chinese contractors more quickly" (Chege, 2008, p. 29). China itself has promoted the idea that its development is more responsive to Kenya's immediate needs. The Chinese ambassador to Kenya noted that these projects "effectively improve the standard of living of the people of Kenya and the region"⁴³ (Chinese Embassy in Kenya, 2012b, online) and this was restated in official policy documents provided by the Chinese embassy in Ottawa. This researcher, while in the field, encountered a recurring reason as to why Kenya prefers Chinese projects is attributed factors including the rapid

⁴² This interview was conducted on January 3, 2012 at the Ottawa embassy.

⁴³ This was translated from Mandarin using Google translator web service.

pace by which the projects are implemented when compared to projects funded by Western donors.

Due to China's increased focus on granting infrastructure aid, the Kenyan government has been able to invest in its dilapidated infrastructure, which it neglected during the SAPs era. For example, although the country has almost 64,000km classified as roads, only 14% of those roads are paved (Kenya, 2009, p. 3). The Kenyan government noted how the poor state of its overall infrastructure was hampering its development vision:

The country's infrastructure is characterized by [a] dilapidated road network, inadequate and inefficient rail network, unreliable supply and costly electricity and other utilities, and poor communication facilities. Poor infrastructure has increased the cost of doing business, thereby discouraging private sector investment. This has effectively hampered economic development. The challenge facing the country is provision of an enabling environment for private sector investment by ensuring adequate infrastructure. (Kenya, 2009, p. 14)

Hence, Kenya turned to China for development assistance, particularly to improve its infrastructure because it is often perceived to have 'no strings' attached. In fact, this concept commonly arose across the various interviews conducted with Kenyan and Chinese officials. Nevertheless, contrary to the publicly stated claim that 'no-strings' are attached to Chinese aid, Chinese development aid is indeed tied to Chinese firms, as the field research confirmed. Although this criticism has been levelled at traditional donors too, DAC countries must clearly state 'tied-aid' and many countries now generally strive to identify tied-aid not as part of their official development assistance (ODA) unless projects "cannot attract commercial financing, although OECD members would be

required to report the offer and its terms so that other OECD members could compete on the same terms if they were so inclined” (Brautigam, 2011, p. 212). Critics have pointed out that the recipient country does not gain the potential multiple effects resulting from the loans. To illustrate, Kenya acquires a loan to build a road, if the contract is awarded to a local firm. Then the local firm would likely employ locals and acquire equipment and materials that are sourced locally, taking advantage of an economy-of-scale whereby the firms could then be more resilient by taking a number of the projects, all the while acquiring knowledge and experience that can be applied to future projects. Critics of the assistance granted by the Chinese government further disadvantaged local firms in various ways.

One frequent criticism, that time and again arose out of the field research interviews, included complaints that the Chinese companies are being given preference in the larger contracts, especially through the secret bilateral agreements signed with the Chinese government. In fact, the Kenyan government has allowed China Road to bid on projects which are labelled ‘domestic only’ (Mullin, 2009, p. 50). Companies such as China Road also play an outsized role in determining the financing that Kenya receives from China. The normal application procedures that are required to gain a loan from China can take years to come to fruition and as such Chinese companies offer a faster route to gain the loans. More specifically, Chinese construction companies “use their networks with both the Kenyan government as well as China Exim to bypass this application process” (Mullin, 2009, p. 57). Consequently, the Chinese companies are often at the centre of debates surrounding China’s role in infrastructure development.

Furthermore, large projects allowed Chinese firms to establish themselves in Kenya, detrimentally impacting local firms which could not compete against the well-financed, cheaper bids funded by the Chinese government. Additionally, the research exposed a process that further eroded Kenyan firms' ability to bid on the projects by predicating the loans on Chinese sourced materials and equipment. Further yet, as interviewees pointed out, due to the use of imported Chinese labourers and managers in the road projects hinders some benefits that Kenya might gain from the projects. This brings out the criticism that the promised technology and human skills transfer are often not witnessed because as soon the job is completed the Chinese firms repatriate their workers, management and equipment. My field research confirmed that all manuals were in Mandarin rather than English, adding another layer of complication and making it likely that these projects are designed in such a manner so as to guarantee the return of the Chinese companies to conduct the necessary maintenance in the future. Indeed, the research uncovered that Chinese aid, although welcomed, does have some of their own 'strings attached', crafted to further Chinese economic expansion.

Further, allegations of corrupt practices have accompanied some of the Chinese companies, particularly the construction companies, which have firmly established themselves in Kenya. Overall, Chinese companies have consistently been ranked at or near the bottom of the indexes of bribery around the world. This was quantified in a study by Transparency International through its *Bribery Payers Index*⁴⁴, which ranked China twenty-seventh out of twenty-eight of the largest economies in the world, just ahead of

⁴⁴ This was based on its 2011 which surveyed more than "3,000 business executives worldwide about their views on the extent to which companies from 28 of the world's leading economies engage in bribery when doing business abroad" (Hardoon & Heinrich, 2011).

Russia (Hardoon & Heinrich, 2011, p. 5). For example, the allegation of corrupt practices by two Chinese state-owned construction companies which have come to dominate the Kenyan infrastructure sector - China Road and Bridge Corporation (more commonly referred to as China Road) and China Wu Yi Co. Ltd. – saw them banned from all World Bank-financed projects for a period of five to eight years over corrupt practices in a World Bank-financed project in the Philippines. According to the World Bank, these two companies “had participated in a collusive scheme designed to establish bid prices at artificial, non-competitive levels and to deprive the Borrower of the benefits of free and open competition” (World Bank, 2009, online). As was noted in the third Chapter, in spite of these problems, the two companies maintain major on-going projects in Kenya. When questions were put to the Kenyan government later in August 2009 as to why it had awarded a contract to China Roads to build the Northern By-pass in Nairobi at a cost of \$105 million when it was blacklisted by the World Bank for corruption, the government replied “one condition set out is that the company that would undertake this particular project would be a Chinese company. In this particular case, the Chinese government, in consultation with the government of Kenya arrived at the China Road and Construction Company” (Hansard, 2009, p. 20). This choice was thus driven by the bilateral agreement, stipulated by the Chinese government, as it was providing 70% of the financing for the project.

In Kenya, corruption allegations have sprouted up every so often. The first example of corrupt practices by Chinese firms was alleged by the United States, through its diplomatic cables, which implicated the Chinese telecommunication giant ZTE of bribing Michael Gichangi, the Director General of Kenya’s National Security and

Intelligence Service (NSIS). Gichangi's was reported to have pressured his subordinates to give preference to ZTE "based on kickbacks he received from the company while on a visit to China", while the Director of Operations Division Joseph Kamau "received monthly payments of over \$5000 from ZTE which were used to pay medical bills" (US Embassy Nairobi, 2010, online). It is important to note that these allegations were never proven in court and, in fact, Gichangi has remained in his government position. Given these points, the second component of China's approach, FDI, has extenuated some of the criticism of the whole approach.

4.5: Who benefits? FDI as a development approach

An important conduit of Chinese FDI are its state owned enterprises (SOEs), these corporate champions have been specially selected by the Chinese government to "join the Fortune 500 ranks" (Alden, 2007, p. 40). Alden (2007) identified three important aspects of the Chinese approach) competitive political advantage 2) comparative economic advantage 3) diplomacy and development assistance (p. 42). When it comes to the attraction of FDI, China itself is considered to be a direct competitor to Kenya because both countries offer access to a large pool of cheap labour. Lower labour costs are often cited as advantageous for China as many companies have themselves set up shop in the country for various reasons, mainly because labour costs are much lower. In addition to its lower start-up costs the Chinese government provides incentives such as cheaper land and infrastructure costs. A crucial factor is that other companies have set up shop in China thus the inputs required to make the goods can be obtained quickly (Breslin, 2007, p. 115). Lately, in order to differentiate itself from low-cost competitors like Kenya, China is increasingly focused on attracting investment that helps it move up the

production scale. And it is encouraging Chinese companies to expand outside of China. This strategy would help Chinese companies in such light industries as textiles, often the first casualty of economic progress and development of a country, keep their competitive edge. One country that has attracted such Chinese investments has been Kenya. In Kenya, a majority of the direct investment that are backed from China have gone into the light manufacturing, service, and textile industries. This is in contrast to most other African states which have witnessed most such Chinese investments directed towards extractive resources.

Over the last decade, Chinese companies have dominated large scale projects such as geothermal production in the country, due in part to China's active courting of Kenya. Kenya has quickly embraced Chinese investments as one way to try to kick start its lagging investment sector. The political advantage can be seen in how it lavished investment guarantees during the visits to China of both President Kibaki and Prime Minister Odinga, who sought development assistance, investments, and diplomatic support. As outlined in Chapter 3, Chinese FDI, standing at 7.2% of all FDI in Kenya is relatively small compared to that of the United States and the European Union countries (Onjala, 2008b, p. 12).

Through policies designed to encourage investments into the country, the Kenyan government has sought to leverage its close relationship with China to bring in more Chinese investments. Accordingly, Chinese firms have sprouted up throughout the country. Traditionally, Chinese firms in Kenya were more engaged in the service industry with less focus on the manufacturing sector (Onjala, 2008b, p. 21). However, recently, Chinese companies have increasingly focused on establishing a manufacturing base in the

country. Initially, the Chinese firms quickly moved into Kenya's textile sector starting in the year 2000 taking advantage of the AGOA law, an American government initiative that removed tariffs on several goods for several African countries, creating many jobs in Kenya's EPZs (Kaplinsky, McCormick, & Morris, 2007, p. 29). Many claimed that AGOA helped integrate Kenya's textile industry into the global value chain – for example in 2004 employment in the textile industry amounted to 20 percent of all manufacturing employment (Kaplinsky, McCormick, & Morris, 2008, p. 7). However, in 2005, the Multi Fibre Arrangement led to the weakening of AGOA by removing some of the preferences granted to African textiles. Thus, the textile industry was viewed as an anomaly because Chinese companies were incentivised in order to gain entry into the US market and not necessarily to transfer operations into Kenya.

This bring us to the current situation, Chinese companies are announcing with more frequency their desire to open manufacturing outposts in Kenya as part of their global expansion. As previously examined, Chinese firms are moving beyond textile and into automobile assembly, telecommunications and service industries. A trend is starting to emerge of private enterprises such as Huawei investing in Kenya on the larger scale and tourism operators on the smaller end (Onjala, 2008b, p. 43). Chinese investments in the country have been wholly Chinese owned with very little participation of Kenyan partners or the utilization of local capital, as demonstrated in Table 3.6 in the previous Chapter. Chinese firms are vertically integrated, meaning that most of their materials are sourced from China. This deprives local producers from directly participating in Chinese investments. Indeed, unlike Western originated FDI, at the heart of China's increasing FDI figures has been the Chinese government through companies it owns which

constricts the SOE from employing more locals (Raine, 2009, p. 105). It is important to note, both SOE and private Chinese companies that invest more than \$30 million require approval from the National Development and Reform Commission, meaning that although companies are encouraged to 'go global', the Chinese government has effective say on where and which sectors to invest in (Kurlantzick, 2007, p. 91).

In Kenya the evidence suggests that the Chinese SOEs are still the largest source of investments. This is evidenced in ZTE, China Road, and Beiqi Foton, all SOEs. Moreover, this reinforces the point that these companies have been picked by the Chinese government to expand its global reach. China's FDI component, on its current trajectory, does have worrying implications for Kenya. First, the strategy is heavily skewed in favour of the Chinese economy. Second, the Kenyan government is becoming beholden to the Chinese government. Finally, the FDI segment of the approach has confirmed China's courtship of Kenya as the regional hub of the EAC, especially through its emphasis on opening Chinese branch plants in the country. Of note, prior to the recent discovery of oil in Kenya, Chinese aid has been directed towards it because of its strategic importance in the East African region, due to a lack of natural resources. Kenya is considered to be the regional power, it is often the home of numerous multinational companies through Kenya's colonial and capitalist legacies. Kenya's geographic location and its economic importance to the neighbouring countries has been the primary reason framing China's interest in the country.

4.6: Development assistance

Correspondingly, the main areas of focus for Chinese assistance to Kenya, in addition to the general infrastructure projects examined above, include the build up of human

capacities within the country through the construction of schools, hospitals and education exchange programs. There are a variety of motives as to why China offers development assistance, including altruism, mutual benefit, and strategic interests. Aid from China can be granted in either monetary or non-monetary terms, as outright grants, export credits, concessional loans or aid to Chinese companies to open branch plants in the target country (Onjala, 2008b, p. 35)

Indeed, within discussions of China's development assistance to Kenya, a common theme emerged from the research conducted with Kenyan officials – that China's aid is very much welcome in Kenya. One senior government official at the Planning Ministry asserted that the Chinese government "helps Kenyans in human development terms and not in economic terms." This was particularly noted in the various scholarships to students, business professionals and government officials to study in China. But also the educational aid is being relocated to Kenya through Confucius Institutes⁴⁵, the first in Africa, as well as technical experts sent to Kenya, especially in the agriculture sector. These commitments have increased since the 2006 FOCAC summit in Beijing. Even with China's increased commitment to aid Kenya, many in Kenya were quick to point out that the government's reliance on development assistance has dramatically declined over the last two decades. Specifically, Kenya's dependence on aid has dropped from as high as 16.8% of gross national income in the 1990s now amounting to only 4-5% of government expenditures, one of the lowest percentages in Sub-Saharan Africa (Gathigah, 2012, online; World Bank, 2012c).

⁴⁵ These are institutes created by the Chinese government designed to promote Chinese culture and to also teach the Chinese language.

Interestingly, many key informants, when asked if Kenya is taking on too much debt from China exposing the country to potentially negative implications in its future ability to repay the debt, did not believe this to be factor by which to rethink the relationship. Many pointed out that Kenya's debt has been dropping steadily. In fact, the IMF and World Bank corroborated this by concluding that "All external public debt indicators remain below relevant country-specific debt burden thresholds" (Kenya, 2010b, p. 23). Another idea that kept arising in the interviews was the notion that China represented a new form of 'South-South' cooperation, which was geared towards the needs of Kenya rather than extending the entrenched global dynamic.

Indeed, the idea of South-South cooperation has been promoted by both the Kenyan and Chinese governments as an integral part of the relationship. It should be noted that China still considers itself as both a developing country and a member of the Global South. These ideals, that can be traced back to the 1950s creation of the Non-Aligned Movement, have again gained credence with China's economic and political rise, including resisting Western hegemony and even neo-colonialism. Recently, the Chinese government resuscitated the original ideals behind South-South cooperation by asserting in an official Foreign Aid Policy Document that its "foreign aid falls into the category of South-South cooperation and is mutual help between developing countries" going on to conclude that "China will continue to promote South-South cooperation" (China 2011). The Chinese ambassador added, "bilateral cooperation between China and Kenya has become a model for South-South cooperation" (Guangyuan, 2011). The Kenyan government has seconded the idea that its relationship with China is part of South-South cooperation. For instance, Kenya's long-term national trade policy states the

“policy will seek to maximize on the emerging trends such as [the] rise in south-south trade” (Kenya 2010, p. 11). The research presented shows that South-South cooperation is often cited as a way both countries should embrace each other, the implication being that this is one way that both countries can resist Western hegemony.

Apart from the labels often applied to Chinese development assistance, it has been very hard to gauge in Kenya, trying to uncover the development assistance portion of China’s approach is virtually impossible. Although, the precise aid figures required extensive research and the figures presented in this thesis all point to China being a large bilateral donor to Kenya figures remain opaque. It should be noted, in addition to the unique modalities such as FDI and trade, which are harder to quantify in developmental terms, China also does not publicly report using standardized methods like those employed by DAC countries, and finally, China closely guards the exact aid amounts granted. Indeed, Brautigam (2009) aptly phrased the idea of clearly quantifying China’s aid to being like trying to uncover ‘state secrets’ (p. 165). This researcher’s experience in Kenya would certainly confirm that claim; even officials within the various departments of government could not confirm the exact aid figures delivered. The bilateral agreements between the two countries are sealed and will only be made public after thirty years. Government officials directed me to newspaper accounts of the development aid delivered, but cautioned to be wary of the numbers as they are often inflated.⁴⁶ One reason for this opacity is that China is often eager to announce aid because “China’s diplomatic style of signing many agreements during foreign visits by its top leaders earns it considerable initial goodwill and positive media coverage. However, often the

⁴⁶ This is because the amount to be given can sometimes be spread over several years not a lump-sum payment.

agreements are merely letters of intent” (Kurlantzick, 2007, pp. 98-99). Moreover, how China classifies its aid is itself in contention. The aid granting process is also very tightly controlled within the Chinese government itself, leading to misrepresentation⁴⁷. One Kenyan interviewee noted that Chinese aid is intended to fulfill China’s political objectives. These objectives include first, gaining Kenya’s crucial support in international forums such as the UN and second, mobilizing Kenya, as the leading economic force behind the EAC, to help sway the direction of the other members.

4.7: Conclusion

The Kenyan government has enthusiastically turned towards China to access development assistance. As noted earlier, the availability of Chinese development aid has spurred the traditional Western donors to re-examine the relationship with Kenya. This could, in turn, give the Kenyan government the ability to negotiate better ‘conditionalities’ from both the Chinese and Western donors. The Chinese approach which promotes trade, encourages direct investments, along with development assistance to help improve Kenya’s development outcomes. After analyzing the data, all indications point to China as being the true beneficiary of the development approach and the assistance that it provides to Kenya (even having acknowledged some of the benefits gained by Kenya). The first aspect of China’s development approach is trade. However, Kenya has a massive and growing deficit with China. Moreover, the terms of trade have been skewed towards China. The second pillar of China’s approach encourages direct investments. Indeed, Kenya has witnessed a substantial increase in the overall investment

⁴⁷ The various mistakes in reporting China’s aid and their subsequent reporting in various newspapers and World Bank reports were listed by Brautigam (2009, pp. 162-165)

inflows from China in the last decade, nevertheless this too has been in sectors such as light manufacturing or assembly that still heavily rely on Chinese made components, binding Kenya's economy to China's. The final aspect of China's approach to development to Kenya has been in the form of assistance, which is small compared to the other focus areas. Moreover, China's development assistance will, in the long run, hamper Kenya's development path, especially when the aid granted by China is clearly based on an unequal trading relationship. Although, China has been promoting various ways that Kenya can benefit from this increased trade, in most instances Kenya seems to be losing based on the empirical evidence presented in this and the previous chapter. All in all, China has proven to be an important partner for Kenyan development, but at present there are still many negative factors that outweigh the benefits of the relationship. The next Chapter will offer some recommendations that could help ensure that Kenya maximizes the advantages offered by China's approach and does indeed benefit from it.

Chapter 5: : Conclusions and recommendations

The three-fold objectives of this thesis were: firstly, to provide an overview of China's involvement in Kenya vis-à-vis bi-lateral cooperation; secondly, to critically assess bi-lateral cooperation between these two countries; and thirdly, to critically appraise the substantial criticisms levelled at Chinese international cooperation in Africa, and more specifically, in Kenya. This study explored an area that often lacks rigorous academic research, relying on anecdotal evidence, and has mostly been discussed through generalized debates. This research focused on one African country, Kenya, rather than the entire African continent. By placing an intense focus on one country, this thesis offers a parallel condition for other African countries that are not endowed with natural resources. Indeed, studies on the China–Africa relationship have tended to focus on resource-rich African countries and the findings are then extrapolated to all other countries on the continent. Kenya offers many lessons that could be applied to other developing countries that have embraced China's approach. Interestingly, Kenya provides a unique vantage point because it is a country that has been friendly to the West along with a strong capitalist tradition since it gained independence from Great Britain in 1963. Yet at the same time, Kenya has had a historically close relationship with China, which began immediately after it gained independence with the relationship remaining cordial even at the height of the Cold War (Copper, 1975; Snow, 1988). The Kenya–China bilateral relationship is often a microcosm of the larger global debates, particularly on the role of international cooperation and development assistance, the role of trade in development, even the role of imperialism and neocolonialism. More recently, the

spotlight has been on China's growing leadership in global affairs, bringing to the fore many of the issues examined here, with Kenya on the frontlines of the debates taking place. This thesis posed the central question: what are the implications of embracing China's approach - comprising of trade, FDI, and aid? But a corollary question included: what impact will Kenya's embrace of China's approach have to its development policy?

Kenya has strived to improve its mediocre development indicators such as the dismal fact that 46% of the population lives below the poverty line in 2010 (World Bank, 2010c, p. 66). As a result, Kenya, as a developmental state, has reached out to development financial institutions and partners to assist it as it embarks on a path to become a middle-income country by the year 2030. The policy document, titled *Vision 2030*, has set out benchmarks to be attained across a variety of social categories such as education, health, and poverty reduction. Moreover, the *Vision* establishes various economic criteria to help Kenya to provide stable employment, to create a stronger financial service sector, and to industrialize (Kenya, 2007). As a result, the Kenyan government has sought development assistance that would help it achieve those stated goals and priorities. One country that has responded to the Kenyan government's call for assistance has been China (Kenya, 2012c). Consequently, the Chinese government has granted billions of dollars in official development assistance (ODA) to the Kenyan government and more importantly the Kenyan government has welcomed China's aid with open arms. The Kenyan government has received billions in the form of loans from the Chinese state in order to construct roads, and establish the country's technology infrastructure. Besides the commercial-oriented assistance, the Chinese government has provided grants to help build schools and hospitals. By revisiting the literature

surrounding the overall development project, it is clear that China's aid closely resembles theories and policies that are strikingly similar to those of the early development era. These include the ideas that investing in infrastructure, along with the belief that furnishing recipient states with the necessary capital, leads to development. The Chinese government has given more prominence to trade as a development mechanism, along with its direct investments, meaning that it does not hide behind notions of altruism. Consequently, this thesis studied how all the overlapping methods were affecting Kenya, and this Chapter summarises the main findings of this study.

5.1: Key finding – positive impacts

Admittedly, these positive findings confirm that, in fact, China's approach is not a zero-sum game. One positive finding that this study has shown is that in some in specific areas China does indeed respond to Kenya's development needs more quickly than the traditional Western donors. For instance, the Kenyan government has identified upgrading its infrastructure as an area that needs significant investments to improve its development situation and China has responded to Kenya's call for assistance directed towards infrastructure more than any other donor country. Kenya has lauded Chinese funded infrastructure projects and all evidence points to this being a tangible benefit for Kenyans. The Chinese funded projects have been, on average, cheaper than projects awarded to Kenya from other foreign donors as well as those developed by non-Chinese foreign contractors. The infrastructure projects, as an area of focus, were chosen by the Kenyan government because they had fallen into a state of disrepair. An important

benefit is that Chinese-funded projects are guaranteed by the Chinese government, thus the likelihood of a company defaulting (or not completing the project) is reduced.

A second positive finding is the Chinese government's adamant support for the Kenyan government in international forums, particularly when it came to the International Criminal Court (ICC). This support was unmatched, in fact the other Security Council members were opposed to granting the Kenyan government any leeway in its dealing with the ICC proceeding. The Chinese government even tried to bring up a motion that would have effectively ended the ICC engagement, and has defended the Kenyan government assertion that the ICC process should be stopped, and instead the Kenyan government should be allowed to implement its own domestic process. China's resolute support for Kenya when it came to the ICC process has brought the two countries even closer in the international cooperation arena. This has shown that China does indeed practice what it preaches when it comes to national sovereignty and its policy of non-interference.

A third and final positive finding of the Kenya-China relationship, is China's increased focus in order to help Kenya improve its trade with China and lower its staggering trade deficit with China. China has directed aid in areas such as Kenya's informal sector, commonly referred to as *Jua Kali*, tourism, information and communication technology sector, and its energy sector. These are all areas that the Kenyan government has identified as important to improving its overall economic comparative advantage. These areas have seen the country gain assistance from China. The informal sector has witnessed increased assistance that would be given to small and medium Kenyan enterprises. More specifically, the Chinese government through its

policy banks have teamed up with a Kenyan bank to help it provide more loans to groups that would traditionally not have access to credit through banks. Furthermore, the tourism sector has seen dramatic increases since China officially granted Kenya Approved Destination Status as Chinese tourists have contributed to foreign exchange earnings. Finally, the Kenyan government has been granted funds to improve its energy sectors; the Chinese have provided loans and grants to build geo-thermal plants, power transmission lines, as well as coal-powered power plants.

5.2: Key findings: challenges and negative impacts

Having explored the positive effects resulting from China's approach, this thesis posits, however, that all things considered China's approach has a plethora of short-comings which outweigh the benefits for Kenya's development outcomes. What this study found was that China's approach is not intrinsically all that different from Western aid, despite all the rhetoric and sometimes vitriol surrounding it. In fact, by revisiting the literature surrounding the overall development project, it is clear that China's aid closely resembles theories and policies that are strikingly similar to those the early development era. These include the ideas that investing in infrastructure, along with the belief that furnishing recipient states with the necessary capital leads to development. This thesis has shown that China is generally behaving in similar ways to Western donors, in contrast to some of the overblown positive rhetoric that often accompanies Chinese development assistance. China grants more development assistance to Kenya than any other bilateral donor (in terms of total amounts of both grants and loans), and it is close behind in funds committed by the multilateral IFIs. For example, the World Bank in the 2011/2012

provided grants and loans that totalled \$640 million and the next largest multilateral donor was the African Development Bank which funded \$330 million in projects compared to \$240 million from China (Kenya, 2011d, p. xi). Indeed, direct grants not only consist of a small portion of the overall ODA, they are often used to support a portion of the loan granted.

The Chinese direct grants in Kenya are significantly smaller even when compared to other donors. Figure 3.3 in Chapter 3 illustrated the top ten providers of grants to Kenya, showing that China's aid is still very small compared to Kenya's traditional donors. Moreover this research uncovered that grants from China are frequently ad hoc in nature. They are usually announced whenever dignitaries from China are visiting Kenya, and include the building of schools, the donation of computers, and upgrades to hospitals. This fosters the illusion that the Chinese government is a larger provider of non-repayable grants to Kenya. However, when available figures are examined more closely, this type of direct grant is quite small. Besides, these types of gifts are often token gifts that get more media attention than would generally be given to similar forms of aid from other countries. More specifically, when the Chinese government announces computer gifts to the national assembly, the number of computers is never announced because the number of computers is actually embarrassing small.

Indeed, when the Kenyan government proclaims the uniqueness of China's approach, this is countered by the above statistics. What the research determined was that Chinese aid is not the elixir that many in the Kenyan government hope it to be. For starters, the aid received from China is mostly through loans, which are not 'free', even with low interest rates. These loans must be repaid and Kenya's recent history provides a

lesson in the detrimental effects that can result from large debt levels. Specifically, Kenya needed almost two decades to achieve similar economic levels as witnessed in the 1960s while overcoming debts in the 1980s. The concessionary loans are by far the biggest component of Chinese aid to Kenya. This has brought fears that the country could fall into a similar debt-induced crash that occurred in the 1980s. This economic crash resulted in Kenya's lost two decades and it has just recently emerged out of. The loans added the conditionalities that bound Kenya to unpopular and unwelcome policies that, now, many acknowledge failed miserably in an effort to lift the country into development. The Chinese government repeatedly claims the loans that it provides are often forgiven when they come due, but in Kenya's case there is very little evidence that these loans are to be forgiven. In fact, due to Kenya's current prudent loan acquisition policies, it has a good track record of repaying the loans. This means that Kenya is often not considered to be a loan liability. But again, this could easily change and Kenya could find itself unable to repay the loans for assorted reasons, including a dramatic downturn in the global economy. Another weather-related agricultural crash, its heavy reliance on tourism which could also be affected for various reasons that are unrelated to the situation in Kenya such as another terrorism related incident, or the increased prevalence of piracy on its littoral.

Another drawback with these loans is the fact that the Kenyan government is embracing these secretive loans without opting for ones available for public review offered by IFIs, and other donors. These loans could hobble future governments that will be locked into agreements that are secretive in nature, with unknown conditionalities. In contrast, a cursory search of the both the World Bank and AfDB websites shows projects being funded in Kenya by those two IFIs, the amount already dispersed, even the

government officials that signed the agreements. Bilateral Western donors also disclose the loans and grants that are provided through DAC.

Another negative trend that was witnessed was that the fundamentals behind the relationship, mainly the unequal relationship, were never fully confronted by the Kenyan government. The basis of this unequal relationship has placed the Kenyan government in a precarious position and solutions – that might even strain the relationship – are required to solve it. China has taken advantage of Kenya's open market, principally through the cheap products that flood the local market. This is a very real threat, as the thesis showed examples of how cheap Chinese products such as batteries were harming local manufacturers. These advantages include the reduction of import tariffs which would provide the Kenyan government with sorely needed revenues. Moreover, Kenyan industries have lost the protection that import tariffs would provide, while acknowledging these trade barriers would increase prices that all consumers would pay for the products. Nonetheless, this trade deficit is leading to a huge transfer of capital to China. The Kenyan government must take drastic actions like it did for the battery industry in order to protect local manufacturers. Actions like this might hasten the often-hoped for transfer of Chinese industries into Kenya. Importantly, Kenya can utilize the already established international trade regimes such as the WTO to help it as it deals with the much larger China.

The FDI aspect of the relationship is very much needed but it should not be to the detriment of the country's economic and development objectives. Kenya should not sacrifice environmental or working conditions in order to attract the Chinese companies, but should be instead instituted into future agreements with China. More specifically, the

Chinese government claims to be a world leader when it comes to the adoption of renewable energy technologies. Moreover, the allegations often linked to the poor track record of Chinese companies can be removed through stringent of rules and laws that are currently in place. The Kenyan government should not be providing an advantage to Chinese companies in order to attract FDI, rather the Chinese companies should be required to adapt to the Kenyan conditions.

Indeed, what this research has confirmed is that the Chinese government has prioritized the commercial aspects of development assistance. For example, the Ministry of Commerce (MOFCOM) has taken centre stage in prioritizing which projects get funded. Once MOFCOM has decided on the project then it directs the policy banks such as Exim and CDB to release the funds pledged, these policies have played an outsized role in the delivery of aid from China. This has helped Chinese firms dominate in such areas as the ICT sector, Chinese companies which gained a foothold in Kenya through bilateral development praxis. This fits into the current capitalistic global economic order that both the Kenyan and Chinese governments are firmly entrenched in.

This thesis has also reinforced the notion that the Kenyan government should not be too quick to jettison the ‘Western option’ as alluded to by President Kibaki. The Western option could provide leverage when it comes to negotiating with China. If it closes this door too quickly, then China would have the clear advantage in bilateral relations. Moreover, by being open to China’s approach, this gives Kenya leverage with its Western donors and institutions. Kenya should be more strategic, it has more negotiating power than it believes it has over its development partners. In this case, the beggar can be indeed the chooser, when it comes to its development needs. This

recommendation includes instituting policies that guarantee minimum numbers of local workers on its infrastructure projects. It should insist on oversight on the projects rather than blindly accepting these ‘turn-key’ projects.

5.3: Recommendations

Based on these conclusions, it is clear that for Kenya to gain from China’s approach and improve its developmental outcomes it should take a more assertive stance when it comes to dealing with China. This thesis utilized a framework of analysis which illustrated the impact that China was having on Kenya. Moreover, the framework provided areas in which are detrimentally affected by China. The following are a few general recommendations which, if instituted as policy the Kenyan government can gain further from its relationship with China:

1. Protect the Kenyan manufacturing sector:

Kenya’s current free-market based system has created a situation where it is becoming ever more dependent on its agricultural sector. As was explored in the third Chapter, Kenya has faced stiff competition from Chinese imports. The government might want consider proactively instituting policies that help the local manufacturers better compete with Chinese and other low-cost importers. In the current global economic dynamic, especially through world bodies such as the WTO, the Kenyan government would face significant pressures to keep its market open; however, these protective measures would allow Kenyan industries and manufactures the space to grow and in the long run become more competitive with their foreign counterparts.

2. Ensure maximum benefits are accrued from infrastructure projects:

The Kenyan government needs to negotiate with the Chinese government to ensure that Kenya can gain more from the investment in infrastructure. For example, China should 'untie' the development assistance that it provides to Kenya, so that more local firms can also bid on the projects. Chinese infrastructure aid is heavily tied to its own companies and the sourcing of materials from China. Indeed, other reasons as to why the Kenyan government does not currently insist on more local employment include the government's desire to complete the projects as quickly as possible and the fact the Chinese government guarantees the successful completion of projects built by Chinese firms. These policies are negatively affecting local firms by completely shutting them out of the bidding process and by also negatively affecting Kenyan suppliers by sourcing materials from China. At the same time, tying the infrastructure aid increases the cost of the projects which causes Kenyans to pay more for the project. Thus, the Kenyan government needs to insist on local participation in Chinese funded infrastructure projects.

3. Kenya should utilize the East African Community

The Kenyan government needs to work closely with the EAC in order to use EAC's size to pressure China to make economic concessions. The EAC, as a five-country common market, working towards a political federation, can play an important role in ensuring that China does indeed compromise on economic matters. Kenya, as the largest economy in the community and the main transit country for the other landlocked countries, has an outsized economic status over the EAC countries and should ensure economic agreements with China are viewed in the context of the

wider EAC. The EAC's growing population of 140 million makes it certain that China (and for that matter Western countries) does not ignore its economic potential.

4. Protect its natural resources

Kenya should not sign away its natural resources to China. China has actively sought out natural resources throughout the world, and Kenya is no different. Chinese firms have moved into the country's coal, oil, and titanium sectors. While in some cases Chinese firms have bought into existing Western-owned projects in the commodities sector, Chinese companies have also been granted rights to exploit certain natural resources in exchange for development assistance. The Kenyan government should learn from history (and other African countries) that by signing away rights to their natural resources, in the long run, does not gain the full benefits from those natural resources. The Kenyan government needs to put in place policies that would ensure that Kenya ultimately benefit from the resources.

5. Open the bilateral agreements to public scrutiny:

Ultimately, the Kenyan government should institute policies that ensure any agreement signed with the Chinese government is available to the general public. Currently, the agreements are secretive in nature, with the contents of the agreement privy only to a few senior government officials, and as such the full consequences of the assistance granted are not fully known, even after 30 years. In contrast, as mentioned above, multilateral and Western donors make available the documentation surrounding development assistance provided. The government should put in place more open procedures that would ensure that the content/stipulations of any

agreements with China can be publicly examined. The Kenyan public are then more empowered to decide if China's approach is truly beneficial to Kenya's development.

5.4: Limitations and future research

Due to the limited scope and time allotted to this Master's thesis, the number of research participants along with the inadequate access to documents acquired from the Kenyan government meant that some crucial information might have been missed. This thesis did not include interviews with elected Kenyan representatives who could have added unique perspectives in understanding how China reaches out to public officials. Finally, including some of the Chinese officials who are responsible for creating Chinese foreign policy would have been particularly useful to find the true motivations behind these policies.

This research has laid the groundwork for future research by employing a framework to systematically assess the impact China's approach is having on the three vectors of trade, FDI, and aid in Kenya. Admittedly an adaptation from a previous framework, these three vectors have established a basis from which more Kenyan specific research could be undertaken. The thesis has also provided what could be further analyzed in such diverse topics as international relations, regional integration and the role of trade as development mechanisms. Finally, comparative studies and other frameworks will need to be developed to further assess China's approach not only in Africa but also around the world.

**Annex 1 – The cabinet meeting minutes: Kenya National Archives: File
TR/U/PV4/Tourism, Nairobi.**

S E C R E T

C A B I N E T

COMMITTEE ON ECONOMIC AND CULTURAL CO-OPERATION

KENYA, THE SOVIET UNION AND CHINA

THIRD MEETING

Minutes of the meeting held on Tuesday 30th June, 1964 in the
office of the Minister for Home Affairs.

Present:

The Minister for Home Affairs (Chairman).
The Minister for Finance and Economic Planning.
The Minister for Commerce and Industry.
The Minister for Agriculture and Animal Husbandry.
The Minister for Information, Broadcasting and Tourism.
The Minister for Education.

Apology for absence was received from:

The Minister of State, Mr. Mumbi.

Secretariat:

Mr. J.M. Kariri, The Treasury.

12. CONFIRMATION OF MINUTES

The Minutes of the second meeting were approved and signed by
the Chairman.

13. MATTERS ARISING

The MINISTER FOR COMMERCE AND INDUSTRY said he wished to
endorse the Committee's decision recorded in minute number 9 (c) of
16th June, 1964.

14. CHINESE AID

The CHAIRMAN informed the Committee that the Chinese technical
assistance was of a more general nature than that of the Soviet
Union; it did not specify any projects and therefore specific
discussions were needed between Chinese and Kenyan experts. The
Committee was informed that the Minister for Agriculture and Animal
Husbandry had had talks with the Chinese Ambassador about the
invitation of Chinese experts and that the Minister will go ahead
with this invitation. The Committee agreed.

Answering a question on the Chinese loan of 65 million Swiss
francs the CHAIRMAN said that this loan was intended for the supply
of Chinese equipment, materials and technical assistance but that
the Government of the People's Republic of China may be prepared to
finance development projects in Kenya. The CHAIRMAN added that the
Government of the People's Republic of China had indicated that it
may give further financial assistance to the Government of Kenya for
development next year after they had repaid some of the debt they
had themselves so far incurred.

The MINISTER FOR FINANCE and ECONOMIC PLANNING informed the
Committee that he had already written to thank the Government of the
People's Republic of China for the assistance that Government was
giving to Kenya. The Minister was asked to write to the Government
of the People's Republic of China informing them into which bank the
first instalment of the grant should be paid.

S E C R E T

Annex 2 – The protocol: Kenya National Archives, File AE/446, Ministry of
Commerce and Industry, Nairobi.

APPENDIX

TO

**THE PROTOCOL TO THE AGREEMENT ON ECONOMIC
AND TECHNICAL CO-OPERATION BETWEEN THE
GOVERNMENT OF KENYA AND THE GOVERNMENT OF
THE PEOPLE'S REPUBLIC OF CHINA**

1) Projects of complete sets of equipment :

(a) Name of project

A spinning, weaving, printing and
dyeing mill.

Scope

20,000 spindles and corresponding
equipment for weaving, printing,
dyeing and bleaching.

(b) Name of project

A sugar-refinery

Scope

Daily crushing 1000 tons of sugar-
canes and with auxiliary workshop
for making alcohol.

2) Items of technical co-operation :

The Government of the People's Republic of
China agrees -

(a) to despatch three experts on bamboo
weaving to provide technical guidance;

(b) that the Government of Kenya will send
trainees to China to learn ivory
carving; details will be fixed in a
specific contract to be signed between
the two sides through consultations.

Signed by -

J.S. GICHURU

Signed by -

WANG YU-TIEN

**Annex 3 – The cooperation agreements: Kenya National Archives, File AE/446,
Ministry of Commerce and Industry, Nairobi.**

BROAD NEGOTIATING POSITION

**Advance Party to Negotiate the National Sports Complex
Agreement**

The Amount of the Loan

1. Seek agreement with China that the project will be designed for a 100,000 seat complex.
2. Settle for China to fund and assist to construct Phase I which includes:
 - i) a 60,000 seat stadium;
 - ii) a gymnasium with 5,000 seats;
 - iii) an out-door swimming pool with 2,000 covered seats and 3,000 uncovered seats; and
 - iv) a 200 bed hostel for athletes.
3. Request China to provide Kenya Government with a loan equivalent to RMB 70 (Renminbi Yuan seventy million) which is equivalent to approximately KSh17.5 million. The total project costs were estimated to amount to KSh 15 million in 1979; the present Chinese commitment of KSh12.5 million is 85% of total costs. Projects costs are now being estimated to amount to KSh 20 million mainly due to price escalation. The Chinese should, therefore, agree to finance 85% of the new project costs now.

Determination of Local and Foreign Costs

4. Ministry of Works would work-out a preliminary break-down of local and foreign costs of the project before the Advance Party leaves for Peking.
5. Advance Party should also require of the Chinese side to do the same and insist that cement is not treated as foreign costs except to the extent that Kenya cannot provide it locally.

Annex 4 – Interview guide

These are a sample of the questions directed at Kenyan government officials and members of the civil society during the interview phase of the research. These questions were slightly modified to suit a specific department's mandate.

Questions:

1. Please tell me, what is the impact that China has been having on Kenya's government policies?
 - a. What policies has the Kenyan government put in place to address China's role in the Kenya economy?
 - b. How has this changed the policy making process being implemented by government agencies?
 - c. How is China influencing Kenya's development plans, this includes the Vision 2030 that Kenya has set out to achieve?
 - d. What role can China play to help Kenya achieve the Vision 2030?
2. What direct impacts do you see that China is having on Kenya?
 - a. What are some methods/approaches that China uses in its development assistance to Kenya?
 - b. Is this approach tangibly different from the Western approach (i.e. United Kingdom, United States, and other members of the Development Assistance Council)?
 - c. What are some of the short term positive or negative effects of China's increased aid, trade, and Foreign Direct Investment in Kenya?
 - d. What are some of the long term positive or negative effects of China's increased aid, trade, and Foreign Direct Investment in Kenya?
 - e. What development projects does China target with its development assistance?

3. What are some of the indirect impacts that China is having on Kenya?
4. What risks are associated with Kenya's shift towards China?
 - a. Overall, do you view China's increased role to be beneficial or detrimental for Kenya?
 - b. What should Kenya do to minimize the detrimental effects and maximize the beneficial effects of China's development assistance?
5. How is China impacting Kenya economically?
 - a. In what areas have China's direct investments been directed?
 - b. How is Kenya benefitting from these direct investments?
 - c. What are the areas of concerns are often discussed with regards to the trading relationship between the two countries?
6. Do you come in contact, either through your position or as a member of Kenyan society, with China's development assistance to Kenya?

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