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Economic Aspects of Sino-African Relations on Example of Kenya

Diploma Thesis

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Abstract

Vacková, K. *Economic Aspects of Sino-African Relations on Example of Kenya.* Diploma Thesis. Brno, 2014

This diploma thesis refers to the economic aspects of Sino-African relations on the example of Kenya. The first part of the thesis that deals with literature research describes the backgrounds of China, Sub-Saharan Africa and Kenya. The background is followed by Sino-African relations and Sino-Kenyan relations. The next concepts about Chinese business and its impacts in Africa are described in several chapters. The practical part of the thesis is mainly focused on trade between Kenya and China and it tries to describe the trade relations and their importance.

Key words

China, Africa, Kenya, products, trade, GDP, Chinese companies, market, export, import, cooperation, commodities, exploitation

Abstrakt

Vacková, K. *Ekonomické Aspekty Čínsko-Afrických Vztahů na Případu Keni.* Diplomová práce. Brno, 2014

Tato diplomová práce se zabývá ekonomickými aspekty čínsko-afrických vztahů na příkladu Keni. První část práce, která se zabývá literární rešerší, popisuje pozadí Číny, Sub-Saharské Afriky a Keni. Po této kapitole následuje popis čínsko-afrických a čínsko-keňských vztahů. Další koncepty čínského obchodu a jeho dopadu na Afriku jsou popsány v několika kapitolách. Praktická část práce je převážně zaměřena na obchod mezi Keňou a Čínou a snaží se popsat obchodní vztahy a jejich důležitost.

Klíčová slova

Čína, Afrika, Keňa, produkty, obchod, HDP, čínské společnosti, trh, vývoz, dovoz, kooperace, komodity, využívání

Content

1 Objectives and Methodology

The main objective of the thesis is to identify and illustrate the economic intentions and activities of China with Kenya. The thesis determines how important is China for Kenya as an economic partner and vice versa within Sub-Saharan Africa. The trade relation will be analysed particularly through import and export analysis. Based on the texts about the influence of China on Sub-Saharan Africa, the economic relations are the most significant and they are also key purpose for cooperation. The goal will be fulfilled after answering these four research questions:

- *What are the main purposes of Chinese engagement in Kenya?*
- *How important is China for Kenya as a trading partner?*
- *What are the main sectors in trade between China and Kenya?*
- *What are the positive and negative points about the economic relations of Kenya with China in future?*

The thesis is divided into three main parts. The first part describes the situation and discusses different points of view on Chinese engagement in Sub-Saharan Africa, the second part deals with the backgrounds of analysed regions and the history of relations and their development. Finally, the last part presents an analysis of economic relations between China and Kenya in terms of trade and investments.

This paper work is based on the qualitative and quantitative methods and intensively examines the economic relations. As for qualitative methods, the comparative method between the states and deductive method from the data and information obtained are used. Concerning a quantitative method, the multiple regression analysis was used on chosen data but finally after calculations it showed up that it is impossible to achieve any beneficial and useful result because the dependency between the data used was statistically insignificant. In order to comprehend the economic relation, the study further combines both descriptive and analytical principles. It is necessary to notice that the analysis investigates the relation only between Kenya and China with occasional comparison to other countries. The study has been undertaken due to several reasons. The first one is that since the Forum on Africa-China

Cooperation was established in 2000, China became very significant trade partner for Africa and also for Kenya. Furthermore, in 2005 WTO set different rules that eliminated import quotas which caused a big change for Chinese trade into Kenya.

Many studies and research papers were written about Chinese engagement in Sub-Saharan Africa but few were written about economic relations and engagement in Kenya such as The Impact of China-Africa Trade Relations: The Case of Kenya by Joseph Onjala, Economic Relations between Kenya and China 1963-2007 by Michael Chege, Kenya´s Role to Development: Background of China´s Involvement in Kenyan Construction Projects by Andrew Day and China in Kenya: Addressing of Counterfeit Goods and Construction Sector Imbalances by Hillary Petroba. Unfortunately, there is very limited access for economic data that would describe the economic relations between China and Kenya.

Only secondary data are used in this thesis and they are collected from relevant African institutions, articles retrieved from online databases, Chinese, Kenyan and other state-owned newspapers and independent journals. The origin of the newspapers and independent journals articles is taken into consideration in use in the thesis. The primary sources include research studies, press releases, speeches and articles from the governmental bodies and international organisations. The thesis also suffers from some limitations because of inaccessibility of some important and also more current data for Kenya so that it may limit the depth of analysis.

2 Introduction

At the very beginning it is important to mention that China has represented the most vigorous and close cooperative partner for Africa in terms of economic growth by investing and financing development projects, offering economic aid, building infrastructure needed and expanding trade. However, China has extracted the natural resources as one of the main intention. These activities have been creating very close relationship between China and Africa´s richest nations on resources (Ozawa; Bellak, 2011).

There have been relations and links between China and Africa for long time in past but this relationship has been strengthened significantly since 2006 when Forum for China-Africa Cooperation Summit in Beijing was held. The Chinese ministry of Cheng Deming (Chinese minister of Commerce) after several visits in Africa highlighted the deepening links in a press conference. The essential fact is that bilateral trade with Africa had increased from $10 billion in 2000 to $126.9 billion a decade later, while Chinese investment had risen from $1 billion to $10 billion in the same period (Hanush, 2012).

In recent years China has joined UN peace-keeping missions in many African countries and furthermore, it also supported UN reforms to give African countries a permanent seat in Security Council. To remain competitive in the global market, China has started to broaden its investment activities to Africa. But the negative fact about China is that it very often overlooks political and human rights abuses. China acts like that in order to comfort oppressive and resource rich African governments (Rich; Recker, 2013).

China is constantly criticised and opposed by Western nations that it cooperates with harmful and rouge African countries. Although, it is warned by some African states not to practice neo-colonialism (potentially), China is able to help Africa to industrialize it and develop in the future. There is one man who calls China on to invest in Africa, mainly in manufacturing, infrastructure and projects that extract resources, his name is Robert Zoelick, the World Bank President (Ozawa; Bellak, 2011).

The thesis is organized as follows. The theoretical part comprises of research to the topic and further it describes the economic backgrounds of China, Sub-Saharan

Africa and Kenya and the history of their relations. The practical part of the thesis includes methodology where the methods used in this paper are described and it is followed by practical part of the thesis that analyses aspects of economic relations between Kenya and China in several areas, particularly in trade. It has to be mentioned that all data necessary for the thesis are not available and the work includes the possible obtained data. The existing studies on China and Kenya have been based on traditional measures of trade similarity, and have compared the exporting pattern of African countries with that of China or have looked at the evolution of international market shares.

3 Literature Research

Western media mostly look at China with suspicion on global level and it is also regarded as an exploiting power on African continent (Michel, 2008).

It is a great challenge for researchers to answer the question if China presents neo-colonialist power in Africa, if we take into account that African continent contains of 54 differently developed countries. Every country has different economic development, different economic, political and historical values and needs (Kasongo, 2011).

There are two points of view about Sino-African relations. Either there is a hope of long-term African development due to China´s engagement in economic sphere or there exists a position that China exploits Africa and it acts like neo-colonialist power. According to Rich (2013) the truth is somewhere in the middle. The reality is not black and white but there exist some level of mutual beneficial relationships but some level of exploitation as well.

In Kasongo´s point of view (2011), there is no proof or evidence in real that China consciously wants to control Africa politically according to data available but though China has an instinct of acting as a neo-colonialist power towards African continent. Besides that, China´s intention is to gain and exploit not African cheap labour but its security natural resources. It is essential to focus and pay attention on cost-benefit perspective.

Chau (2014) sees China´s engagement in Africa very negatively. According to him, over time, Chinese came into Africa because they wanted to understand people, miscellaneous societies and nations. During the expansive and resource welfare environment, the Chinese felt the opportunity for political, economic and strategic exploitation in this continent. In general, China focused on gaining influence on African continent. Also the previous South African president Thabo Mbeki warned against Chinese involvement and he also emphasized that it should be paid more attention on not allowing China to starve for raw materials (Ayittei, 2010). On the other hand, the others try to find another and broader motivations and intentions behind Chinese investment in Africa than extracting natural resources (Brautigam, 1998).

China can bring benefits to Africa as a representative of interests of developing world and it also takes leadership role in G20 (Ciochetto, 2013). Another example that has to be mentioned that China transfers technology and various training modules that have been empowering African people (Pratyush, 2013). Brautigam and Xiaoyang state (2011) that behind natural resources Chinese factories employ mainly Africans than their own workers from China. Chinese factories in Africa employ African workers more than Chinese ones because of one main reason which is very cheap labour force. One example is Chinese shoe factory in Ethiopia where we can find Chinese and also African workers but there is one big difference between them. The Chinese workers earn 400 USD per month while Africans only 40 USD per month, that is ten times less (Global Economics, 2014). According to Pratyush (2013), comparing how Africa was treated by Western nations during the colonial period and how China behaves towards Africa, there is a big difference. China unlike Western nations treats Africa as an equal partner because it has itself bad colonial experience. But is it fair and equal behaviour to pay African workers less than Chinese ones? Another example is in Zimbabwe where Africans work in Chinese mines. They work in very poor safety conditions and very low wage. The violation of labour laws also occur very often, people work for long hours, their overtime work is not paid at all and the public holidays are not regarded. Besides all these facts, according to Ozawa and Bellak (2011), enormous number of jobs was created, the unemployment rate has decreased rapidly and regional development by industrialization can begin due to establishing Chinese factories in Africa.

According to Ciochetto (2013), it can´t be missed out that China helped Sub-Saharan Africa in many ways in the past. In 2006, China gained greater access to natural resources in Africa due to FOCAC but it has to be mentioned that Chinese engagement increased the two-way trade, investment in the region and aid, debt cancellation and making Chinese market available to African goods. He also claims that it represented also direct benefit for people. Brautigam states (2010) that African students (5 500 per year) study in China on Chinese Government Scholarships financed by instruments like grants and zero-interest loans and concessional loans. Ciochetto also highlights (2013) that China has helped Africa during the recent economic crisis. It means that China´s wide ranging economic input included low-interest loans and interest-free loans.

Brautigam and Xiaoyang claim (2011) that there is a lot of things that attract Chinese to invest in Africa. The major ones are low taxes, favourable investment climate and cheap labour force as mentioned above. Thus, the growing trade deficits may be reduced when China transfer its production to the countries with substantial imports (El-Gohari, Sutherland, 2010). Moreover, the African markets are greatly supplied by Chinese exporters that take advantage of this cheap labour force and their initiatives are predominantly profit driven (Brautigam; Xiaoyang, 2011).

Concerning African workers hired by Chinese companies, they feel under siege because China imports prison workers into Africa from China and they have to work whole day and night under duress (The Economist, 2011). However, there is empirical evidence what Africans themselves think about it. There is not much public opinion research but in general the result is rather positive. The Africans welcome the Chinese on their continent mainly because of its leverage while addressing the structural imbalances of the international economic system within which many African countries face marginalisation (Hanush, 2012).

4 Backgrounds of analysed regions

4.1 Background of China

China´s population counts 1.3 billion of inhabitants and with this enormously high number of people it has recently become the second largest economy and it represents one of the most important and influential role in the global economy (World Bank, 2014).

During the last four decades China experienced great social and economic enlightenment. Because of the increasing production and economic growth, China´s needs for natural resources, especially oil and minerals are bigger and its engagement in Africa is more intense. The programme „ market socialism„ that was set in China in 1980s increased the economic productivity and living standards. But despite rapid economic growth there is still high level of inequality between seaside and interior hinterland area. Chinese government focused mainly on urban areas and now it is under the pressure to extend the benefits also to rural areas where the poverty rate is still very high. Besides the spreading of benefits also to rural areas, also environmental sustainability, rapid urbanization and external imbalances remain a big challenge for China (Ciochetto, 2013).

Since the economic productivity raised due to mentioned market reforms in 1980s that presented shift from the centrally planned to a market based economy, China experienced rapid economic and social development and GDP growth that was about 10% in average has lifted more than half a milliard people out of poverty and furthermore, the Millennium Development Goals were reached. But despite all of this, China is still recognized as developing country, its market reforms are still in process and according to data obtained from World Bank, almost 100 million people live under the poverty line. This bad number represents a great challenge for China because it is after India the country with the highest number of people living in poverty (World Bank, 2014).

China is also challenging the China´s 12th five-year plan. The key targets of this plan include many areas like economic targets, economic restructuring, innovation, agriculture, environment and clean energy, livelihood, social management and reforms. The guiding principles will promote government's bigger focus on inclusive growth, which means ensuring benefits of economic growth and spread them further and on greater amount of Chinese citizens (APCO worldwide, 2010).

4.2 Background of Sub-Saharan Africa

The African colonized nations achieved their independence in 1950s and 1960s but it wasn´t an independence in right sense because they were still economically dependent and dominated by clench of the former colonial powers (Yu, 1966).

The African states strived for positive sovereignty that means that the government not only enjoys the rights of non-intervention and other institutional benefits but it should also possess the power and ability to provide public and political goods for its inhabitants which includes mainly educational facility, health facilities and national security. Unfortunately, the African states achieved only negative sovereignty till 90s which means that they didn´t have to worry about the interference from outside (Pratyush, 2013).

The Sub-Saharan Africa region is situated south of the Saharan desert and it consists of forty-eight countries. Despite economic growth and development that Sub-Saharan Africa experienced in the last decade after gaining independence, there are still many problems that the population has to face to. The most severe problems are poverty, diseases, AIDS, high infant rate and high mortality rate. A lot of people suffer the effects of civil and ethnic conflicts, wars, corruption, absence of civil society and abusing. To sum it all up, according to many indicators and statistics, Sub-Saharan Africa is the poorest region in the world. Concerning other important issues like health and education, the situation is also very bad because they still lag behind economic changes (Ciochetto, 2013).

If we focus on economic activity of Sub-Saharan Africa in 2013, it is visible that it was robust in most of the parts of the region. The GDP growth increased from 3, 7 % in 2012, up to 4, 7 % in 2013. This increase was supported by high investment in the resource sectors and public infrastructure. However, because of the domestic limits and constraints and also globalization, the economic growth will be moderated in the medium term. It is assumed that in 2015 and 2016 the GDP growth will strengthen to 5, 1 % in very big part due to FDI, public investment in infrastructure and agricultural production (World Bank, 2014).

4.2.1 Background of Kenya

Kenya was one-party country in years 1969 till 1982 because the ruling Kenya African National Union (KANU) declared itself the only legal political party in Kenya. President Daniel Moi accepted the pressure for political liberalization in 1991. The ethnically fractured opposition didn´t succeed to expel the Kenya African National Union from power in election in 1992 and 1997. President Daniel Moi resigned in 2002 following peaceful and fair elections. Mwai Kibaki, a candidate for multi-ethnic opposition group called National Rainbow Coalition (NARC), defeated KANU candidate Uhuru Kenyatta but his coalition with Narc splintered in 2005 over constitutional review process. His re-election in 2007 brought charges of vote rigging from candidate Raila Odinga and it caused violence lasting for 2 months during which more than 1 500 Kenyans died. In late February in 2008, this led to power sharing accord bringing Raila Odinga into the government in the restored position of prime minister of Kenya. Kenyans broadly adopted new constitution in national referendum in 2010. The additional checks and balances to executive power, significant devolution of power and resources to 47 newly created counties were introduced in this constitution. The position of prime minister was also eliminated. Uhuru Kenyatta who was the son of founding president Jomo Kenyatta won the elections in March 2013 and he was sworn into office in April 2013 (CIA World Factbook, 2014).

The Kenyans economy has been affected by corruption and dependency on several primary goods whose prices have remained very low. Although the president Kenyatta has supported infrastructure development and it was his priority, the low investments in infrastructure present a big threat for Kenya as the largest East African economy. What represent an important help for Kenya´s economy growth and development are donors and international financial leaders. The unemployment according to the statistics is around 40 % in 2014 which is very high. There are also chronic budget deficits, inflationary pressures and sharp currency depreciations during several years ant it peaked in 2012. Moreover, the tourism is threatened because of recent terrorism. Anyway, Kenya is now focused on conjunction with neighbouring countries Ethiopia and South Sudan whose intention is to begin construction on oil pipe line and transport corridor into the port of Lamu (CIA World Factbook, 2014).

5 Sino-African relations

5.1 History of Sino-African relations

The first contact between China and Africa is dated to Ming Dynasty many centuries back in past (Rich, Recker, 2013). But the contemporary relations have begun since 1949 after the founding of the People´s Republic of China (PRC) and then with the formal creation of diplomatic links with Egypt in 1956. So far, fifty one from fifty four African countries have created diplomatic relationship with China. They discussed international issues, common interests and also the further deepening of their mutual cooperation in the future. The trade volume and bilateral export and import within China and Africa has rapidly increased which shows that China´s engagement in Africa is very extensive (Chun, 2013).

There were many goals behind improving the Sino-African relations. The first goal was securing African support in China's diplomatic battles with Taiwan (Republic of China) that was initial but not only for a reason to prevent support for a "two China" policy, but to ultimately gain entry into the United Nations (Yu, 1988).

Furthermore, China didn´t look like a communist danger for Africa. Africans strived for improving their economic conditions and China seemed to be a very interesting and important destination for their exports. The main exports to China have represented natural resources such as oil but China has attracted developing countries by its huge domestic market. If we look also at other benefits for Africans, also public revenues increased due to Sino-African relations. Nevertheless, Africa became accustomed and maybe even dependent on Chinese cooperation because of the exports and it would be very costly for Africa to break the relations with China. (Rich; Recker, 2013).

During the last six decades, the cultural exchanges between China and Africa emerged. These changes helped to promote cooperation. In 2005, China adopted 62 inter-governmental agreements on cultural exchanges and cooperation with 5 African states. China and Africa have organized more than 200 of exchange delegations on which the cultural events and art of both were presented.

In short, the Sino-Africa relation during the past six decades changed from imbalanced to balanced in regard to its political, economic and cultural dimensions. Political relations developed quite well in all three periods, economic relations gained momentum largely in the third period and cultural relations eroded with the development of economic ties (Chun, 2013).

In 2006, the following four principal guidelines were reached in Sino-African relations. The first guideline represents sincerity, equality and friendship in political dimension. The second guideline consists of principles like mutual benefit, common prosperity and reciprocity in economic sphere. Concerning international dimension, the guidelines reached are mutual support and close coordination and finally, the mutual learning and striving for common development is included in cultural dimension. Under these principles, the China-Africa relationships gained new momentum. China is a big investor in infrastructure to improve competitiveness and it also represents an important complement to traditional development partners (Chun, 2013).

The most considered driving force of China investments in Africa is for natural resources and cooperation with resource rich countries. Nowadays, China invests in 49 African countries. In 2010, the top 10 African recipients included: South Africa (31.8 %), Nigeria (9.3 %), Zambia (7.2 %), Algeria (7.2 %), The Democratic Republic of Congo (4.8 %), Sudan (4.7 %), Niger (2.9 %), Ethiopia (2.8 %), Angola (2.7 %) and Egypt (2.6 %), comprising 76 % of all Chinese investment in Africa (Chun, 2013).

The progress of the China-Africa relationship includes very important aspect of further development. It regards its transition from a linear or single-dimension relationship to a multi-dimension relationship, particularly with the support of FOCAC. This progress enables an easier way towards sustainable development (Chun, 2013).

There will be winning and losing countries in Africa that means some of 54 states will be on the upside and some of them on the downside. But it is impossible now to predict which ones will be on winning side. But in general, Africa will do economically better than majority of the countries in the world (Shinn, 2013).

The transition from one dimension to another mentioned above consists of three aspects. Firstly, the Sino-Africa relationships are becoming to be based more on economic interests than rather on ideological or emotional intimacy. This is happening because the older generations of leaders pass away and growing number of people exchanges that have not only positive but also negative impacts on mutual understanding between people. Thus, the economic indicators are becoming the main criteria for measuring bilateral relations (Chun, 2013).

The second transition includes the change from economic interest promotion to economic interest protection. China realized that it is necessary to protect its overseas economic interests in period of the Arab Spring in Africa. The protecting of economic interests of China in Africa became and still remains top priorities of China´s foreign policy (Chun, 2013).

According to Chun (2013), the third transition will take place in the next few years or decade. This transition will include shift from asymmetrical to symmetrical interdependence. Currently, the relationship between China and Africa is asymmetrically interdependent because Chinese dependence is represented by natural resources while Africa is dependent on opportunities associated with Sino-African relations development. But it has to be said that China´s economic growth is slowing down while Africa´s economic growth has accelerated. This fact is considered to be a potential reason of undermining the current interdependence.

The workforce will be more skilled in Africa and the poverty rates will decrease as well in the future. Due to more skilled labour force the productivity will increase and also the GDP growth will outperform the global average. Some goods like mobile devices, radios and social networking will become a standard for African urban communities and many rural areas (Shin, 2013).

It won´t be only China, but also other trading partners will be demanded by Africa for more equitable relationships. The African trading partners will focus more on work permits for foreigners, migration of foreign nationals, labour laws, safety and investment standards and export from Africa of prohibited products (ivory, rhino horn) (Shin, 2013).

5.2 History of Sino-Kenyan Relations

The People's Republic of China established the diplomatic relations with the Republic of Kenya on the day of December 14, 1963. In the initial days of the establishment the relations between the two countries it saw a fair development. After 1965, the relation of the two countries was lowered to be at the chargé d'affaires level (Embassy of the People´s Republic of China in the Republic of Kenya, 2014). Kenya was faithfully capitalist and Western oriented during the Cold War so that it didn´t have much contact with China. Kenya unlike the other African countries refused the aid from China during the 1960´s because of ideological differences (Mahoney, 2010). In 1978, when President Daniel Arap Moi came in power, the relation of the two countries gained a fast development. In 1990´s Kenyans politicians were hungry for power so that they welcomed the Chinese aid (Embassy of the People´s Republic of China in the Republic of Kenya, 2014). Since 1997 when International Monetary Fund (IMF) definitely interrupted its loan programme with Kenya the largest portion of aid and investment came from China. Moreover, Western donors were concerned with the political abuse and corruption but China didn´t take care of this issues (Mahoney, 2010).

By the end of 2002 when a new government was formed after Mwai Kibaki was elected President of the country he expressed to hold a great account of the relations with China, willing to further deepen and expand the friendly cooperation between the two countries (Embassy of the People´s Republic of China in the Republic of Kenya, 2014). In 2005, Kenyan president Mwai Kibaki and Chinese president Hu Jintao had extensive talks that resulted in five-parts agreement which was about official development assistance in grants for infrastructure, energy, air services, technical assistance, modernization of equipment and training at the state-owned Kenya Broadcasting Corporation. Both countries expressed their willingness to cooperate with each other in various areas and have friendly relationships.

China and Kenya also signed an agreement for cultural cooperation in 1980´s and then there was New Cultural Cooperation agreement signed in 2009. These two countries also signed a protocol for the cooperation in higher education.

Currently, Chine offers favourable loans to Kenya, building schools, hospitals, malaria prevention and training of locals by sending its volunteers (Kioko, 2011).

The relations between China and Kenya include extraction of natural resources but they are not limited only to them. Chinese engagement in Kenya includes construction companies, textile industry, telecommunications and import of cheap goods. Chinese involvement and providing aid lifelines hurt certain parts of Kenyan population. Producers, especially manufacturers haven´t been able to compete with the flood of Chinese cheap products. Chinese multinational corporations (MNCs) obtain the majority of construction contracts in Kenya (Mahoney, 2011).

6 Chinese Economics and Diplomacy in Africa

6.1 Forum on China-Africa Cooperation (FOCAC)

The purposes of establishing Forum on China-Africa Cooperation were to maintain peace, stability and promote development and political equality, cultural exchanges and mutual trust (China Africa, 2012). Since 2000, five ministerial conferences have been held. FOCAC presents very important driver of China-Africa practical cooperation in various areas.

For strengthening the cooperation between China and Africa, China has set up Follow-up Committee that consists of many members like departments under the CPC Central Committee, financial institutions, civil organizations and government agencies (FOCAC, 2012). Since FOCAC establishment, the economic ties has strengthen up significantly.

6.2 Chinese Investment in Africa

6.2.1 Chinese Investment Model

There are some factors that made China's relationship with Africa typical. The "Chinese model" of investment and infrastructure loans known as "Beijing Consensus" is very important approach. It represents a new approach towards politics, development, and global balance of power. The values of this model are multilateralism, consensus and peaceful cooperation. This approach is totally different than Washington consensus, which is a neo-liberal paradigm taking into consideration democracy, good governance, and poverty reduction. This model generates economic growth objectives and foreign policy together guiding trade and invest decisions in Africa along with "no strings attached" financial and technical assistance. Chinese tries hard competitively for resource and construction projects that use investment and infrastructure loans. These loans are often advanced at zero or near-zero percent interest or allow for repayment in natural resources. Chinese also don´t impose the neo-liberal package of reform required by WB and moreover, Chinese aid is without strings attached (Adisu, Sharkey, 2010).

6.2.2 Impact of Chinese Investment in Africa

China has very strong impact on economies of African countries and it is mainly evident in Sub-Saharan Africa. In years 2000-2010, China has created a network of investment, aid and trade with almost fifty states. Concerning Kenya, Chinese companies are generating electricity and servicing mobile phones. It seems that the highest effect on China-Africa trade has China´s quickly developing oil consumption. That is the main reason why China signed so many contracts in period 2002-2006. Between these years, Chinese oil companies have signed contracts to buy refineries and explore oil and gas in many African countries, in Kenya as well (Adisu, Sharkey, 2010).

Due to the trade between China and Africa, China became the continent's third largest trading partner after the European Union and the US. China has been still continuing to tie up the relations with Africa and it awards billions in aid for next years. Western countries criticize China for violating of human rights and as a result this criticism and other international issues caused that China seeks stronger relationship with non-western countries in order to build international coalitions (Adisu, Sharkey, 2010).

6.3 China as a Threat for Textile and Clothing Industry in Kenya

If we compare the levels of technological development and investment in capital between developed nations and Kenya, Kenya´s investments were relatively low. That´s why there are high labour costs, low productivity, weak value chain and slow turnaround time. Moreover, Kenya is not able to keep up with trends. In several years, the textile and clothing industry has not been able to compete with the greater import into the country and adjust sufficiently to new challenges that arose due to trade liberalisation and rising strength of China (CAI, 2012).

The US programme that gave Kenya and other Sub-Saharan African countries the preferential access to markets in USA is called AGOA (African Growth and Opportunity Act). Kenya´s textile industry was very dependent on this programme and in late 1990s and early 2000s the Kenyan and African exports boosted. Consequently, Chinese companies established subsidiary companies in Kenya with a purpose to capitalise on the duty free access to USA market. Thus the exports in textile and clothing industry were increasing during this time. But the negative point was that the inflow of Chinese companies put a lot of local Kenyan companies out of business because of the inability to compete with them. Moreover, when AGOA expired in 2007, firms that used opportunities presented by agreement experienced lost in sales, jobs because of the decrease in exports to United States. As a result of this disinvestment, Africa is still making efforts to go through it and recover (CAI, 2012).

The Chinese domination in textile industry and flooding the Kenyan markets with cheap goods frustrate local manufacturers and thus it discourage the development of local entrepreneurship creating economic growth. The Kenyan market was very vulnerable to competing powers and it couldn´t compete with their speed to markets, low prices and labour productivity. So that China presents now a main threat for textile and clothing industry (CAI, 2012).

6.4 Critics of Chinese Business in Africa

The unemployment in Africa rapidly decreased due to Chinese factories and some basic goods became more affordable for Africans. In 2010, the trade overgrew 120 billion dollars and in years 2010 and 2011 China gave more loans to poor African countries than the WB did. According to Heritage Foundation, an American think-tank, it is estimated that in the period from 2005 to 2010 about 14 % of investment abroad China invested to Sub-Saharan Africa (The Economist, 2011).

Except of the positives of Chinese activities like jobs creating, skills, knowledge, trade and investment, there are also bad habits that Chinese bring to Africa. One of the most severe problems is corruption. The corruption is spreading over the mainland economy, even by African standards. The bad fact is that Chinese managers are on the top of the list of International rankings of bribe-.payers. These activities weaken and undermine governments of host countries (The Economist, 2011).

There are also discussions about employment practices and working conditions in Chinese companies. For example, the disaster that happened in Chambishi mine or the riots in coal mine in Zambia (Advisory Centre for Trade and Investment Policy, 2012).

Another criticism of bad attitude of Chinese is disguised protectionism. Some companies want to have privileged positions on the market. For example, the arrival of Chinese traders in Soweto market in Lusaka decreased the cost of chicken on half. Also prices of cabbage dropped by 65 % (The Economist, 2011).

It is also claimed that though service contracts are the norms, China has acquired ownership of natural resources. The ambassador of South Africa, Ebrahim Rasool, says that 80% of South African exports to China are raw materials and this trade won´t be sustainable in the future (Voice of America, 2013). As mentioned in research part, China is being accused of importing prison workers to African countries and Africans don't feel comfortable being under siege and watching these people working under pressure (The Economist, 2011).

6.5 China´s Oil Diplomacy in Africa

Currently, Africa is the most important oil supplier and it has also surpassed the Middle East. Actually, it supplies about 12 % of the world's oil and it has access to new gas reserves (Vines, 2012).

The oil is not the only interest of China in Africa but it is one of the main ones. With the exception of South Africa which is industrially well-developed, China cooperates with 9 of 10 oil producing countries. China´s quest for oil is provoking particular concern of West countries.

There are two main goals of China´s oil diplomacy in Africa, the short-term and long-term. In the short-term goal it is initial for China to secure oil supplies to ensure growing domestic demand in China. The long-term goal is to remain global player on the international oil market (Taylor, 2006).

In 1993, China became a net importer of oil. In 2003 it became the second largest consumer of petroleum products in the world behind USA and also the third largest importer (Vines, 2012).

China National Petroleum Corporation (CNPC) has invested a lot of money into partnership with the countries like Angola, Gabon, Sudan and Algeria (Alden, 2006). China was concerned by exploration and production in smaller countries, which aren´t so visible (Gabon), while targeting also Africa´s largest oil producers. China´s largest exporter of oil is Angola that receives loans and credit lines from China for infrastructure projects like building hospitals, roads, railways, arms etc. (Council Foreign Relations, 2012). Angola is the newest member of OPEC producing 1.8 million barrels per day and between the years 2004-2007 its output highly increased (Vines, 2012). China has had totally different approach from the Western countries because instead of aid grants and subsidized loans, it has focused on trade and commercially justifiable investments which was far more efficient (Council Foreign Relations, 2012).

The Chinese have been preferring rather to purchase equity shares in established oil fields than to buy rights for future exploration. This is a strategic judgement that greater security can be achieved through vertical integration. It means ownership of production facilities through transporting of tankers and thereby providing oil to Chinese consumers below the international market price (Alden, 2006).

China is trying to discover new oil reserves in Africa and it is claimed that it tries to exploit them. While this interest accelerates, more questions are asked about China´s tactics in getting resources but the answers from China´s side are more defensive and contradictory (Taylor, 2006).

6.6 Special Economic Zones in Africa

The Special Economic Zones (SEZ) create a unique and experimental model of cooperation in Africa in terms of development. The decisions about markets and investments from Chinese firms are accompanied with support and subsidies from an Asian “developmental state”.

China support mainly economic cooperation in Africa and China´s Ministry of Commerce (MOFCOM) sponsors and supports six (possible seven) economic zones in five (possibly six) African countries. Even some Chinese companies have set up some industrial zones outside MOFCOM programme. Chinese claim that this cooperation will help African countries to develop industries and also to expand local employment.

But on the other hand, there exist worries and doubts if Chinese don´t use these zones only as a political investment of Beijing´s long-term ambitions, transhipment of Chinese products and re-export to protected markets as products made in Africa (Brautigam, Xiaoyang, 2011). It is also claimed that SEZ may be designed for extracting the natural resources and that they can work as indirectly expanding markets (Mangra et al., 2011).

There are some spontaneous clusters in African countries that have notable and market-driven clusters for example footwear or vehicle parts (Nigeria) but they are very weak, the infrastructure is very poor, there exist almost no governance support and furthermore the linkages to modern sources of technology and innovation are also very weak (Brautigam; Xiaoyang, 2011).

The first formal export processing zones were established in 1971 in Sub-Saharan Africa in Mauritius. As they were considered to be successful, in 2009, the other Africa countries (two dozens) began to host many kinds of economic zones (industrial parks, free trade zones and export processing zones). But unfortunately, because of many reasons the outcome of these zones wasn´t very significant. The zones are functioning partially in some countries but in other countries have been abandoned (Brautigam; Xiaoyang, 2011).

The general outcome of SEZs in Africa hasn´t been very significant (Mangra et al., 2011). It should be mentioned that the SEZ would be successful if they attract and gain local and foreign investment, create employment, promote exports and increase industrial competitiveness of African states in environmentally and socially sustainable manner. On the other hand, if these zones are only in Chinese isolation and the African don´t obtain the knowledge and technological know-how and they work only on at the lowest levels or not at all, we can talk about Chinese exploitation for sure. Moreover, these claims will confirmed and supported by polluting industries, no safety standards at work and serving of uneconomic prestige projects in exchange for access to resources (Brautigam; Xiaoyang, 2011).

Unfortunately, very little research has been done so far. The most information is about the famous Chinese zones that enjoy the support so it is impossible to create objective opinion because many aspects are still unclear about them.

6.7 Chinese Private Enterprises in Africa

The investments in private sector are driven by profit from the activities and they are also fuelled by creating lasting economic opportunities for host countries. What should be said about Chinese private companies is that they are driven by market forces and they invest beyond extractive sector. But it also tends to focus on different sectors in Africa (Ayodele; Sotola, 2014).

Recently, the number of Chinese enterprises investing mainly in Africa has increased significantly. According to data from China Today newspapers, direct investment (FDI) counted US $1.44 billion in 2009 and it increased to US $2.52 billion in 2012. The annual growth was 20, 5 % (Theory China, 2014). There are 2000 Chinese enterprises currently operating in 50 African countries and according to World Bank statistics, 55% of all African investment projects were driven by private enterprises in 2013 (CSID, 2014). The Chinese enterprises want to invest the most in manufacturing (45%), property market (17%) and agriculture (12%) among other sectors (Theory China, 2013).

But the reality is bit different from the intentions. Actually, there is a huge gap between the real investment and intended investment of Chinese enterprises. The original intended percentage of investments assigned for particular sectors have been higher than they actually are. For example, if we consider intended investments in property market that counted 17%, in reality the Chinese enterprises invested only 3% (Theory China, 2013).

The problem is that Chinese enterprises can hardly adapt to actual conditions in Africa. There are several reasons why (Theory China, 2013). There are still a lot of uncertainties in regulations, lacking knowledge of local languages, levels of regulatory control and also many types of taxation. The next problem is political instability and civil conflicts. Furthermore, not all investments of Chinese enterprises are successful and it has to be mentioned that one of the China´s main global failures happened in Nigeria in railway construction (Ayodele; Sotola, 2014).

Moreover, the enterprises still don´t obtain enough reliable information and detailed feasibility analyses that map and describe African investment environment. According to survey, 62% of Chinese enterprises are doing well and they are not in loss which shows that it is beneficial for them to invest in African countries (Theory China, 2013).

Concerning average salary of local employees in Chinese enterprises is not very high, but in some cases it is still higher than the minimum wage in the host country in Africa. There is a small number of employees who are paid less than the legal minimum, nevertheless, the local labour authorities provide them increases. The average rate of Africans in Chinese private enterprises is 85 % which is higher than 75 % average among all Chinese companies in African countries (Theory China, 2013)

The African workers gain skills and knowledge because as many as 85% of Chinese companies provide them training. In general, 89% of African workers claimed that Chinese firms made a progress and they raised their wages and benefits. According to another survey, 96% of African respondents answered that they are glad for Chinese investment and they welcome their activities. Moreover, 95% of Africans thought that China is better development partner than are Western countries (Theory China, 2013).

Investing in African countries sometimes presents also risk for Chinese companies. For example, the majority of oil blocks in Nigeria are situated in very dangerous areas where banditry, insurgency and illegal oil appropriation are very often (Ayodele; Sotola, 2014).

6.8 Chinese Construction Companies in Africa

6.8.1 China as the Biggest Supporter of Africa´s Reconstruction

It is very important for China to expand access to natural resources in Africa and the way how to make it is China´s involvement in construction and infrastructure sectors in Africa that creates relations with African governments very effectively. Chinese state or private owned companies make strategic interventions into the infrastructure and construction sectors in a lot of economies in Africa at the expense of European and South-African enterprises. Certainly, the traditional actors are worried by this issue and they are also afraid of the fact that China´s politically determined business models and activities do not enough to build local capacity (Centre for Chinese Studies, 2008).

China has been presenting the biggest supporter of Africa to run away from colonial struggle and it also assists reconstruction efforts in newly formed African countries. One famous example of these efforts is the 1,800 kilometres Tanzania-Zambia Railway (Tazara) built in the 1970's. The amount of 50 000 Chinese workers and engineers took part in the construction but during this action 64 of workers died. Even China was that time poorer than most African countries, it provided them US $400 million interest free loan to build this railway in Africa (Cottle, 2014).

The Europeans countries and USA are afraid of the investments and providing loans from China to Africa because the African states might lead to opt-out of International Monetary Fund and World Bank loans and other forms of dependence. As an example of Chinese loans, President Hu Jintao promised $20 billion in credit for Africa for investment and infrastructure in 2012. In 2010, China and Ghana signed an agreement for a 20 year loan of $13, 1 billion with an interest payment only 2% (Cottle, 2014).

6.8.2 Main Specializations of Chinese Construction Companies

Concerning specialization of Chinese construction companies, they specialize most often general building which presents 36, 4%, it is further followed by water supply presenting 20, 7%, transportation presenting 13% and power presenting 9, 8%. Many of project types in Africa run by Chinese contractors are transportation projects. In fact there are mostly building and infrastructure projects like railroads, roads, bridges, housing and plants (Chen; Goldstein, 2009).

6.8.3 Equal or Unequal Labour Force?

One of the biggest accusations of Chinese employers is that they use limited local labour force especially in case of managers and supervisors. On the other hand, the survey's results are vague and there is a high degree of variance among company responses so that we can´t directly say it is true. The Chinese construction enterprises employ in average an equal amount of locals and Chinese. In fact, less than 10% of skilled and trained labour force is done by local labour force (Chen; Goldstein, 2009).

6.8.4 China´s Challenges in Africa

Despite a big role of political support from Chinese government in facilitating the entry of Chinese construction companies in African market, Chinese also had to face a lot of problems and challenges as other construction players in Africa. The challenges include economic and political instability, weak infrastructure and also very poor quality of local inputs, for example construction and labour materials. The language differences don´t present a big deal in running construction projects (Chen; Goldstein, 2009).

6.8.5 Discussion between Western countries

Considering China-Africa relations, there was a long debate about political dimension of its relationship in 2013. It was discussed if China hasn´t shifted its orientation from the supporter of Africa´s liberalization to neo-colonial power that competes with the Western countries (Cottle, 2014). In spite of claiming by international media that China´s rise in Africa is established on political issues, it is suggested that Chinese construction companies are now driven more commercially than politically than before (Chen; Goldstein, 2009).

Despite all information, further research should be done and explore the topics connected with Chinese construction companies in Africa, including localisation and transfer of technology, possibilities of synergetic joint-ventures among Chinese companies, mechanisms of market coordination provided by Chinese government, etc. (Chen; Goldstein, 2009).

6.9 Roles of Chinese Goods for Africa

6.9.1 African Merchants in China

Within the African population in China, merchants and entrepreneurs present the majority of immigrants. The African traders and salesmen usually accumulate in two main Chinese wholesale markets and those are: Guangzhou in Guangdong province known as world factory and the second city is Yiwu in Zhejiang province, where the manufacturing sector was developed (Le Bail, 2009).

The Africans moved and accumulated in Guangdong province in China and it represents home for the biggest African community in China that counts 200 000 people and it is also the core of Chinese manufacturing industry as mentioned above. There is a store front for manufacturers called Guangzhou which is the China´s biggest exporter and there are also many whole sales malls that offer almost everything (Yeebo, 2013).

The manufacturing industry in this province represents more than 30% of annual national exports. There is a year-round market that is visited mainly by lower-income countries, most dominantly by African. The main goal is to meet the foreign demand so that many Africans have settled down in Guangzhou and they started to run their own business and opened trading agencies (Le Bail, 2009). There are also close cultural ties because there is an increasing number of international marriages and keeping the peace between Chinese hosts and African merchants (Yeebo, 2013).

The merchants mainly focus on cheap and low margin clothes which are easy to sell. Most of them also run wholesale and retail actions and operations in African countries, including Nigeria, as a country with a high number of consumers (Yeebo, 2009).

6.9.2 Comparing of Chinese and African production

The Chinese economic growth affects the world economy and market mainly in developing countries and its key way how to reach this is trade. China´s comparative advantage is still in low value added manufacturing goods though its production structure is going through strong changes. The manufacturing production in African countries is limited to few traditional productions and it is vulnerable to the competitive threat in third markets, including African countries. While the economic relations between China and Africa have been becoming intensified, China has started to flood markets in African countries with low cost manufactured products and often at the expense of local producers. Due to low costs, Chinese goods tend to push out main trade partners of Africa like USA and European Union (Giovanetti; Sanfilippo, 2009).

According to the statistics, Chinese share of manufacturing exports increased from 3% in 1995 up to 11% in 2006. If we consider the same period, Africa´s share experienced only 0, 1 % increase. The main constraints to develop manufacturing sector in Africa are structural factors, including poor infrastructure, huge costs of doing business, inability to take advantage of economies of scale and lack of sea access. Compared to Africa, China was able to integrate into global production networks so that it gained benefits of international division of labour (Muller, 2013). Furthermore, there is evidence showing that many manufacturing exporters in Africa are lagging behind with respect to prices, quality of goods, labour productivity and flexibility in markets (Giovanetti; Sanfilippo, 2009).

6.9.3 The Effects of Chinese Goods Flooding the African Market

There are positive but also negative effects of Chinese goods imported in Africa. In fact, the large amount of cheap Chinese products is imported in Africa and there is a lot of controversy about it. While Africans can afford to buy more products because they are cheaper, the African industries are suffering because they are forced out of trade (Nhlabatsi, 2014).

China´s industrial sector has increased by almost 50% and it includes particularly overproduction in electronics, textiles and footwear (Arkhurst; Laing, 2007). It presents very big threat for domestic business when foreign company offers its goods at a cheaper price than the local market. This is especially true in African countries where there is a lot of price sensitive consumers, since price is a crucial factor for making decision if to buy the product or not. Recently, it has been discussing if China is not doing "dumping" in Africa and if it doesn´t serve as dumping ground for the excess goods of an exporting market which sells the products for very low price. Nevertheless, it can´t be said for sure that the sale of cheaper foreign goods is dumping, especially when there is neither price discrimination nor selling below cost. But the reason why local African industries are under pressure is that Chinese import their products in Africa and as a result of this, there is relatively low output and loss of profits and moreover, the amount of jobs is decreasing. The most affected products by Chinese imported goods are clothes, various kinds of textiles, leather and footwear, electronics and machinery because they are those that are imported by Chinese (Nhlabatsi, 2014).

In case of South Africa, trade with China increased dramatically since China joined WTO in 2001. Chinese exports to South Africa increased from $1.1 billion in 2001 to $14.2 billion in 2011 (Edwards; Jenkins, 2013). The manufacturing industries had minor increase in sales volumes in 10 years because they weren´t able to compete with Chinese imports (Nhlabatsi, 2014). Much of the import growth from China to South Africa has been driven by import of new products, extensive margin (Edwards; Jenkins, 2013).

Moreover, the domestic producers lost their market share in one year by 5% of the sales value. Another negative fact is, that there was a significant loss in jobs counting 75 000 places because of increase in Chinese imports in the 10 years period. This amount represents 70% of total loss resulted from increased Chinese imports. Moreover, Chinese imports cost domestic market in South Africa US$ 2.7 million in 10 years period. Concerning the other Sub-Saharan African countries, the textile industries are also under pressure and the Consultancy Africa Intelligence paper showed that in seven countries several African manufacturers had to close down because of the China´s domination. The loss of domestic production was 37% and because of the increase in unemployment 250 000 people lost their sustenance (Nhlabatsi, 2014). To diversify African exports, the countries will have to improve a lot an access to international markets. But this action would demand reduction in protectionist practices, such as subsidies, in foreign markets (Mutume, 2006).

In general, it is evident that the effects of Chinese imports in Africa have many negative effects for African producers. The effects are wide-ranging, including decline in sales, profit reduction, and effects on return on investments and cash flow. Furthermore, the domestic industries have to close down their factories which further leads to loss of jobs. Some experts are talking about dumping in Africa (Nhlabatsi, 2014).

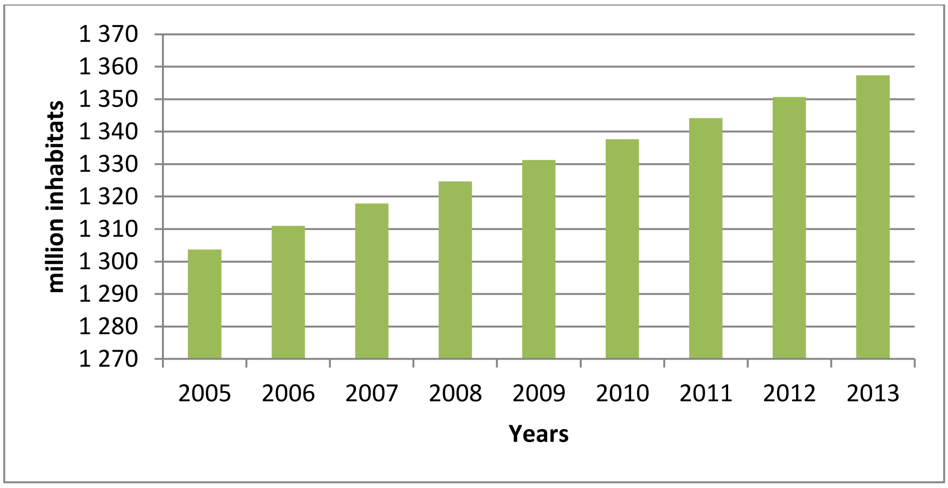
African countries have to realize that they have to always consider when the cheap Chinese imports are beneficial for them and when not. To express more concretely, the African countries should allow cheap Chinese imports where their domestic markets struggle and where the competition for the benefit of consumers is necessary but on the contrary, where the domestic markets do well and there is healthy environment for industries, good infrastructure and skilled labour, there should be regulations to limit the Chinese imports through import limitation policies (like in Nigeria) (Nhlabatsi, 2014).

7 China´s Overview

7.1 Demography

The population in China was still increasing during the years 2004-2013 and it is portrayed as a linear trend as it is shown in figure 1. In spite of the one child policy, China is still the most populated nation in the world. It is claimed that this policy was useless because some researchers have found out that the population growth would have decreased in any case. More and more people mainly in urban areas prefer to have fewer children. But there is a threat of decreasing population growth for the children of one child policy because they will have to take care of increasing amount of pensioners (BBC, 2010). According to World Bank most current data in 2013, the population of China increased to 1 357 380 000 inhabitants.

Figure 1: China´s population development



Source: Own work based on World Bank data, 2014

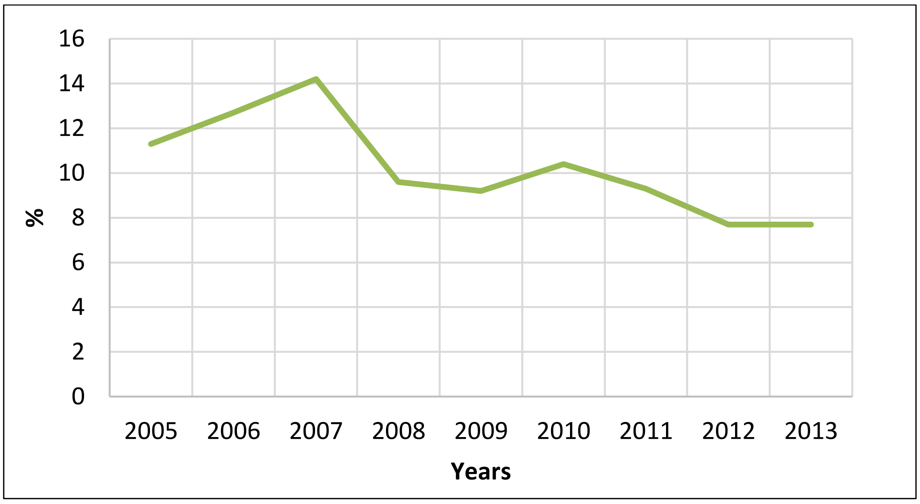
7.2 Economy

7.2.1 Economic growth

The Chinese economy is the second largest economy in nominal GDP and the fastest growing economy in the world. China is also the fastest growing consumer market and moreover it is the second largest importer of goods from the whole world.

Recently, the GDP growth of China has been slowing down because of the continuing structural transformation of the economy. In 2013, the GDP growth counted 7, 7 % but in 2010 it was 10, 4 % as you can see in the graph below. Nevertheless, the number exceeded the government´s expectations in 2013 which was 7, 5 %. It is claimed that the growth support measures implemented in mid-2013 are main cause of this stable growth. If we consider the recent growth rates they´ve been much lower than those in the past decade as drivers of growth kept going to move from manufacturing to services on the supply side, measures to avoid rapid accumulation of credit became important and they also shift from investment to consumption on the demand side. China´s economic growth is expected to decrease to 7, 6 % in 2014 and it will keep decreasing also in 2015 to 7, 5 % (World Bank, 2014).

Figure 2: GDP growth of China

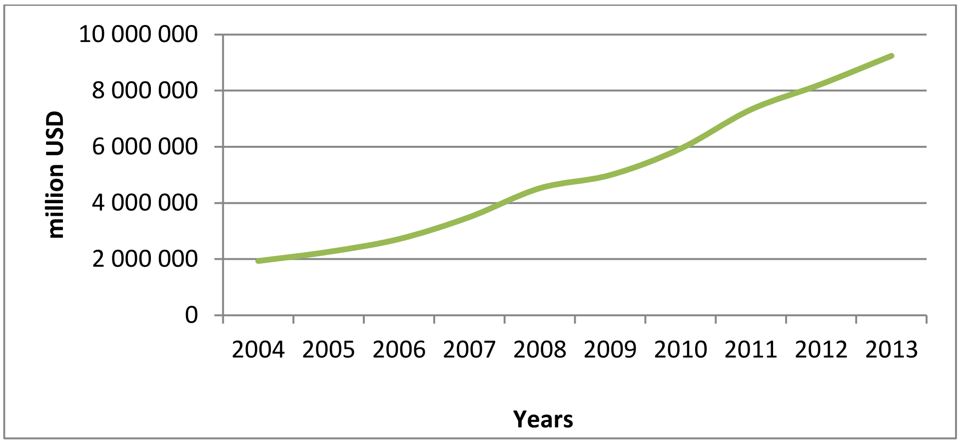


Source: Own work based on World Bank data, 2014

7.2.2 Increase in GDP

The GDP has been increasing very fast since the year 2004 when the GDP counted for 1 931 644 mil. USD. It increased to 9 240 270 mil. USD in 2014 which is almost five times more than in 2004. The GDP in 2009 slightly decreased and it was flatter as a result of the serious decrease in trade that caused a situation of wide closing factories and staff layoffs caused by hit of global economic downturn. Nevertheless, there was a recovery in 2010 but in 2012 the GDP slightly slowed down because of deterioration in the global economy (China Daily, 2011).

Figure 3: Increase in GDP

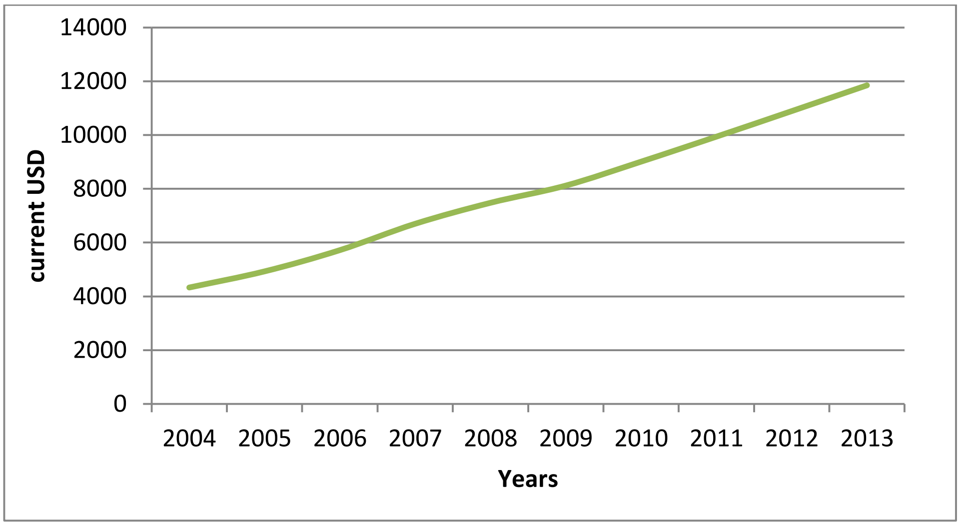


Source: Own work based on World Bank data, 2014

7.2.3 Increase in GNP

The GNP of China has been increasing as it is portrayed in figure 4 because of the still increasing number of Chinese enterprises founded abroad, mainly in Africa. The economic cooperation between China and foreign countries is getting stronger and China invests a lot of money into business in foreign countries to gain profit finally. China´s GNP per capita was 11 850 USD in 2013.

Figure 4: Increase in GNP (current USD)



Source: Own work based on World Bank data, 2014

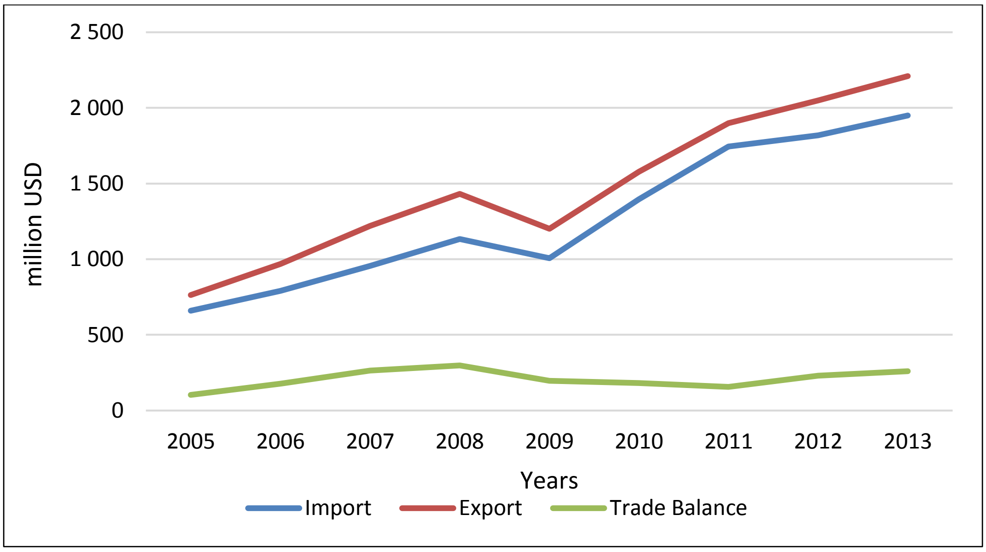
7.3 Chinese Imports and Exports

In great majority China imports the products like electrical and electronic equipment, machinery and nuclear reactors, boilers, mineral fuels, oils and optical photo. Concerning Sub-Saharan Africa, China´s interest is primarily focused on raw materials and crude oil for its production and running the quickly growing economy. In the table below you can see the value of the major imports in years 2007 – 2013.

The main export commodities of China to the world are electrical and electronic equipment, machinery, nuclear reactors, boilers, articles of apparel accessories nit or crotchet, etc. China is the largest exporter in the world and it exports worldwide.

As it is portrayed in figure 5, the trade balance value of China is positive which means that exports value exceeds imports value. Chinese exports and imports were decreasing till the year 2013. Only in year 2009 there was a significant decrease in both because of the global economic crisis. The major problem for China was the loss of purchasing power in Europe, USA and Japan, which are the most important trading partners in terms of exports for China (Asia Economic Institute, 2013).

Figure 5: China´s Export, Import and Trade Balance Values



Source: Own work based on International Trade Centre, 2014

7.4 Overseas Direct Investment of China in Sub-Saharan Africa by sector

China spends majority of overseas direct investment in Sub-Saharan Africa on these sectors: mining, manufacturing, real estate, leasing and business services, transport, storage and post and wholesale and retail trade and financial intermediation. The leasing and business services, wholesale and retail trade and mining are on the top of the sectors to which China invests (National Bureau of Statistics of the People´s Republic of China, 2012).

Table 1: Share of the five most financed sectors of the total amount invested (2012)

Sector	% of total amount invested	
	2011	2012
Mining	19,4	15,4
Manufacturing	9,4	9,9
Wholesale and retail trade	13,8	14,9
Real estate	2,6	2,3
Leasing and business services	34,3	30,4
Transport, Storage and Post	3,4	3,4
Financial Intermediation	8,1	11,5

Source: National Bureau of Statistics of the People´s Republic of China, 2012

8 Kenya´s Overview

8.1 Demography

The population in Kenya is quite high and the number is still increasing. In 2005 the number of inhabitants was 35 785 718 people and it increased to 44 353 691 in 2013. It is one of the most populated countries in Africa.

Figure 6: Population Development of Kenya

Source: Own work based on World Bank data 2014

8.2 Economy

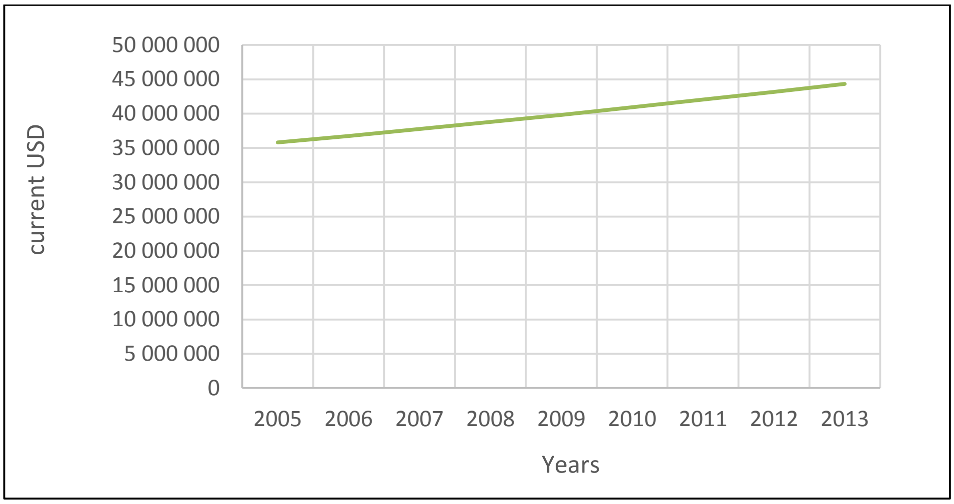
The good news is that Kenya moved to lower middle income status from low income status in 2012. According to the World Bank statistics (2014), Kenya surprised because its economy is 25 % larger than it was estimated and furthermore, it is at ninth place of African countries with the highest domestic product which counts for 55, 2 billion USD.

According to statistics from the Kenya National Bureau of Statistics (2013), the GDP growth was 5, 7 % in 2013 and it is expected to be the same in 2014. This value is ascribed to increasing aggregate demand that is impeded by high consumption and investments. The debt sustainability is positive but inflation remains in focus because it rose to 8, 36 % in August from 6, 9 % in May 2014. It is mainly caused by increased costs of food and energy (World Bank, 2014).

8.2.1 Increase in GDP

The number of GDP in Kenya was increasing during the years 2005 and 2013 in spite of the political shocks that Kenya experienced during this period but the growth was very low in some years as you can see further.

Figure 7: Increase in GDP in Kenya

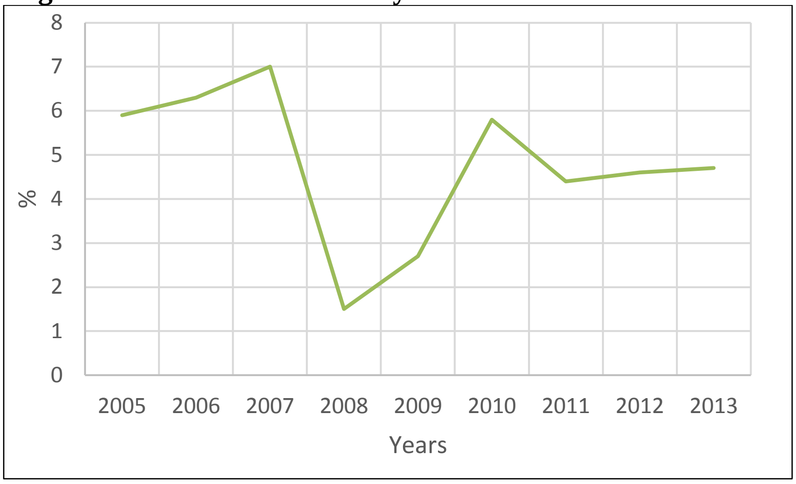


Source: Own work based on World Bank data, 2014

8.2.2 GDP Growth

As it is portrayed in figure 8, the GDP growth of Kenya experienced very severe decrease to 1, 5 % in 2008 compared to the value of 7 % in previous year. This significant decrease was caused by the post-election crisis that was full of violence and also by world economic crisis and increase in food prices. Despite these economic shocks, the growth reached 2, 7 % in 2009 and 5, 8 % in 2010. There was another decrease in GDP in 2011 caused by drastic currency depreciation and rapid inflation. But in recent years, the GDP remains stable and it is expected to continue so.

Figure 8: GDP Growth in Kenya

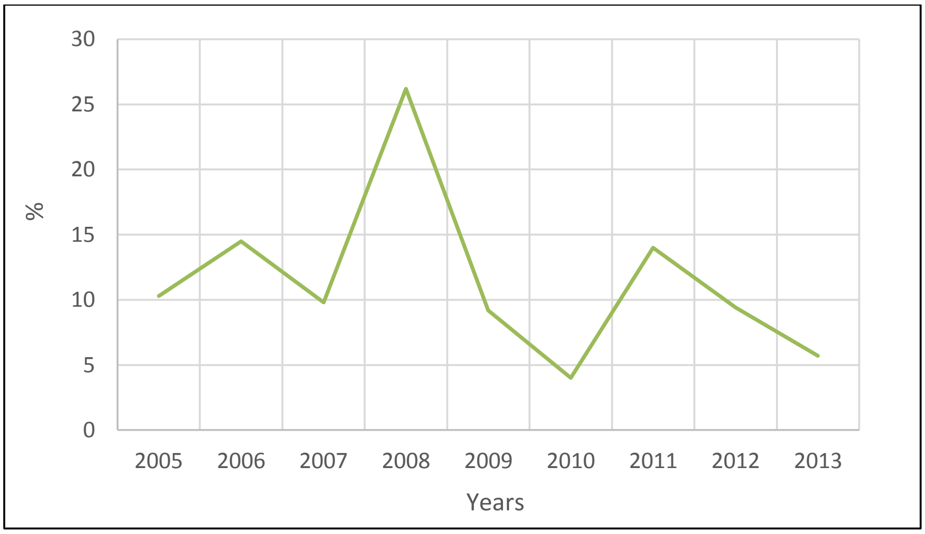


Source: Own work based on World Bank data, 2014

8.2.3 Inflation in Kenya

As you can see in figure 9, it is easy to notice very steep increase in inflation in 2008 and also in 2011. The important fact why the inflation increased so significantly in 2008 is that there was a post-election crisis that represented a big shock for Kenyan economy. In 2009 and 2010 the inflation decreased very much but in 2011 it increased again because of the worst regional drought in sixty years. This drought caused high costs for energy and food. In recent years it has been stabilized and in 2013 the inflation rate decreased to 5, 7 % (McGregor, 2011).

Figure 9: Inflation in Kenya



Source: Own work based on World Bank data, 2014

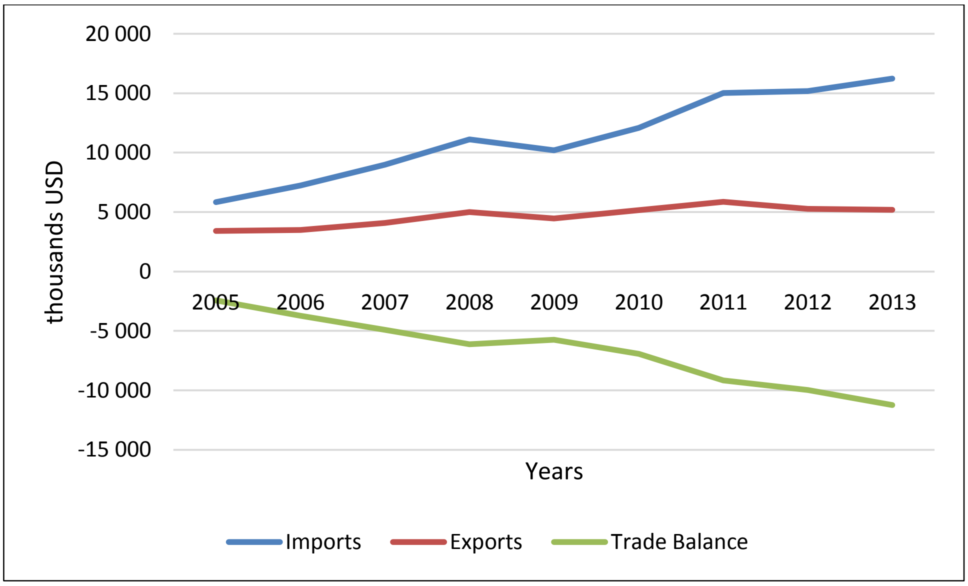
8.2.4 Kenya´s Export and Import

The fluctuation of export curve is visible mainly in years 2009 and 2012. These falls in export values are caused mainly by the political shocks after election process, there was a high increase in costs per energy and also by decline in re-exports. The election violence had devastating effects on Kenya´s production and export and the tensions started even in 2007. There were economic and human costs that have had longer impact, nevertheless, no reports has specifically addressed its total short and long-term impacts on economy. The institutional failure has severely restricted Kenyan companies´ capacity to generate efficient export (Gachino, 2011).

The main commodities imported by Kenya are mineral fuels, distillation products, machinery, nuclear reactors, boilers, vehicles other than tramway and railway and electrical and electronic equipment. Concerning main commodities exported by Kenya, we can name mainly agricultural commodities like tea, coffee, mate, spices, then mineral fuels, distillation products, live trees, plants and cut flowers (International Trade Centre, 2014).

The economy stagnated after the political shock. The value of imported goods to Kenya declined from 2008 to 2009 as a result of global economic crisis and post-election crisis as it is depicted in figure 10. The trade balance of Kenya´s Export and Import is negative because Kenya imports more commodities than it exports.

Figure 10: Kenya´s Export, Import and Trade Balance Values



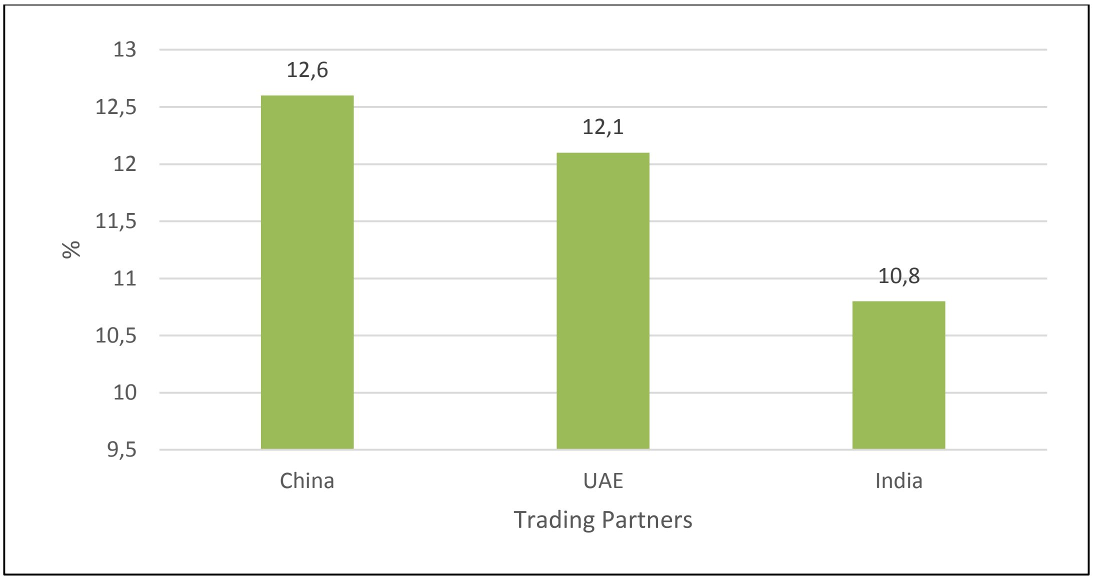
Source: Own work based on International Trade Centre, Trade Map, 2014

9 China and Kenya

9.1 Export and Import within China and Kenya

There are several reasons why Kenya is very attractive investing and trade partner for China. Kenya represents investment-friendly environment after the liberalization of economy in 1990s. In fact, Kenya is very important partner in East and Central Africa due to its strategic location, major port in Mombasa, business-friendly tax system, natural resources and well-developed financial markets. Moreover, there are no import quotas. China is the most important trading partner not only for Kenya but also for all Sub-Saharan African countries (International Trade Centre, 2014). The next two most important partners are India and United Arab Emirates as you can notice in figure 11.

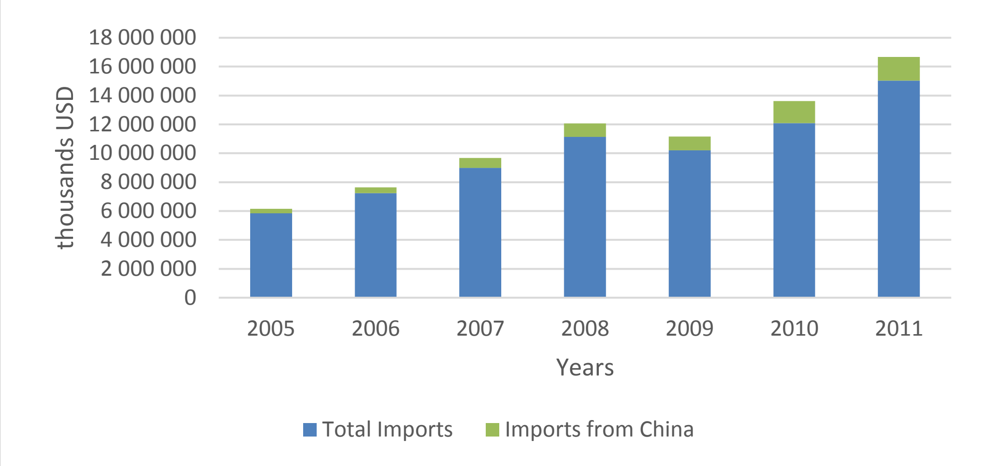
Figure 11: Main trading partners concerning import with Kenya in 2012



Source: Own work based on United Nations Data, 2012

Considering the values of total imports to Kenya and imports from China to Kenya, the value of goods imported from China to Kenya is high as it is portrayed in figure 12. Moreover, the demand for Chinese goods is increasing because of the very cheap prices due to low production costs (Onjala, 2010).

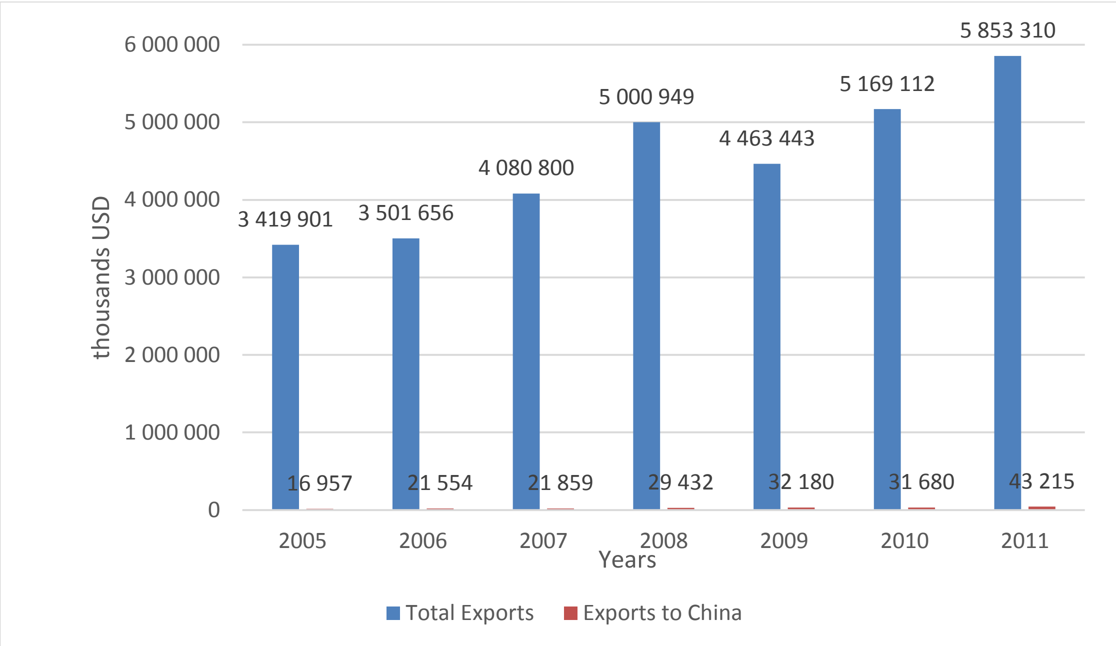
Figure 12: Comparison of Total Kenya´s Imports and Imports from China



Source: Own work based on International Trade Centres, Trade Maps, 2014

In figure 13, it is clearly visible that the value of exports from Kenya to China is very low in comparison to total exports value from Kenya. The first reason is that Chinese products are of very low price and because of this fact the demand for these goods is very high and still increasing. The true is that China makes the final products with higher added value itself and after that it sells the products back to Kenya (Onjala, 2010). The Kenya´s export value to China was slightly increasing during the years 2005 and 2011 and total export value was also increasing except of the year 2009 when the production for export was affected by the political and economic crisis in Kenya.

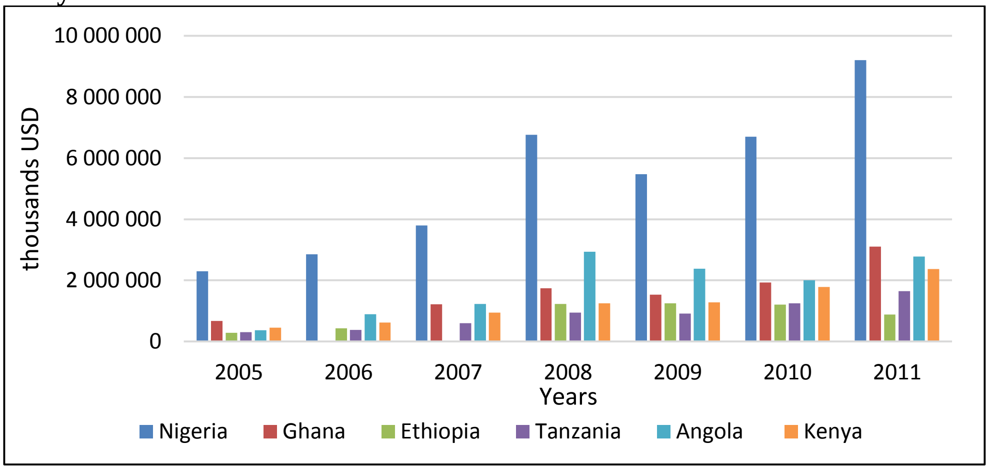
Figure 13: Comparison of Total Kenya´s Export and Export to China



Source: Own work based on International Trade Centre, Trade Maps, 2014

According to statistics from International Trade Centre (2014), Kenya belongs to the main export partners for China in Sub-Saharan Africa. As you can see in figure 14, compared to Nigeria, Kenya´s role is lower for China in export of commodities but it still keeps its position in six most important export partners from Sub-Saharan Africa in total value of exports. The value of Nigeria´s import from China was 9 205 574 000 USD in 2011 and Kenya´s import value from China was 2 368 775 000 USD.

Figure 14: Comparison of main export partners of China in Sub-Saharan Africa with Kenya

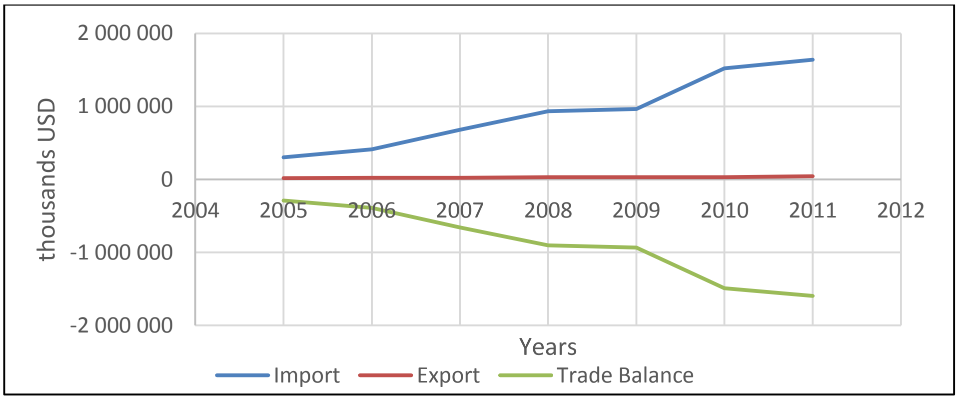


Source: Own work based on International Trade Centre, Trade Maps, 2014

Kenya´s exports to China are almost negligible if we compare it vice versa. The exports from Kenya to China were increasing very slightly but the imports from China were growing significantly during the years 2005 and 2011. The Kenya´s trade balance with China was negative during this period so that the trade is in favour of China as it is portrayed in figure 15.

Increasing Chinese imports caused problem for Kenya because it was suddenly under China´s pressure on local manufacturing industries that were struggling because it was very difficult for them to compete with the Chinese goods that were of very low prices. This doesn´t represent a problem only for domestic but also for third-party markets (Onjala, 2010). The movements in imports, exports and trade balance are also depicted in the graph below in which you can notice the great difference. The trade balance is in favour for China but not for Kenya and this is because Kenya exports particularly unfinished products to China and China exports mainly finished manufactured products that have higher added value. Another reason may be that Kenya experienced very unpleasant times in 2008 and 2009 because of the post-election crisis that had very severe impact on Kenya´s export and overall economy as mentioned before.

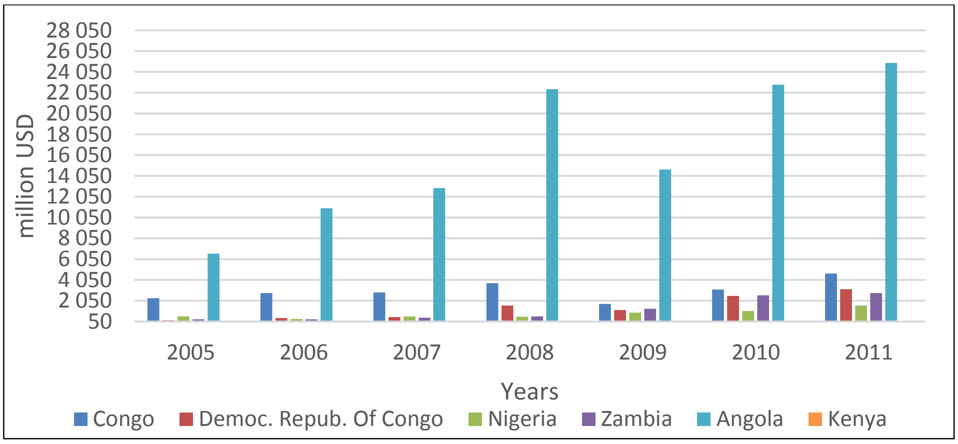
Figure 15: Trade Balance of Kenya with China



Source: Own work based on International Trade Centre, Trade Map, 2014

Concerning export from Kenya to China in comparison to other Sub-Saharan countries, Kenya´s role in exports to China is very low. The main import partner for China from Sub-Saharan African countries is definitely Angola, as you can see in figure 16. As a result it can be claimed that in comparison to other Sub-Saharan African countries, Kenya plays much more important role in export from China than as an import partner. The value of import to China from Angola was 24 922 180 000 USD in 2011. Compared to Kenya, the value of import to China was 59 691 000 USD in the same year. Angola has such a big value because of very rich oil reserves that China needs.

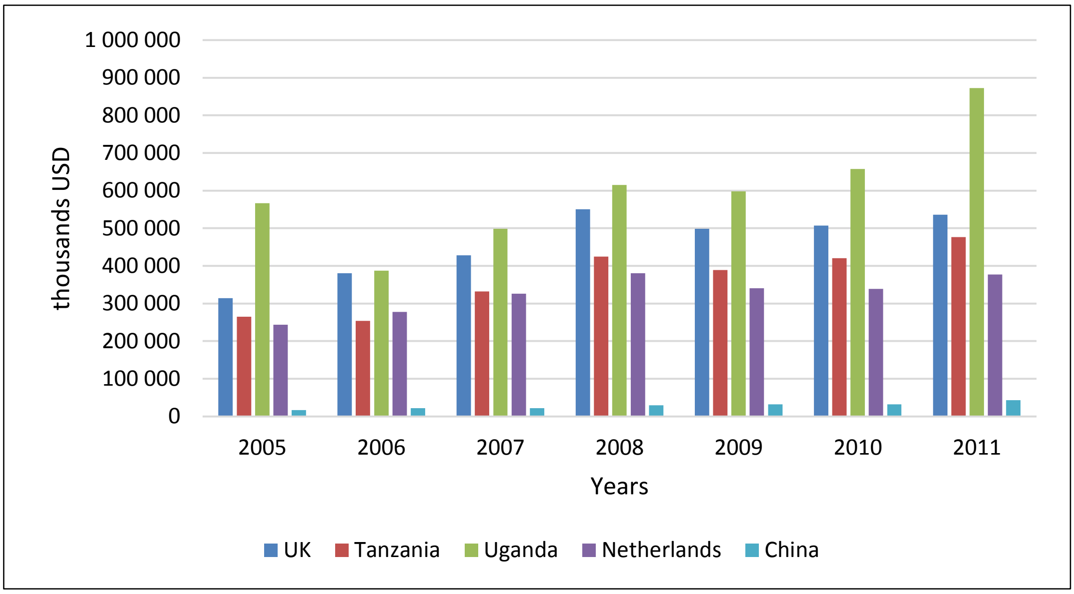
Figure 16: Comparison of main import partners from Sub-Saharan Africa for China with Kenya



Source: Own work based on International Trade Centre, Trade Maps, 2014

If we have a look at the figure 17, it portrays the main export partners for Kenya in period 2005-2011. The main export partner for Kenya is Uganda as Sub-Saharan African state and United Kingdom as EU country. In comparison to value of export to China, the value is very low and China doesn´t represent significant export partner for Kenya if we include other countries. Kenya´s export value to Tanzania was 872 634 000 USD and to United Kingdom it was 536 041 000 USD in 2011. Concerning the export value to China, it was only 43 15 000 USD in the same year.

Figure 17: Comparison of main export partners of Kenya with China



Source: Own work based on International Trade Centre, Trade Maps, 2014

9.1.1 Trading Commodities between China and Kenya

The main commodities imported from China to Kenya are portrayed in table below. These importing commodities are cotton, electric and electronic equipment, vehicles, machinery, nuclear boilers, reactors, plastics, rubber, etc. During the years 2005-2011 most of the commodities exported from China to Kenya experienced high increase in value.

The main commodities exported by Kenya to China are leather, tea, copper, plastics, raw hides, skins, coffee, mate and spices, oil seed, grain and fruit, etc. Kenya should further exploit its competitive advantage in leather and tea exports to China. Kenya could leverage for establishment of more Chinese value addition ventures locally. Concerning the leather industry, technology is still the biggest constraint to exploit this whole on the market (Onjala, 2010). You can notice that main imported commodities from Kenya to China include majorly raw materials and no higher added value products because China mostly needs only materials to produce the final products itself. Concerning coffee and tea, these commodities represents the highest value of Kenya´s exports to China but it is a small proportion of Kenya´s total export market counting less than 1 % (International Trade Centre, 2014).

9.1.2 Counterfeit Goods

China represents the main source of counterfeit goods which led to the net loss from trade in counterfeit products that resulted in 368 mil. USD (Gastrow, 2011).

According to definition of International Anti-Counterfeiting Coalition (2014) the counterfeit goods are: "Counterfeiting is a federal and state crime, involving the manufacturing or distribution of goods under someone else's name, and without their permission. Counterfeit goods are generally made from lower quality components, in an attempt to sell a cheap imitation of similar goods produced by brands consumers know and trust. "

The majority of banned goods comes mainly from China and we don´t experience it only in Kenya but also worldwide. It is true that due to Chinese goods Kenyans have broader choice and lower price but the quality is very poor and Kenyans manufacturers are affected by this and they feel the impact of these goods through brand erosion, they experience great loss of sales and market shares, their factories are closing because they can´t compete and there exists also unfair competition. Every year, the Kenyan government loses approx. 84-490 mil. USD on counterfeit goods. I think that the presence of counterfeit goods will further result in discouraging of innovation in new products because Kenyan manufacturers are afraid of unfair competition and it reduces the entry of genuine products (SAAIA, 2012). The main impacts can be felt in innovation and growth, criminal activities, environment, employment, foreign direct investment and trade. The potential effects of counterfeit goods in particular areas are named in the table 2.

Table 2: The Main potential socio-economic effects of counterfeit products

Impact Area	Potential Effects
Innovation and Growth	Reduction in incentives to innovate Negative effects on medium and long-term growth rates
Criminal Activities	Increase in flow of financial resources to criminal networks, thereby increasing their influence in economies
Environment	Negative environmental effects of sub-standard infringing products Environmental effects from disposing of counterfeit and pirated products
Employment	Employment shifts from rights holders to infringed firms where working conditions are often poorer
FDI	Small negative effects on levels of FDI investment flows and possible effects on structure of FDI
Trade	Negative effects of products where health and safety concerns are high

Source: Gastrow P., Transnational Organised Crime and State Erosion in Kenya, September 2011 (relief web)

Chinese counterfeit goods are focused on low-income consumers and according to the TNS Research for International and Consumer Federation of Kenya in 2011, people in Kenya buy Chinese products because they are affordable and they prefer lower prices but they admit that they think the products are not of good quality. Even more, counterfeit goods may have negative impacts on health, concerning medicines. According to the TNS Research for International and Consumer Federation of Kenya in 2011, the main products with high counterfeit rates are body care, washing detergents, toothpaste, cigarettes, etc. The whole list of the products with high counterfeit rates is provided in table 3 (SAIIA, 2012).

Table 3: Products with high counterfeit rates imported to Kenya from China

Category	Brand
Body care	Vaseline, Ladygay, Petroleum Jellies, Body creams and facial creams
Washing detergents	Omo, Toss, Jamaa bar and Panga bar
Toothpaste	Colgate
Tea leaves	Ketepa and Brookebond
Cooking fats	Kasuku, Kimbo and Elianto
Maize meals	Jogoo, Pembe
Culinary products	Roycomchuzi mix, Haria and SimbaMbili
Shoe polish	Kiwi Noir, Kiwi and Lude shoe polish
Cigarettes	Sportsman, Roaster and Unfiltered cigarettes
Analgesics	Paracetemol
Batteries	Tiger Head and Bells
Paints	Crown and Duracoat
Cement	Bamburi, Nyumba and Blue Triangle
Drinks	Quencher rtd, Afiartd and Afia squash
Mineral water	Pacific, Royal, Springs and Aquamist
Bleaches	Jik and Topex
Deodorants	Gift of Zanzibar
Spreads	Croma, Prestige and Blueband
Electronics	Watches, mobile phones, radios and other electronic gadget

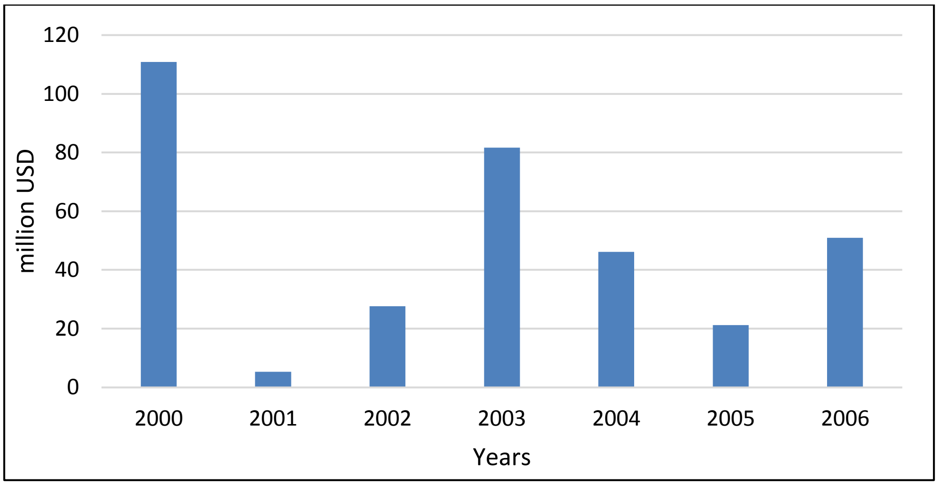
Source: SAIIA, 2012

9.2 Foreign Direct Investment from China to Kenya

Kenya belongs to the top 15 countries for FDI projects, particularly in Nairobi area and its position in investments increases. The main investors are China, United States, UK, India and Belgium whose investments flow mainly in telecommunications, retail and consumer products, real estate, hospitality and construction, natural resources and tourism (EY, 2014). The FDI inflows from China have become important for Kenya in recent years. This position can be explained by two factors. The first one is that the loss in Kenya's competitiveness to attract direct foreign investment has meant that any FDI flows from China have constituted an important proportion of the net FDI flows in Kenya. The second one is that China has adopted a new policy to Kenya, aimed at closer ties in economic cooperation. There is therefore increased presence of Chinese enterprises. But the importance of China's FDI flows to Kenya is much more in terms of capital investment rather than the quality of activities. This is because the firms established have tended to engage in services such as trade with very few firms participating in manufacturing. (Onjala, 2010) The total investment from China was 446 170 956 USD in 2011 which made China the most important investment partner for Kenya and it thus replaced UK that was a leader so far (Juma, 2011).

As portrayed in figure 18, the FDI from China to Kenya was fluctuating during the years 2000 – 2006. The highest investment provided by China was in year 2000 with amount of 110, 9 mil. USD.

Figure 18: Foreign direct investment from China to Kenya in particular years



Source: Onjala, 2008: Calculations based on the Investment Promotion Centre, and Kenya Investment Authority Data Sets

If we compare two main investors in Kenya, China and USA, there is still clear difference in cumulative FDI during the years 2007-2011. The value of cumulative FDI of China was 230 mil. USD which is very high amount compared to USA whose cumulative FDI was 12 mil. USD.

Table 4: Comparison of Cumulative FDI flow from China and USA to Kenya

Country	Cumulative FDI (2007-2011) in USD million
China	230
USA	12

Source: GAO, 2013

Regarding the table below, the Sub-Saharan countries that actually utilized most of the Chinese investment in years 2011 and 2012 were Nigeria, South Africa, Uganda, Angola, Ghana and Kenya. Kenya utilized 2 350 000 USD in 2011 and 2 090 000 USD in 2012.

Table 5: Amount of FDI from China actually utilized by African countries

Countries	2011 Foreign Direct Investment (USD 10 000)	2012 Foreign Direct Investment (USD 10 000)
Africa	164091	138787
Angola	303	195
Botswana	170	-
Cameroon	21	-
Congo	11	16
Eq.Guinea	215	-
Kenya	**235**	**209**
Gambia	26	9
Ghana	-	382
Guinea	97	-
Guinea-Bissau	302	-
Mali	26	9
Nigeria	1999	1253
South Africa	1323	1605
Uganda	488	511
Zambia	1	629
Sudan	255	7
Zimbabwe	66	-

Source: National Bureau of Statistics of the People´s Republic of China, 2013

9.2.1 Investments from China to Kenya according to sectors

China has become very important partner in trade, investment and development co-operation in Kenya. These investments have been increasing from large state-owned and also from small to medium-sized enterprises. The Chinese companies can see many beneficial opportunities where to invest and make more money. Kenya is an interesting target not only for its oil and gas that were recently discovered but mainly for manufacturing and transport. China´s investments are focused mainly on manufacturing and construction sectors, retail ventures and tourism. The manufacturing sector includes notably motorcycle assembly, apparel and services. The construction sector includes construction of roads, railways, hospitals, telecommunications, etc. Chinese companies are mostly interested in industries with high concentration of domestic population and where there is an access to ports for potential of exports. Nevertheless, the investments are diversified and they are distributed to other sectors like tourism, transport, retail and power plants.

According to the statistics from 2011, there were 1 466 Chinese workers registered in Kenya and there were 22 Chinese construction companies in that year (EMEA, 2011).

It is true that China spends billions on Kenya´s infrastructure and it may seem as a good deal for Kenya, but I personally think that there is more to gain by China by investing in Kenya. These investments in infrastructure have definitely their own target which includes better access and transport of natural resources. In my opinion, there may be some kind of threat from the Chinese side as they exploit natural resources and it is a big duty for the investments. There are also claims about corrupting the Kenyan government and that Chinese use local labour force without transferring the skills and technology. According to New York Times (2014), some Chinese owners of construction companies violate the rights of the workers by not providing safe working conditions. But on the other hand, we can´t say that all are the same. There exist some companies that want to integrate into Kenyan communities and run responsible companies. Some Chinese owners complain about the claim that they are all immoral businessmen ruining the efforts of those who want to pay fair wages and keep their workers in safe working conditions (The New Yorker, 2013).

As mentioned above, Chinese invest mainly in construction sector and particularly in infrastructure. In table below, there is a list of main Chinese investments in Kenya between years 2003 and 2010 divided according to loans and grants. In 2010, the project with the highest investment was Nairobi-Thika Highway Improvement project whose amount was 60 289 000 USD and which should improve trade access.

Table 6: Types of investment by China in Kenya (USD thousands)

Mode of investment	Project	2003	2004	2005	2007	2010
Loans	Gambogi Serem Road	3 100	-	-	-	-
	Kipsigis-Shamkhokho Road	3 000	-	-	-	-
	Purchase of tractors	66	-	-	-	-
	Rural telecommunications development programme	-	-	24 500	14 583	-
	Kenya power distribution system modernisation and strengthening	-	-	23 130	6 600	19 220
	Kenya e-Government	-	-	-	-	7 688
	Nairobi Eastern and Northern Bypass Project	-	-	-	-	57 662
	Nairobi-Thika Highway Improvement Project	-	-	-	-	60 289
	Drilling of Olkaria IV Geothermal Wells	-	-	-	-	55 791
Grants	Kasarani Sports Ground Maintenance	39	3 620	-	43 846	12 698
	Various courses in China	300	-	-	-	-
	Government office Equipment	-	120	-	-	-
	Maize flour processing project in Bomet and drought-hit areas	-	3 300	-	1 766	-
	Tsunami relief Kenya	-	-	442	-	-
	Economic and technical co-operation Kenya	-	-	10 387	-	-
	Rehabilitation of Nairobi roads and street lighting	-	-	-	21 538	-
	Technical training courses to government officials	-	-	548	-	-
	Gambogi Serem Road	-	-	-	-	648
	Construction of hospital in Eastlands	-	-	-	-	1 096

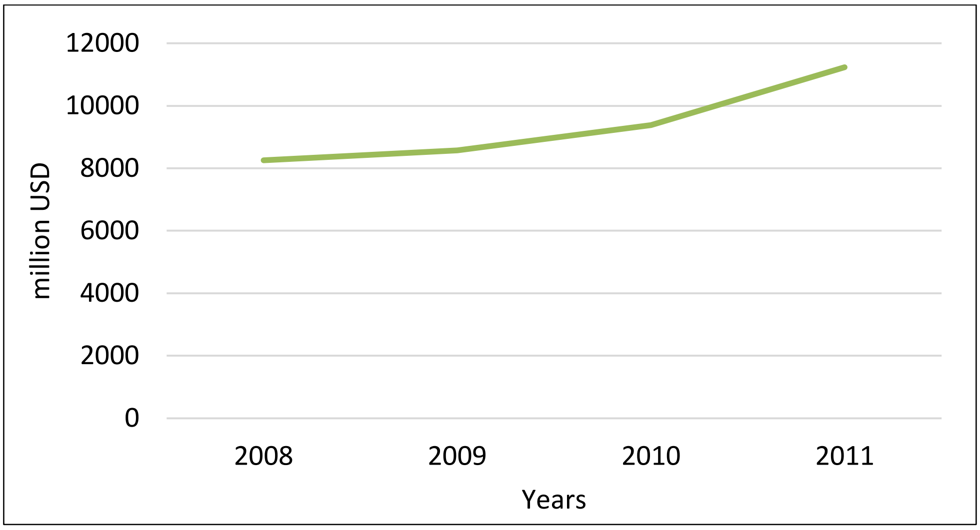
Source: SAIIA, 2012

9.3 Manufacturing Industry

Although Chinese ideas and completing of projects are efficient, the quality of their products sold on Kenya´s market is very low and Chinese also use unfair market practices. In fact, according to me, the trade between China and Kenya is significantly balanced in favour of China because Kenya exports mainly unfinished goods to China and imports back the finished value-added goods from China to Kenya. Unfortunately, these goods consist often from counterfeit products. China also threatens local industries by its large imports, as an example the threatened industries includes particularly ceramic products and textiles (Onjala, 2010).

As it is shown in figure 19, the manufacturing output in Kenya increased during the period 2008 to 2011 but from 2008 to 2009 the growth was very slow as a result of post-election crisis.

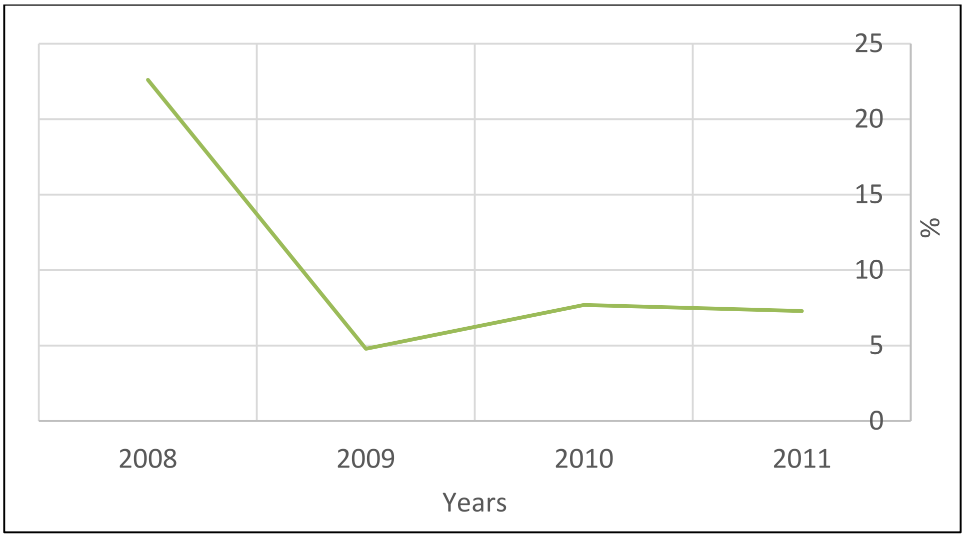
Figure 19: Manufacturing Output in Kenya



Source: Own work based on Kenya National Bureau of Statistics, Kenya Facts and Figures, 2012

If we look at the share of the manufacturing output on Kenya´s GDP in figure 20, the share contrarily decreased significantly in the period of the post-election crisis and it didn´t grow almost at all. During the post-election crisis all shops, stores and banks were closed. Moreover, the shops, machinery and plants were demolished during the violence in main conflict areas, particularly in rural market centres and thus the output share on GDP decreased dramatically. The share of manufacturing output on GDP fell dramatically after post-election crisis in year 2009. The share dropped from 22, 6 % in 2008 on 4, 8 % in 2009. Another possible cause of low production is the Chinese competition in prices which cause problems to Kenyan manufacturers who can´t compete and it affects their production (Onjala, 2010).

Figure 20: Share of Manufacturing Output on GDP



Source: Own work based on Kenya National Bureau of Statistics, Kenya Facts and Figures, 2012

9.4 Construction Projects

In general, Kenya is characterised by many road construction programmes financed by the African Development Bank, China, Brazil and Japan (Delloite on Africa, African Construction Trend Report, 2012).

After 2008 when the election violence and economic crisis happened in Kenya, this dramatic situation totally ruined Kenya´s social, infrastructural, economic and institutional systems and China got a good opportunity to invest in Kenya and restore it (CAI, 2013). The main construction projects are named in table 6 before.

After analysing the information from the research "China's Interest and Activity in Africa's Construction and Infrastructure Sectors", according to me, it is important to realize that Chinese firms don´t build the infrastructure in Kenya only for reason to help the Kenya´s development but Chinese act like this for deeper purposes like having better access to natural resources in which they are interested very much. Personally, I think it´s not a gift from its side though Chinese companies claim so but it presents rather bribe for government. The next purpose of constructions is to connect Kenya with its neighbouring countries and achieve easier access to other countries through it because it is the costal country. Another reason is to increase the market integration of East African countries and develop the business. It can´t be neglected that Kenyan workers benefit from the wages obtained from Chinese. They are higher than those they would obtain without Chinese but they are still much lower than they would get from Western companies (CAI, 2013).

9.4.1 China Road and Bridge Corporation (CRBC)

China Road and Bridge Corporation (CRBC) has been a leading company in the international projects contracting market in Kenya and it has played important role in creating ties between Kenya and China. This company has been working in Kenya since 1984 and it has built many roads, bridges, railways and ports. So far, CRBC has completed 23 road projects that are counting the length in total of 1200 kilometres. One of the most highlighted projects of this corporation is Nairobi Eastern and Northern Bypass Project whose result was 52 kilometres long two-lane road. This project was completed in 2012 and according to CRBC, it helped to reduce the traffic.

There are 85 Chinese employees that work in CRBC Kenya Office and about 1582 Kenyan employees. The company claims that its employees work in equipment operation, surveying, project management, experimenting and equipment maintenance.

CRBC built one of the most important roads in Kenya called „China Road“. This road is a section of the Mtito Andei-Voi-Bachuma Gate Road of the A109 National Highway that connects Mombasa which is the largest port in East Africa and Nairobi, the capital of Kenya. It further leads to Uganda with connections to the highway A104 and also to Ethiopia with the A2. This road links the Indian Ocean to hinterlands of Africa.

Concerning future plans of CRBC in Kenya it is now preparing the construction of standard gauge 609 kilometres railway track from Mombasa to Nairobi (China Daily, 2014). CRBC will employ 30 000 local employees and involve 2 500 Chinese employees. The proportion of Chinese and Kenyan working staff will be 1:10 and the locals will represent the main force to implement the project (Kass International, 2014). The expected time that this project will take is five years and CRBC hopes that the railway will provide more efficient, reliable and secure transport of cargo and passengers to Kenya and it will boost the integration of East Africa market (China Daily, 2014).

9.5 Textile Industry

The textile industry in Kenya was under the protection for more than 30 years. Since 2001, when China became a member of WTO, it has been representing a threat for Kenyan textile industry. In 2003, the exports in garments and apparel from Kenya rose due to African Growth and Opportunities Act (AGOA), which allowed African countries to export textiles and garments duty-free and without import quota restrictions (Reginah, 2012). The World Trade Organization (WTO) set up new trade rules in 2005 that caused opening up of textile sector for market forces. So that after removing of quotas in the same year, the import of Chinese textiles increased more than 1000 %. Kenya began taking steps before the end of the quotas. Its government removed taxes on all cotton ginning and textile manufacturing machinery in 2002 to support imports of more modern equipment. Moreover, the taxes on goods and services to cotton ginning factories also decreased and also the government improved incentives to attract Kenyan textile firms into its export processing zones (Mutume, 2006). The decline was observed in year 2008 which was a result of closure of many firms due to losses caused by the post-election violence and the flooding by third class products which entered the Kenyan market leading to unhealthy competition (Reginah, 2012).

Nevertheless, recently, Kenyan textile workers have been complaining that their business is threatened by cheap textile products from China and their products of high quality are suppressed (Voice of America, 2013). The high import of Chinese textiles partly contributes to the cessation of local print cloth production (Mangieri, 2006). The government is blamed for not providing good economic environment. The first possible but not necessarily true reason why China floods the Kenyan market with low price and low quality products is corrupted government and the second one is incompetence of Kenyan Bureau of Standards (Voice of America, 2013).

In table 7 you can see the comparison of cotton productivity in Kenya and China in year 2012.

Table 7: Cotton Production and productivity in Kenya and China in 2012

Country	Cotton Production (thousand bales of 218 kg each)	Cotton Yield (kg / acre)
China	35 000	589
Kenya	30	100

Source: Own calculation from ACTIF, 2013

Since market liberalization in 1991, the cotton-to-garment value chain in Kenya has lacked the structure and institutional dynamics required to compete with global players like China and even with regional competitors in Eastern Africa. Unfortunately, it is far from realizing its true potential. The poor performance of cotton sector in Kenya was caused mainly by competition from synthetic fiber substitutes and cheap imports of new and second-hand clothes, periodic droughts, volatile producer prices, high costs of pesticides and the collapse of the former state-owned textile enterprises. Kenya´s trade balance of the cotton lint production during the years 2005 and 2010 was negative which means the import was much higher than export and the same situation is for the trade balance of cotton seeds. (FAO, 2012).

Table 8: Average Annual Growth Rates for Seed Cotton in Kenya and Eastern Africa

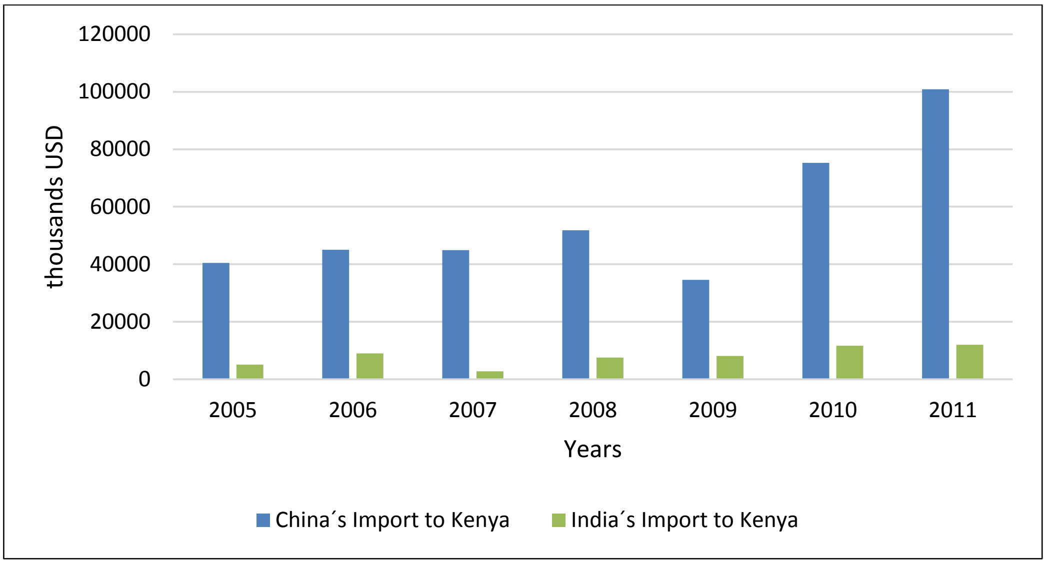
	2000-2005	2005-2010
Production		
Eastern Africa	9 %	-1 %
Kenya	2 %	-7 %
Harvested Area		
Eastern Africa	7 %	-3 %
Kenya	-2 %	-5 %

Source: FAOSTAT, 2012

China has been importing to Kenya many kinds of textile materials mainly knitted and crocheted textile which confirms the fact that China represents a threat for cotton production in Kenya. The value of imports of almost all textiles was increasing during the years. According to data from International Trade Centre (2014), the value of Kenyan export of textile materials compared to China is negligible.

The import of textiles increased from both India and China during the period 2005-2011. You can notice that Chinese export to Kenya is much higher compared to India´s export. Moreover, Chinese export increased rapidly since 2005 when the export value was 40 431 USD thousands and in 2001 the value increased to 100 854 USD thousands. China has very strong textile industry and it exports textiles and textile products worldwide. The linear increase of Chinese export was disrupted in 2009 because of the post-election and economic crisis when Kenya experienced severe inflation but the year after it came back to force. The fluctuation of Indian export to Kenya was influenced by global economic crisis.

Figure 21: Comparison of total export of Textile materials from China and India to Kenya



Source: Own work based on International Trade Centre data, 2014

The main clothing products exported from China to Kenya are women´ and men´ suits, jackets, shorts, trousers and skirts, men´ shirts and other items portrayed in the table below. In period 2005- 2011 the value of exported products increased significantly that indicates that Kenya´s market is progressively more flooded by Chinese textile products.

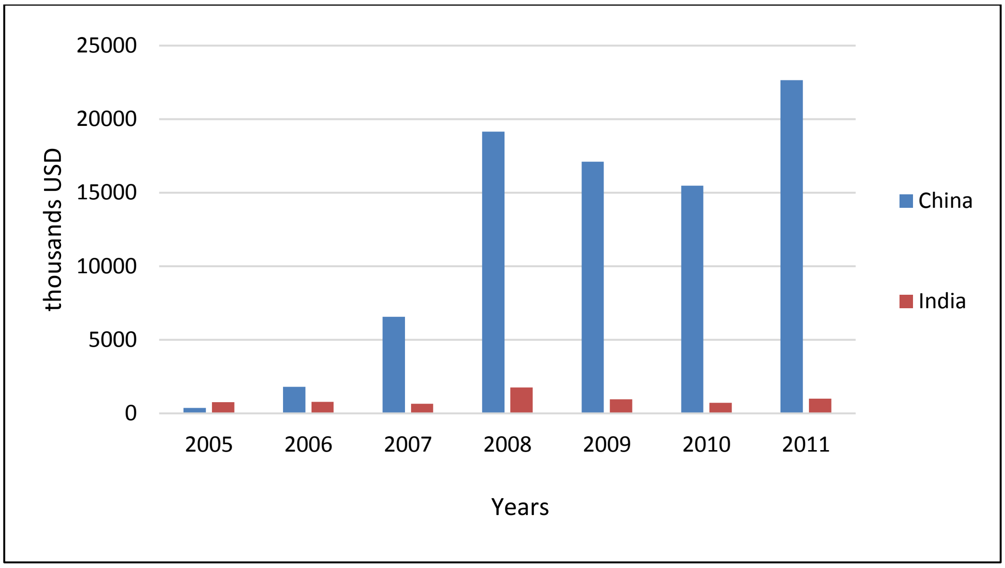
Table 9: Main clothing products exported from China to Kenya in USD thousands

Product Label	2005	2006	2007	2008	2009	2010	2011
Women's suits, jackets,dresses skirts etc&shorts	87	420	896	1 829	2 116	1 656	4 499
Men's suits, jackets, trousers etc & shorts	117	603	1 483	5 092	3 491	3 669	4 850
Men's shirts	37	243	397	2 353	2 194	2 144	3 270
Men's singlets, briefs, pyjamas, bathrobes etc	7	115	1 807	5 322	3 565	1 555	2 563
Women's blouses & shirts	20	125	583	1 150	816	877	1 467
Panty hose, tights, stockings & other hosiery, knitted or crocheted	34	206	853	944	3 578	3 617	3 613
T-shirts, singlets and other vests, knitted or crocheted	69	96	548	2 448	1 340	1 955	2 373

Source: International Trade Centre, Trade Map, 2014

The export of clothing products from both China and India rose significantly in 2008. It is also caused by post-election crisis because as mentioned before, the companies, shops, banks and markets were closed and the output of products severely decreased as well. So that, imports of clothing products increased. But in 2009, the export of clothing products from these both countries decreased as in case of textile materials. It was a result of high inflation in Kenya.

Figure 22: Comparison of China´s and India´s export of clothing products to Kenya



Source: Own calculation based on International Trade Centre, Trade Map, 2014

9.6 Natural resources

Even if Kenya doesn´t belong to the most endowed African countries by natural resources, it still has some in which China is interested. Kenya promised to ensure better transparency over exploiting of natural resources in 2014. In recent years, Kenya has discovered several precious minerals, including rare earths and oil which presents one of the main economic drivers. Kenyans realized that building of infrastructure by China is under the purpose of exploring the mineral resources. Now there is a question if Kenya´s high potential of economic growth is not threatened by environmental degradation. I think that thirsty politicians for money and economic growth don´t care very much about environmental issues. According to obtained data, the value of import of oils petroleum from Kenya to China was 4 523 USD in 2010. The other natural resources exported from Kenya to China are portrayed in table 10 (UN Comtrade, 2014).

Table 10: Natural resources exported from Kenya to China in USD thousands

Product Label	2005	2006	2007	2008	2009	2010	2011
Copper and articles thereof	3 892	6 152	6 119	8 988	6 971	6 452	9 924
Copper waste and scrap	3 503	5 606	4 392	6 458	4 468	2 742	7 017
Refined copper and copper alloys, unwrought	388	546	1 705	2 063	2 503	3 710	2 907
Aluminium and articles thereof	65	869	786	543	923	503	529
Aluminium waste and scrap	65	867	779	530	920	503	509
Ores, slag and ash	0	0	54	81	337	1 514	948
Wood and articles of wood, wood charcoal	65	25	22	31	46	86	158
Stone, plaster, cement, asbestos, mica	0	4	1	1	3	67	20
Lead and articles thereof	27	45	520	55	124	134	0
Zinc and articles thereof	11	76	0	0	0	66	123

Source: International Trade Centre, Trade Map, 2014

Export of scrap metal (copper, aluminium) from Kenya to China represents a loss to the extent that the Kenyan manufacturing industries denied the capacity to develop similar capabilities. Furthermore, the high demand for scrap in China has for caused vandalism in Kenya for some time including local infrastructures like power cables and the railway lines and moreover, it caused very bad impacts. Other scrap metals that have suffered include also lead in battery manufacture. In my opinion, Kenya should impose heavy taxes on export of aluminium and copper scrap because it causes vandalism and shortages of raw materials for local industries. (Onjala, 2010).

10 Results and Discussion

The result of my work is that China is very important partner in investment and import for Kenya. There are four questions answered due to the research made – *What are the main purposes of Chinese engagement in Kenya? What are the main sectors in trade between China and Kenya? How important is China for Kenya as a trading partner? What are the positive and negative points about the economic relations of Kenya with China in future?*

Regarding the first question, China has had several purposes to engage economically in Kenya. One of the main reasons is that Kenya is a coastal country and it represents the way how to get further into Eastern African region in terms of trade and economic integration. The reasons why Kenya attracts China are well-developed financial market, business-friendly taxes, cheap labour force and main port Mombasa. It has to be mentioned that Kenya has recently discovered new supplies of natural resources (oil and gas) and China starves for its exploitation to run its demanding economy (International Trade Centre, 2014). Kenya welcomes China as its most important business partner because it uses a different approach than Western countries did, it tried to cooperate in terms of agreements and it invests there a lot (loans, grants). Western countries conquered African countries and they imposed there their ideas and measures and they enslaved the inhabitants. Contrarily, the relationship between China and Kenya is based on voluntary cooperation (Ciochetto, 2013). But the uncontrolled exploitation of natural resources and efforts to dominate Kenyan market can be considered as neo-colonialist characteristics. China knows how to get what it wants by providing Kenya favours in terms of investments (Kasongo, 2011).

The second question concerns export from Kenya to China. The value of exported products from Kenya to China is almost negligible if we compare exports from China to Kenya which grow gradually in time. The main exported items are from agriculture sector and raw materials according to the data obtained. Regarding the export from China to Kenya, it mainly consists from textile and clothing, electro-technical industry, construction and chemical industry. In general, China is the most important export partner for Kenya after India.

Following the third question, China presents the most important trading partner for Kenya in the world in terms of imports which counted 1 638 290 thousand USD. Chinese exports to Kenya are increasing and Kenya starts to be flooded by Chinese cheap products which are more affordable for consumers.

Concerning the last question, there are positive but also negative points of China´s economic cooperation with Kenya. There are benefits for both countries but also threats for Kenya. As Ciochetto says (2013), China helped Kenya during the recent economic crisis so there are definitely good points in this cooperation for Kenya. If China represents a threat as a neo-colonialist power in Kenya, that´s a very discussed question these days. According to me, we can´t say strictly yes or no. Generally, neo-colonialism means taking people´s land, pushing them off and turning them into involuntary workers and having political influence in colonized country (The Economist, 2013). But there is no proof of political influence and Kenya is not pushed under the pressure to let China engage there and contrarily, according to Professor Juma (2011), China is welcomed in Africa. As for benefits from this cooperation, it is sure that China helps to improve and build the infrastructure in Kenya and the economic growth increased which may be partially attributed to Chinese investments. If we have a look at the negative impacts of Chinese cooperation with Kenya, it must be said that Kenya faces competitive price pressure from China in the regional market in manufacturing, especially textiles, clothing and footwear (Onjala, 2010). Kenya´s cotton industry is threatened a lot by Chinese products mainly since the market was opened in 1991. Kenya is improving its competitiveness position in hides and skins subsector which are the products not intended for regional market. A big problem represent substandard and counterfeit goods in Kenyan market because it has adverse effects on consumers´ lives. They represents a threat for local manufacturers and moreover, their flooding reduces the entry of high quality and genuine products. Such a rapid penetration of Chinese goods in Kenyan market may cause that the industrialization in Kenya will be problematic. I think that Kenya should apply for or negotiate protective measures within the trading blocs to be able to deal with the increasing amount of cheap Chinese imports which represents a threat of extinction of local manufacturers (Giovanetti, 2009). Moreover, I think that Chinese cooperation with Kenya has a bit negative impact on Kenyan government because it was emboldened to limit its effort and progress towards economic and political reform (Gastrow, 2011).

Kenya should know that China doesn´t implement the construction projects only in favour of Kenya and that there are hidden purposes behind it. The return service to China is that Kenya is willing to let China exploit its natural resources and enable wider access to East African market. Kenya should be concerned about Chinese interest to invest and build infrastructure in the country and connect it with other neighbouring countries because China builds it mainly for its trade purposes. China wants to achieve an access to markets further in East Africa region. This will continue by flooding the other markets and it will pose a big problem for local manufacturers, they won´t be able to compete and consequently, the unemployment may increase (Hanush, 2012).

Another study focused on Sino-Kenyan relations was done by Joseph Onjala in The Impact of China-Africa Trade Relations: The Case of Kenya. He was mainly concerned about the impact of China in Kenya and my research results and conclusion correspond with his claims and conclusions.

Finally, it has to be mention that the thesis suffers from some limitations. Mainly the data from Chinese sources and newspapers may be biased by Chinese tendency to portray the China-Kenya relations only in positive way. There was sometimes a lack of English on Chinese organizations´ websites and lack of data on both Kenya and China that would draw an accurate conclusion.

11 Future Considerations and Prospects

According to data obtained and resources studied, Chinese engagement in Kenya will be increasing in economic and diplomatic terms. The Chinese are very optimistic about the future relations with Kenya according to the Chinese president Xi Jinping. The future cooperation will mainly include infrastructure building and trade and China also tends to invest a lot of money in tourism and increase the value of imports from Kenya and promote more balanced growth in bilateral trade (China Daily, 2013). It would be beneficial for Kenya to learn from China mainly in manufacturing industry and agriculture business in order to improve the skills of workers. But there are also steps that Kenya wants to undertake and it will represent bad news for China. According to Construction Business Review (2014), there is a law proposed in Kenya suggesting that the foreign contractors will be required to cede a minimum of 30 % of their ownership to local companies when they open their offices in Kenya so that this law would complicate situation for China. The Kenyan Parliament also plan to restrict state-funded construction projects below Sh 1 billion to local contractors who will be free to offer a minority stake to foreigners. The National Construction Authority (NCA) claims (2014) that they try to avoid to be dependent on foreigners so that the regulations also dictate that recruitment of skilled workers on government contracts shall be done only occasionally, when the skills by the foreigner are not available locally. Some of the Chinese corporations operating the major construction projects is already mentioned CRBC.

The agreements that have been signed so far by Kenya and China are about sectors including economic cooperation, infrastructure, people-to-people exchanges, finance, environmental protection and new energy. It is certain that Chine will try to tie up the relations with Kenya because Kenya´s location is very important in the region and the cooperation will help China to enter much bigger market in Eastern Africa. I think that the expanding trade between China and the regional market in Eastern Africa provides a direct threat to the future viability of the economic integration for Kenya as mentioned before because China will present a big competitor in third country markets and Kenya will suffer a trade-related loss. The assumption is supported by Joseph Onjala who claims (2010) that this process is likely to erode many of the trading or manufacturing benefits envisaged during conception. This possible loss of market for Kenya needs to be addressed squarely by Kenya in the preferential trading regime.

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12.2 Data Sources

1. International Trade Centre
2. National Bureau of Statistics of the People´s Republic of China
3. UN Comtrade Database
4. U.S. Government Accountability Office (GAO)
5. World Bank
6. WTO Statistics

List of Abbreviations and Acronyms

AGOA – African Growth and Opportunity Act

AIDS – Acquired Immune Deficiency Syndrome

CNPC - China National Petroleum Corporation

CPC – Communist Party of China

FDI – Foreign Direct Investment

FOCAC - Forum for China-Africa Cooperation Summit in Beijing

GAO – Government Accountability Office

GDP – Gross Domestic Product

IMF – International Monetary Fund

KANU – Kenya African National Union

MNC –Multinational Corporations

MOFCOM – Ministry of Commerce People´s Republic of China

NARC – National Alliance of Rainbow Coalition

OPEC – Organization of the Petroleum Exporting Countries

PRC – People´s Republic of China

SEZ – Special Economic Zones

UN – United Nations

USA – United States of America

WB – World Bank

WTO – World Trade Organization

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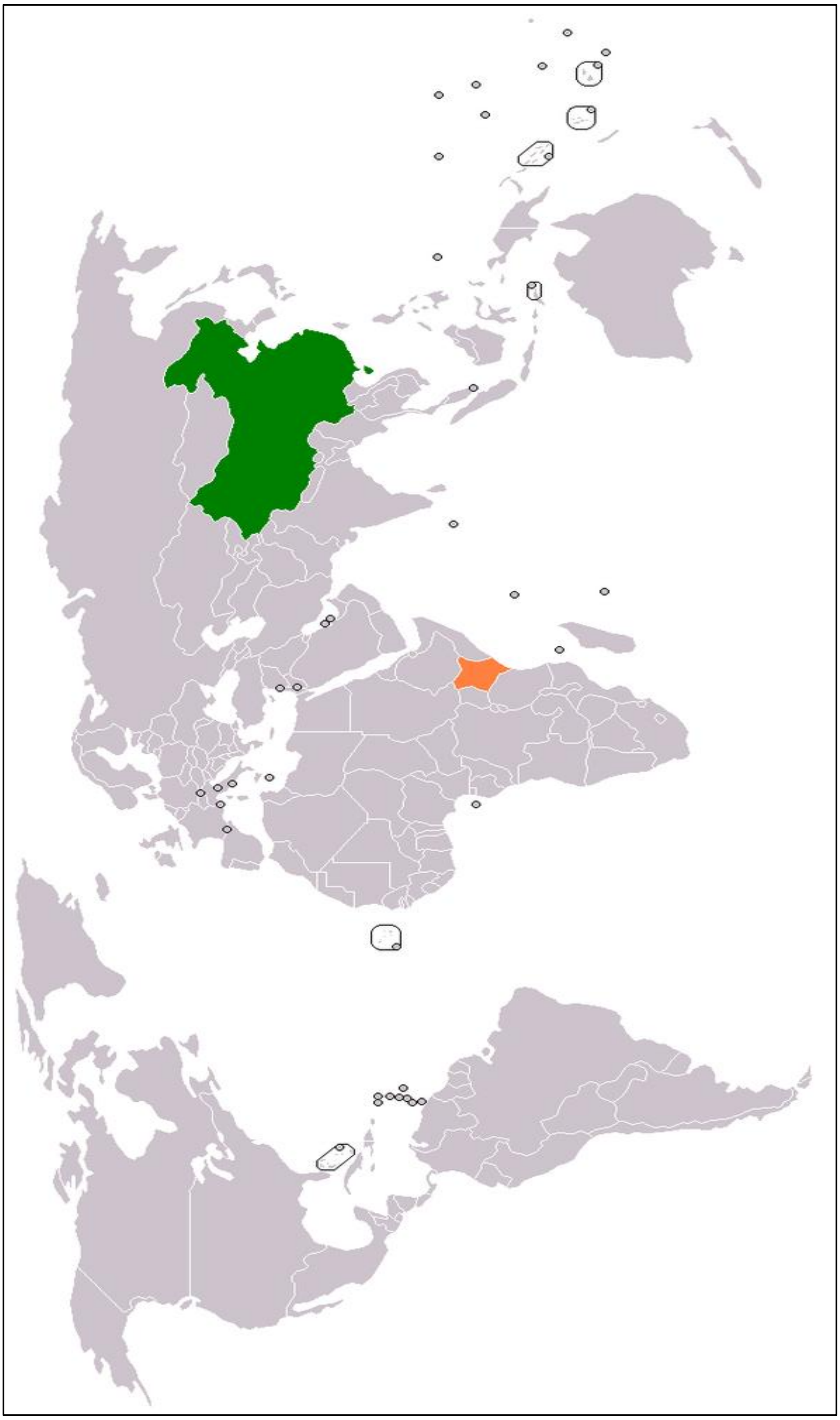
Appendix 1: Kenya and neighbouring countries

Source: Voice of America, 2014

Appendix 2: Location of Kenya and China



Source: Wikipedia, 2008

Appendix 3: The main import commodities of China in value (USD thousand)

Product Label	2007	2008	2009	2010	2011	2012	2013
Electrical, electronic equipment	256 822 547	266 514 884	243 756 119	314 282 498	350 954 252	381 520 999	439 318 434
Machinery, nuclear reactors, boilers	124 189 663	138 795 536	123 717 219	172 150 025	199 313 752	181 960 039	170 669 062
Mineral fuels, oils, distillation products	105 175 401	169 251 777	123 970 041	188 965 812	275 766 337	313 066 988	314 700 164
Optical, photo, technical, medical	69 534 544	77 708 548	66 996 321	89 919 369	99 140 733	106 145 649	107 738 335
Plastics and articles thereof	45 333 716	48 862 558	48 513 919	63 704 657	70 198 652	69 424 491	72 409 466
Organic chemicals	38 426 695	39 237 189	36 163 021	48 263 067	63 131 991	60 864 293	65 953 236
Ores, slag and ash	54 042 715	85 936 803	69 590 904	109 386 524	150 655 638	133 727 965	148 447 268
Copper and articles thereof	38 426 695	39 237 189	36 163 021	48 263 067	63 131 991	60 864 293	65 953 236

Source: International Trade Centre, Trade Map, 2014

Appendix 4. The main export commodities of China in value (USD thousand)

Product Label	2007	2008	2009	2010	2011	2012	2013
Electrical, electronic equipment	300 306 615	342 083 349	301 099 032	388 755 010	445 756 705	487 322 454	561 703 550
Machinery, nuclear reactors, boilers	228 588 523	268 671 157	236 009 996	309 813 672	353 763 873	375 899 473	383 310 504
Articles of apparel, accessories, not knit or crochet	47 371 752	52 490 143	46 716 321	54 361 478	63 073 873	61 224 360	68 271 919
Articles of apparel, accessories, knit or crochet	61 509 358	60 877 450	53 762 969	66 710 933	80 164 561	87 045 225	96 810 372
Furniture, lighting, signs, prefabricated buildings	35 977 021	42 832 799	38 936 958	50 584 032	59 336 352	77 886 190	86 435 683
Optical, photo, technical, medical	37 084 861	43 331 345	38 914 169	52 109 780	60 684 983	72 631 372	74 689 712
Footwear, gaiters and the like, parts thereof	25 350 737	29 720 438	28 016 268	35 633 851	41 722 333	46 811 268	50 766 207
Mineral fuels, oils, distillation products	20 877 744	31 773 205	20 384 070	26 674 613	32 275 552	31 017 957	33 810 056
Toys, games, sports requisites	27 152 345	32 815 301	26 489 520	29 306 702	34 304 910	35 619 114	35 857 032
Articles of iron or steel	36 739 592	48 419 118	33 781 144	39 143 621	51 196 168	56 156 107	57 368 576
Plastics and articles thereof	26 585 024	29 808 557	25 274 692	34 696 577	45 420 906	55 194 044	61 775 281
Vehicles other than railway, tramway	31 810 264	39 273 457	27 931 282	38 397 962	49 539 445	55 117 129	58 588 779
Articles of leather, animal gut, harness, travel goods	14 327 787	16 989 376	15 115 638	20 845 585	26 892 327	28 243 843	30 680 407

Source: International Trade Centre, Trade Map, 2014

Appendix 5: Main Textile Import to Kenya from China (USD thousands)

Product Label	2005	2006	2007	2008	2009	2010	2011
Woven fab of cotton, less than 85%,mxd with man- made fibre, weight >200	252	1 385	945	2 420	1 560	6 216	10 153
Textile fabrics impregnated, coated, covered/laminated w plastics, nes	392	616	588	1 701	1 330	1 661	1 725
Woven pile & chenille fabrics	175	3 673	2 103	1 156	1 232	986	921
Woven fabrics of cotton	1 543	1 400	8 419	8 064	1 604	5 786	4 659
Woven cotton fabrics, 85% or more cotton, weight over 200 g/m2	7 121	7 614	7 052	9 198	3 423	2 789	9 188
Woven cotton fabrics, less than 85% cotton, mixed with manmade fibres	1 806	677	495	430	730	2 046	1 629
Textile fabrics impregnated, coated, covered/laminated w plastics	613	429	695	410	438	1 177	1 743
Woven cotton fabrics, 85% or more cotton, weight less than 200 g/m2	9 630	8 924	4 182	2 549	6 318	8 603	6 166
Knitted or crocheted fabrics, of a width <= 30 cm (excl. those containing by weight >= 5%	778	1 488	1 048	939	30	276	31
Knitted or crocheted fabrics	1 025	2 278	2 919	2 253	6 762	14 483	643
Nonwovens, w/n impregnated, coated, covered or laminated	866	619	950	622	772	1 082	1 439
Cotton sewing thread	109	230	232	206	304	503	440
Fabrics, knitted or crocheted, of a width of > 30 cm (excl. warp knit fabrics)	12 088	15 589	10 932	16 708	6 831	26 247	55 481
Woven fabrics of silk or of silk waste	0	13	6	0	2	11	8
Woven fabrics of combed wool or of combed fine animal hair	0	0	1 716	25	0	126	246
Woven fabrics of synth. filam yarn	377	803	1 555	2 155	895	2 274	4 318
Sewing thread of man-made filaments	195	356	328	496	83	140	176
Synthetic filam yarn, not put up	111	105	481	1 018	705	622	1 051
Vegetable textile fibres, paper yarn, woven fabric	3 917	3 088	2 992	4 337	4 175	4 041	5 224

Source: International Trade Centre, Trade Map, 2014

Appendix 6: Main Commodities Imported from China to Kenya in years 2005-2011 (USD thousands)

Product	2005	2006	2007	2008	2009	2010	2011
Mineral fuels, oils, distillation products	20 428	1 623	1 879	1 895	5 018	6 228	5 260
Inorganic chemicals, precious metal compound, isotopes	8 573	11 126	12 486	25 242	18 370	21 278	23 022
Organic chemicals	6 804	9 532	12 660	13 963	14 856	23 733	22 749
Pharmaceutical products	6 279	6 382	11 909	11 225	11 356	11 963	13 719
Miscellaneous chemical products	1 574	2 688	4 249	5 261	6 749	9 230	12 971
Plastics	8 153	12 363	21 336	31 148	24 560	41 515	56 393
Rubber and articles thereof	7 595	11 599	23 770	26 593	33 000	39 988	54 840
Cotton	20 490	20 248	21 355	22 894	13 992	25 996	32 245
Manmade staple fibres	13 073	15 524	19 773	12 589	11 376	18 723	15 032
Articles of apparel, accessories, not knit or crochet	2 226	7 284	18 065	15 618	12 481	21 688	15 548
Ceramic products	7 122	9 707	13 447	17 810	15 486	25 806	32 252
Iron and Steel	4 639	10 519	27 029	51 028	27 280	29 398	36 993
Articles of iron or steel	7 043	8 827	21 510	25 458	38 350	57 103	62 280
Machinery, nuclear reactors, boilers	48 057	42 344	86 782	153 687	200 427	329 900	420 361
Electrical, electronic equipment	36 904	65 587	110 939	163 529	215 271	409 198	332 622
Vehicles other than railway, tramway	7 429	56 126	84 444	97 532	83 167	98 222	118 109
Optical, photo, technical, medical	4 964	6 667	21 224	16 568	12 888	18 957	30 582
Furniture, lighting, signs, prefabricated buildings	6 701	9 234	14 901	30 738	24 523	35 132	39 824

Source: International Trade Centre, Trade Map, 2014

Appendix 7: Main Commodities Exported from Kenya to China in years 2005-2011 (USD thousands)

Product	2005	2006	2007	2008	2009	2010	2011
Fish, crustaceans, molluscs, aquatic invertebrates	689	772	710	1 105	1 600	1 791	814
Live trees, plants, bulbs, roots, cut flowers	64	190	106	241	226	446	122
Edible fruit, nuts, peel of citrus fruit, melons	267	594	10	3 170	4 517	1 348	682
Coffee, tea, mate and spices	1 186	912	1 408	2 574	2 350	3 168	5 511
Oil seed, oleagic fruits, grain, seed, fruit	1 744	1 530	127	414	2 772	3 504	4 873
Lac, gums, resins, vegetable saps and extracts	368	648	1 061	461	403	140	723
Organic chemicals	0	0	2 059	4 010	1 301	26	281
Plastics	112	235	489	1 050	686	1 205	3 287
Raw hides and skins (other than fur skins) and leather	4 359	5 044	1 952	1 355	2 345	3 845	7 121
Vegetable textile fibres, paper yarn, woven fabric	3 917	3 088	2 992	4 337	4 175	4 041	5 224
Copper	3 892	6 152	6 119	8 988	6 971	6 452	9 924
Aluminium	65	869	786	543	923	503	529
Electrical, electronic equipment	177	34	721	15	1 073	186	751

Source: International Trade Centre, Trade Map, 2014