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CHINA`S ECONOMIC INTEREST IN KENYA

INTERESSE ECONOMICO DA CHINA NO QUENIA

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ABSTRACT
This article focuses on China`s economic interest in Africa: Case Study of Kenya. Basically the article will be examining several specific objectives: composition and sectors of Chinese Foreign Direct investments in Kenya particularly in the sphere of infrastructure and telecommunication, the significance and volume of trade imbalance, the economic and social impact of Chinese investments in Kenya and the possible recommendations towards the improvement of social, political and economic development in Kenya. The case study research raises several research questions. What are the economic and social impact of Chinese investments in Kenya? What could be done to improve social, political and economic development in Kenya? In which way should Kenya restructure its policy towards China?

KEYWORDS: *FDI. Chinese investments. Kenya. Natural resources. Infrastructure. Trade.*

RESUMO
Este artigo foca no interesse econômico da China na África: Estudo de caso do Quênia. Basicamente, o artigo examinará vários objetivos específicos: composição e setores dos investimentos diretos estrangeiros chineses no Quênia, particularmente na esfera de infraestrutura e telecomunicações, a importância e o volume do desequilíbrio comercial, o impacto econômico e social dos investimentos chineses no Quênia e o possível recomendações para a melhoria do desenvolvimento social, político e econômico no Quênia. A pesquisa do estudo de caso levanta várias questões de pesquisa. Qual é o impacto econômico e social dos investimentos chineses no Quênia? O que poderia ser feito para melhorar o desenvolvimento social, político e econômico no Quênia? De que forma o Quênia deve reestruturar sua política em relação à China?

PALAVRAS-CHAVE: FDI. Investimentos chineses. Quênia. Recursos naturais. Infraestrutura. Comércio.

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INTRODUCTION

As China focused its diplomacy on the developed countries, it was confronted with harsh condemnation on human rights and punishment exemplified by political isolation and economic sanctions. The only solution was to develop and to strengthen cooperation with the developing world as a defensive mechanism. This meant a reappraisal of the role of the third world countries, including the ASEAN countries and African countries, which expressed their understanding towards Beijing`s action in handling this internal problem.

The People`s Republic of China established diplomatic relations with the Republic of Kenya on December 14, 1963. In the initial years, the relation between two countries was in the direction of development. After 1965, the relationship between the two countries was lowered to be at the charge d`affaires level and in the beginning of 1970s it gradually returned to normal. With frequent mutual visits of President Daniel Arap Moi the friendly cooperation has witnessed outstanding achievements in many fields.

By the end of 2002 when a new government was formed under President Mwai Kibaki, the relations between Kenya and China were pushed to cooperate for development. China-Kenya economic relations in the Kibaki era began with high-level political contacts between the two states followed by a series of agreements. During his visits to China President Mwai Kibaki held extensive talks with President Hu Jintao and Chinese government officials who resulted to a five-part agreement covering official development assistance in grants for infrastructure and energy, extended air services between the two countries, technical assistance for assessment and classification of standards in industrial products and modernization of equipment and training at the state-owned Kenya Broadcasting Corporation (Gadzala, 2009 : 202-220). This was officially granted in late 2006, which since then less seen enormous business flow between the two countries. Also signed were agreements on Radio Cooperation between the State Administration of Radio, Film and Television of China and the Ministry of Information and Communications of Kenya and a collaborative agreement between General Administration of Quality Supervision Inspection and Quarantine of China and Kenya`s Bureau of Standards.

In order to implement already signed bilateral cooperation agreements, China encourages its businesses to import Kenyan goods, expand investment in Kenya, participate in its infrastructure construction and exploitation of energy and resources, and also expand cooperation with Kenya in processing industries and agriculture.

As part of Kenya-China cooperation, the government of the People`s Republic of China has set up a special fund to encourage Chinese companies to import some Kenyan products. These include coffee beans, rose seeds, black tea and sisal all of which are exported in raw form. As a result of new investment and trading opportunities in Kenya`s expanding economy, Kenya`s imports from China continued to rise in the 1990s.

China views Kenya as an opportunity to the region and it has become a key focus of China`s trade and economic strategy in Africa. Kenya is a country with the stable political situation and this makes it an ideal regional flat for Chinese investors to steadily increase their business in Africa. The Chinese side is offering affordable loans

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to Kenya building hospitals and schools for less developed areas, has set up malaria prevention and control centers as well as sending volunteers in order to transfer skills and knowledge to the local population.

China`s influence on the economic development of Sub-Saharan African started from rising of trade between two countries from $10 billion in 2003 to $20 billion in 2004 and increased by 50% in 2005. The Third Economic and Trade Committee meeting between Kenya and China took place on 25th April 2006. The meeting addressed various issues of interest to both countries, including ways of bridging the balance of trade.

Chinese goods are flooding African markets and not so different from the United States there has been growing concern in Africa about the effect on the local industry (Brautigam, 2009 : 142). Cheaper Chinese finished and intermediate goods provide an overall benefit to the economy. Chinese competition forces uncompetitive firms out of the market and eliminates the deadweight loss in the domestic economy. Firms that remain are able to improve efficiency and upgrade standards to supply inputs to Chinese companies.

One of the main element of China`s engagement with Kenya is the development of large infrastructure projects. One of the reasons that Chinese companies are Africa`s first choice for infrastructure building is because projects are completed quickly and cheaply with minimal red tape and bureaucracy (Taylor, 2009). The primary China`s interest is to ensure their African consumers are satisfied so as to secure further investments (Halper, 2010).

There are approximately 44 Chinese construction firms currently working in Kenya. China has contributed significantly to addressing Kenya`s infrastructure deficit. Roads, railways, power grids, ports etc. are being built at a speed never before imagined (Rosenberg, 2013). This kind of projects not only create job opportunities for Kenyan population, but also the construction of infrastructure at an affordable price which is also a great boost for Kenya`s economic performance, as well as making them a stronger player on the regional and global level (Onjala, 2008).

Infrastructure construction is perhaps the best example of the Chinese promise of a win-win paradigm. China is quite productive in pursuing tenders for construction projects and sale of equipment. It frequently provides modest quantities of free equipment in order to lay the ground for much larger sales. For example, it donated computers to the National Assembly, communications equipment to Telecom Kenya, and TV equipment to the Kenya Broadcasting Corporation.

From another side, there is a common preconception that Chinese investments does little for Kenya`s capacity building. The reason is that China imports workers instead of hiring locally because Chinese workers have needed skills and more experience with rapid infrastructure construction. However, this process is changing constantly, as the government of Kenya is less willing to hand out work permits (Chen, Goldstein & Orr, 2009 : 75-89). Moreover, Kenya has already a serious lack of skilful professionals; therefore Kenyan civil service worker will definitely receive a higher payment if he works for an international aid agency. It is necessary to stress out that Chinese aid packages also contribute significantly to Africa`s capacity building through

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their training programs, technical assistance in health and agriculture and of course cultural exchange programs (Newland & Patrick, 2004).

China and Africa greatly need each other and they are both benefiting from this remarkable symbiotic relationship. China not only purchases Africa`s unprocessed returns of the sub soil but also constructs or repair roads and railways, creates export processing zones, supplies equipment and military free power and offers other types of assistance (Rotberg, 2008).

In order to expand cooperation in the fields of culture, education, health, tourism, journalism, environmental protection and sport and further build up mutual understanding and friendship between both countries there are must be implemented a number of initiatives.

China designated Kenya as a preferred tourist destination and Kenya now seeks to tap into what it hopes will be a flood of Chinese tourists. In order to stimulate Chinese investment in the tourism sector, Kenya and other individual African countries have been granted “Approved Destination Status”. The popular tourist destination of Egypt and South Africa were the first countries to be granted such status. In June 2006 China and Kenya signed a memorandum for setting up the website “Kenya-China Economic and Trade Cooperation”.

There has been a long lasting cooperation in higher education with the growing numbers of Kenyans studying in China. Chinese universities collaborate with Jomo Kenyatta University, Nairobi University, and Edgerton. China has an active cultural program in Kenya that emphasizes Chinese culture and history.

Foreign Direct Investment Flow to Kenya

China is constantly investing a lot in Kenya in the form of foreign assets, such as foreign currency, credits, rights, benefits or property. The main direction of investments is for the purpose of production of goods and services, which are to be sold either in the domestic market or exported overseas.

It is important to mention that FDI inflows from China to Kenya have become significant in the last decade and can be supported by two factors: 1) China`s closer economic ties with Kenya didn’t bring just new investments but new policy as well.

2) The competitiveness of Kenya to attract foreign direct investments become weak and has been filled with China`s FDI which constitutes a very important proportion of the country.

Moreover, the China`s FDI flow to Kenya has been more in terms of capital investment rather than the quality of activities, because the established firms are more engaged in services. Even though the FDI flows from China have assumed significant proportions, they still remain low ranging from $1-13 million as shown in the Figure 5.

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Figure 1: China`s FDI in Kenya 2000-2006

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

Source: Onjalla, J., (2008, p.13): the calculations were made with the help of the Investment Promotion Center and Kenya Investment Authority data sets

Kenya like most of other African countries has recently liberalized the investment environment. Until 1995, all foreign investments flowing into the country were subject to approval by the Central Bank. The investment promotion Act of 2004 points out the government commitment to attracting FDI in Kenya. This was justified by the fact that FDI in Kenya was declining during the last decade, while it rose in other countries in the region (*Kenya`s Ministry of foreign affairs*, 2006).

In comparison to other countries Kenya performs poorly in attracting foreign direct investment (FDI) and also taking into account the size of the economy Kenya attracts even less FDI than Uganda and Tanzania. The Kenya`s net inflows of foreign direct investment from 1980 to 2014 showed that Kenya`s investment levels dropped to less than 10% of GDP near 2000 but since that time returned to levels experienced in the 90s. The main reasons why investment inflow lowered in the country was mainly corruption, but poor investment climate has reduced foreign direct investment flows compared to the level before the 80s. FDI to Kenya in 2007 was $729 million, but the violence during the election in 2008 decreased the flow of investments to $96 million. Since that time Kenya recovered quickly, but it only recently reached its former inflow of investments.

The FDI of China consists of many medium to short-term loans with a focus on extractive industries such as oil, mining, gas, minerals and natural resources (Wang, Abdoulaye, 2008). Some of these loans are really fast, with future exports of natural resources, especially in countries with poor credit ratings. Other loans go to support multinational or state-owned companies in accessing markets or in order to support foreign firms in buying Chinese goods.

In 2004, the Chinese Development Bank loaned the major telecommunications firm Huawei $10 billion for overseas expansion, and Nigeria took $200 million in loans to buy Huawei equipment (Executive Research Associate Ltd, 2009). In 2012, Huawei was awarded a tender to build a national fibre-optic network in Kenya worth $60.1 million, a deal financed the China EXIM Bank. The China EXIM Bank also provides some capital for state-owned firms in order to push further the development and speed of infrastructure products. The status of these firms allows them to report profits at longer intervals, instead of reporting each quarter.

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Natural resources

While Kenya is the country that has little proven natural resources such as oil and gas 'an offshore exploration deal was signed between the Kenya Government and China, allowing CNOOC to explore in six blocks covering 445,000 square miles in the north and south of the country.

China impacts on Kenya`s natural resources and poses a threat to Kenya`s environmental sustainability. Kenya fits into a different list in the Sino-Africa engagement because it doesn't have a huge amount of resources that rich countries have and that China actively engaged in. China has a great reputation for its disregard of the environment. As China has its environmental degradation at home, it definitely will not be able to protect the environment abroad, especially in the developing countries with weak legislation and regulation (Kabemba, 2010) .

Moreover, Kenya doesn't have a wealth of natural resources; this has not deterred China from signing several deals for the exploration of gas titanium and oil (Economist, 2008). A USA ambassador to Kenya predicted that if oil was found in Kenya, then China`s engagement with Kenya would likely escalate (Guardian, 2010). It is a well-known fact that China is interested in Africa`s natural resources, oil and gas are the first motivation for China in infrastructure projects in Africa in order to be in more close relations with the countries that have such natural resources (Aron and Okoth, 2012).

Infrastructure and Telecommunication

The construction of infrastructure is probably one of the best examples of the Chinese win-win strategy. Improving Kenya`s infrastructure capacity is vital for their aspirations of becoming an industrial and middle-income country until reaching 2030 (Morey, Milford, Madeira & Stori, 2011).

During the last decade, China has given Kenya grants and loans for infrastructure, equipment and plants. These grants and loans mainly were dedicated to road construction projects, rural electrification, water, renovation of international sports centers, medical and drugs for fighting malaria and modernization of power distribution. Each year 100 Kenyan student receives a scholarship from the Chinese government, twenty of which are in medicine.

It is necessary to mention also transport infrastructure in Kenya which equates to 177.500 km of roads, with 114.500 km of rural roads and 63.000 km of major roads, thus the major investment is still required for reconstructing the rural areas. Managing these areas is clearly the key infrastructure task for the government of Kenya and it has actively encouraged such kind of development promoting itself as a stable and geographical "gateway" to Africa.

Large scale infrastructure projects are well-represented in Chinese firms as according to data China constructed 905.5 km of road in 2006 and also made the investment worth $227.6 million to rehabilitate the Nairobi-Mombasa road (Fiott, 2010). The plan for Chinese firms was to ease the traffic congestion in cities by completing by-passes in the north, east and south of the city and by linking the Jomo Kenyatta International Airport to the city center.

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Moreover, the China Road and Bridge Cooperation (CRBC) is also in the process of achieving another goal of linking up Africa, investing approximately $50 million in a 530 km in order to connect Kenya and Ethiopia and in order to achieve this Chinese firms learning from the experience in Kenya. In 2012, 3 km of road at the KWS Gate/ Bomas Junction have been built pre-qualified by the government in order to develop 2,000 km of road in various countries. For some bigger projects, China Road and Bridge Corporation is building a 609 km section of the Standard Gauge Railway and the China Communication Construction company is building three berths at the port on Limu Island for $467 million. As China`s economy is decreasing steadily, the low-cost infrastructure provider will seek for market opportunities outside of China, including in Africa and Chinese infrastructure projects in Kenya will definitely continue.

It is important to mention that the huge amount of Chinese work in infrastructure is not investments but contacting. The Standard Gauge Railway is not an investment but rather one of the projects financed by China`s EXIM bank: the bank will finance 90% of the SGR and ultimately making it Kenyan investment. The EXIM bank is responsible for promoting investments of Chinese firms abroad, offering international guarantees, including export and import sellers credit (*Center for Global Development,* 2006). Most of the traditional investors have neglected infrastructure projects in Sub-Saharan Africa because of the high risk, security issues and the increasing corruption but the bank meets the demand for such infrastructure projects in Kenya. For example, once one accounts for large, debt-financed projects, medium sized private Chinese firms have a good share of investment and they mostly operate in manufacturing sphere creating new working places.

Across each sector, in Kenya, there are around 400 Chinese firms. It is important to mention the Business Perception Index survey launched by the Sino-African Center of Excellence (SACE) in 2014 in order to gather the views and experiences of Chinese companies in Kenya. Many firms, for instance, are involved in manufacturing, construction and resource sectors, trade, tourism, hotels and restaurant. Concerning oil resources there are no doubts that oil companies will be attracted to Kenya`s new oil discoveries in Turkana and the northwest part of the Rift Valley, but the UK based Tullow Oil Plc has rights for drilling.

The majority of Chinese companies are investing in the manufacturing sector in Kenya, investing $296.17 million between 2003 and 2015. During this period manufacturing was 64% of total investment for Chinese companies compared only 24% of total investment among all companies. Comparing overall trends, Chinese FDI is absent in major sectors: electricity, construction, ICT, logistics, distribution and transportation. Taking into account that Chinese companies have worked on high profile projects, Chinese investments in construction is quite small. For example, Chinese firms worked on the Standard Gauge Railway and the EXIM bank only provides loans that must be still paid back by the government of Kenya (The FDI Report, 2015) .

Contrary to Nigerian case study where Chinese companies only hire Chinese workers, 93% of Chinese companies reporting hiring Kenyan employees, also private enterprises are more likely to hire local people than state enterprises. Moreover, larger

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firms are more likely to hire Kenyans than smaller firms: 40% of micro enterprises and all small, large enterprise hire mostly Kenyans.

In April 2011 the two governments signed 10 agreements covering different spheres like solar energy generation, economic, tourism, health, aviation, media (Kamau, 2007). Among them was also a Memorandum of Understanding between China State Administration of Radio, Film, Television and Kenya`s ministry of Information and Communication and cooperation agreement between China Central Telecoms and Kenya Broadcasting Corporation. The telecommunication industry in Africa is dominated by Western and South African countries like Vodafone (Britain), Telecom (France), Vodacom and MTN (South Africa). During the last decade, Chinese transnational companies like the Zhong Xing Telecommunication Equipment Company Ltd. (ZTE), China Mobile and the private multinational Huawei have made successful inroads. In Kenya, for example, the price of a fixed line has dropped by 65% after Huawei helped Kenya Telecommunication procure Chinese digital equipment.

Trade imbalance

There is an impressive trade imbalance between Kenya and China because China is exporting thirty times more goods to than they are importing from Kenya (Zafar, 2007 : 103-130). There are some opinions among scholars that China`s trade with the continent has taken a neo-colonial slant with China extracting and exporting raw materials and bringing in manufactured goods with low prices. However, exporting raw materials to China can lead to established trade relations and contacts and can lead to the diversification of export for other goods (Raine, 2011 : 69-88).

Taking into account that there is trade imbalance, China has started to take measures to accommodate an increasing number of African imports. The Chinese minister of commerce visited Kenya in 2009 and pointed out that China is keen to extend their tariff exemption initiative. And that was a right decision in the direction to levelling the playing field for Sino-African trade.

The government of China has established a special fund to encourage Chinese companies to import some Kenyan products, including coffee beans, rose seeds, black tea and sisal all of which are exported in raw form. Some efforts being made at bridging bilateral trade should focus on value addition before export. The Third Economic and Trade Committee meeting between Kenya and China took place on 25th April 2006. The meeting addressed various issues of interest to both countries, including the balance of trade, which remains heavily in favour of China (World Investment Report, 2017).

A number of scholars accuse China of using Kenya and other African countries as a dumping ground for their cheap manufactured goods as this could be seen within the context of the local consumer. The Chinese are simply responding to the demand for affordable everyday goods. The influx of faulty goods will have a significant impact on Kenya`s economy and thus it is important that the Kenyan government consider this issue important.

Kenya should take an example from Nigeria response to this issue in 2009 by getting China to sign an agreement for the compliance of the export with the Nigerian Industrial Standard Act (Chan, 2000 : 507-551). Negotiation with China to sign the

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agreement would be the first step to curtailing the influx of substandard goods but this would have to be followed up with regular supervision by the government to ensure that China is observing the agreement.

In comparison to Nigeria where Chinese investments are directed to free trade zones, in Kenya, the government has approved the establishment of Free Trade Zone in Mombasa only in 2015. The project was implemented by the ministry of industrialization and Enterprise Development, which has already opened the search for consultations to carry out a feasibility study on the FTZ.

FTZ is expected to promote and strengthen trade across the East, Central and Southern Africa by allowing trading of goods without paying duty within the zone. The creation of Free trade zone was expected to start operations with motor vehicles, construction materials and household goods. The reason Kenya decided to establish free trade zone was to attract global and local investors and multinational corporations to Kenya.

The establishment of free trade zones for the wider African continent will open up a ready market and thus will initiate numerous economic transformations inside the country, raising the trade volumes and create a number of new working places. Free Trade Zone in Mombasa will improve Kenya`s global competitiveness and help to stimulate local, regional and international trade and investment (*IMC*, 2015).

Social and Economic Impact of Chinese Investments in Kenya

The Foreign Direct Investment has been of great importance to Kenyan economic development and there are some distinct results experiences from such kind of cooperation. Kenya has been able to benefit from China`s FDI in the way of technology transfer using advanced machines and managerial skills. Moreover, there has been noticed the creation of employment where Kenyan employees have been able to get jobs with Chinese firms, even though some local contractors argue that Chinese companies have increased unhealthy competition inside the market, that forces local companies to close down as they are unable to compete.

Thus, Chinese companies create the most jobs in communications. Chinese companies have created 2,170 jobs, 5.3% of the total 40,646 jobs created through FDI. The greatest number of jobs came from the communication sector at 931 jobs, followed by 500 jobs in the automotive equipment manufacturing, and 342 jobs in the metal industry. It is important to mention that manufacturing takes the largest share of employment for both Chinese FDI and the total FDI.

The various projects carried out by Chinese companies have its certain influence on human capital development. With the help of the data depicted in Figure 6 it is possible to analyse the influence of FDI by Chinese companies to Kenya`s economy.

According to the Figure 2, it is possible to understand that the respondents agreed that Chinese companies train domestic workers who later transfer skills and knowledge acquired to local firms. It is important to mention that workers already trained by or worked in foreign affiliates may be potentially available to work in domestic firms or start their own firms in the same industry (Blomstrom, Kokko, 1998 : 24).

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Figure 2: The influence of Chinese FDI in Kenya

	strongly disagree	disagree	undecided	agree	strongly agree	mean	std
Chinese companies train domestic workers who later transfer skills and knowledge acquired to local firms	0	4	12	48	36	4.16	0.2
FDI by Chinese companies has led to development of quality human capital trough diffusion of new technology and ideas	12	16	20	40	8	3.04	0.4
FDI by Chinese companies has brought transfer of foreign useful skills	4	4	24	48	20	3.76	0.6
Chinese firms after entering Kenyan market demonstrate their advanced technology and Kenyans afterward adapt or imitate them	16	20	28	20	16	3	0.1
FDI has brought competition, this increase in competition that occurs as a result of Chinese firms entry forces domestic firms to introduce new technology and/or work harder	12	8	12	40	28	3.64	0.2

Source: Robert Njagi Gathaiya, John Kinyua, Philip Machuki, Victor Keraro (Jan-March 2014)

The FDI by Chinese companies has led to development of quality human capital through diffusion of new technology and ideas and training and human capital development are more important in service industries because training in service sector is more focused on strengthening the skills and know-how of employees, at the same time training in manufacturing is often facilitating the introduction of new technologies embodied in equipment.

FDI by Chinese companies has brought transfer of foreign useful skills indicated that FDI usually flows as a bundle of resources, including organizational and managerial skills, marketing know-how and market access through the marketing networks of multinational enterprises. The above data mention before show that it`s really uncertain that Chinese companies after entering Kenyan market demonstrate their advanced technology and the people in Kenya afterwards adopt or imitate them. Some scientists consider that transfer of technology through FDI in developing countries lack the necessary infrastructure in terms of an educated population, liberalized markets, economic and social stability that are needed for innovation to promote growth.

It is a well-known fact that FDI always brings competition to the receiving country, this increase in competition that occurs as a result of Chinese companies' entry forces domestic firms to introduce new technology. The preference for export-oriented FDI has led to competition among developing countries that seek to attract such kind of investments and to a convergence among policy and promotional environments of these countries in pursuit of FDI.

One fact is for sure that Foreign Direct Investment in various projects in Kenya creates more job opportunities for young employees. FDI in export sector involves the creation of export processing enclaves, for example, the Export Processing Zones in Kenya. They normally promised increased capital, employment and foreign exchange for less developed countries (Ishikawa, Horiuchi, 2019). Some scientists still consider Chinese companies to be discriminative providers of employment because they mainly employ non-professional workers. According to the data provided, the respondents in the study had doubts about Chinese companies that have led to very high competition amongst local firms thus leading to their down fall and thus loss of employment.

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As a result of the uneven distribution of FDI in Kenya, Chinese FDI has led to exacerbating inter-regional economic and employment differences. Onjala still argued that China will continue offering economic aid within its available resources and strengthen assistance for Kenya`s human resources development (Onjala, 2008).

Moreover, FDI acts as a means of supply of foreign currency thus stabilizing the exchange rate in Kenya and FDI also contribute to the accumulation of capital and increase total factor productivity. Most of the scientists consider that FDI by Chinese companies is likely to be an engine of Kenya`s economic growth, one of the reason is that FDI inflow may lead to manufactured exports thus improving the balance of payments and in this way stimulate economic growth. Some authors like Walden and Rosenfeld argue that foreign investors can provide the capital, technical and marketing know-how which is a necessary part of each growth.

It is important to mention that China`s FDI crowded out national savings, and a reduction in domestic savings could lead to a further increase in the dependency on foreign capital, in this way it can leave Kenya vulnerable and tied up to any requirements that are skewed towards China.

Another impact of Chinese investments in Kenya is that Chinese firms employ a large share of local Kenyan workers. However, local contractors argue that Chinese companies have increased unhealthy competition in the market, which leads to local companies being unable to compete and having been forced to close down.

Contrary to the popular belief, 93% of companies report hiring Kenyan employees, and private enterprises are more likely to hire local workers than state enterprises. So in this case, as FDI created more employment opportunities China was acting as the inflow of physical and human capital to the host country.

Various projects carried out by Chinese companies in Kenya brought significant economic growth and developed different infrastructure projects. Chinese investments in different spheres expanded and diversified the production capacity of Kenya, which in turn is expected to enhance trade, new skills and new technology. China`s large FDI profile will lead to greater cooperation with Kenya, but Kenya must continue to lower the costs of business and investment and eliminate corruption to get the most from foreign investment. The most important is that FDI by Chinese companies in Kenya has a net positive effect on national economic welfare and highlighted several positive impacts as the main reasons (Njagi Gathaiya, Kinyua, Machuki, Keraro, 2014 : 12-15).

One of the reasons that Kenya`s economy is growing slowly but steadily is that China has adopted a “going global” strategy that encourages Chinese companies to invest abroad to secure the access to advanced technology, foreign exchange, energy and exports markets. Such kind of strategy encourages Chinese firms to invest in Kenya in order to “stabilize” and create a strong position in the international market. In Kenya, Chinese state-owned and private companies have entered a number of joint ventures with Kenyan and other African national governments, state-owned corporations and private firms that boost economic growth both in Kenya and in China (Naidu & Mbazima, 2008 : 748-761).

The government of China also encourage its companies in Kenya to be more competitive through a number of measures, for instance by providing companies with operating capital, which definitely gives them a competitive edge. In some special

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issues, the Chinese government also at times negotiates at a governmental level on behalf of their companies for contracts. As Kenyan companies have higher production costs their equipment is often obsolete compared to the modern Chinese factories that's why they need to retrench employees in order to escape the loss of market share.

Kenya is receiving a lot of investments from China that is fixed on social needs in education and health, these are the areas that the west had largely abandoned, and only nowadays has recognized as essential for Africa`s growth. Moreover, China proposes African nations some competition to the west, emboldening some leaders to take a stronger position towards IMF and other institutions that can influence either in the best or worst way in the future (Goldstein, Pinaud, Reisen & McCormick, 2009 : 1538-1542).

Another benefit arising from Chinese investments is spillover effects - the Chinese FDI inflow in Kenya compared to neighbouring countries may be largely determined not only by macropolitical and macroeconomic factors, but also the quality of domestic business climate and institutional conditions, both within Kenya and on a regional level. In addition, the connection between FDI and trade among Chinese firms involved in Kenya create the possibility for positive "spillovers" through the attraction of investment of infrastructure and other services development and through the transfer of advances in technology and skills (Broadman, Isik, Plaza, Ye and Yoshino, 2006).

Another positive effect of Chinese FDI in Kenya is the diversification in investments. Important Chinese investors invest in Kenya in various areas like retail ventures, tourism, transport, construction, power plants and telecommunications among others.

The possibility of new trade partners is another positive impact of Chinese investments for Kenya`s business and economy. It is possible to observe a slight change in the emerging trade patterns between Kenya and other regional states and the rest of the world. However, with the increased presence in the services such imports, exports, it can signify that China`s primary goal is to enter Kenyan market and fix their position as a useful trading platform in the region.

Participation in international trade is the following positive effect of Chinese FDI in Kenya. Worldwide the presence of foreign firms usually has a profound effect on a host country's participation international turnover of products, because FDI is often associated with an increase in both export and import operations. An important potential by-product of this process in China-Kenya relations is that Kenyan firms might want to transfer high-end technologies and skills in the professional field. As a result, this exchange might lead to positive spillover effects on the efficiency and competitiveness of Kenyan firms.

The fast increase in Kenya`s imports from China in the late 1990s did not originate from the rising incomes in Kenya. First and for most, Kenya liberalized the exchange rate in 1994 as part of its economic liberalization programme, with the help of IMF and World Bank. This change made it possible for Kenyan firms and citizens to purchase foreign currency to import goods at lower real prices, the reform had also reduced external tariffs, substantially. It is important to mention also that China`s industrial modernization, using domestic and foreign capital was turning out products

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that Kenyans desired at more competitive prices than other suppliers, including those based in Kenya. From that time, Kenyan firms and individual traders began travelling to Dubai, Hong Kong and mainland China to obtain products directly rather than through intermediaries.

Another positive social impact of Chinese FDI in Kenya is technology transfer. The shift from an inward to an outward oriented development strategy in Kenya has been accompanied by the emergence of different export support schemes; one of them is the Export processing Zone. The country`s EPZ programme is managed under the Export Processing Zones Act, which defines EPZs as "…a designated part of Kenya where any goods introduced are generally regarded insofar as import duties are concerned, as being outside the customs territory but are duly restricted by controlled access". The objectives of this programme are the following: promote exports, foreign exchange earnings, transfer of technology and skills, employment creation and industrial enhancement (*Economic Survey*, 2008).

Concerning the promotion of the achievement of the goal of skills transfer, the majority of the Kenyan EPZ firms contracted people with minimal working experience in this industry and they were trained later within the factory (Fukunishi and Takahiro, 2006). More often the EPZ employees leave formal employment to start their own small-scale garment firms using the training and experience gained during the work period in EPZ firm.

One of the most important influences that China made in Kenya is that there appears to be a growth of small-scale entrepreneurial investment from China, often specializing in retail of Chinese goods in some shopping malls and the prospects for some cooperation appear to be significant (Kaplinsky, McCormick, Morris, 2007).

CONCLUSION

The rise of Chinese investments in Africa has definitely influenced economic, political and social development on the continent. As China becoming more powerful and economically strong country, the amount of money that this country is investing in less developed areas is enormous, although it is necessary to conduct a full spectrum analysis of the quality of this investment and further ways of how to improve economic and social development in Kenya.

It is necessary to take into account that investment and aid figures between Kenya and China are not that big when compared to other trading partners of Kenya such as the European Union and rest of Africa, but they definitely have some results. Moreover, with the recent patterns of investment and trade, it is important to highlight some recommendations for future policy.

With the increased proliferation of FDI through manufacturing and service sector in Kenya, there is very limited joint ownership or local capital in Chinese investments. Moreover, the employment level in such firms is very low for both Kenya and China. In the beginning, the interest of Chinese investors was in manufacturing, but nowadays there is a great shift towards services sub-sector.

In order to summarize, it is necessary to mention that Kenya together with Nigeria became the key focus for China`s investment interest and economic strategy in Africa and Chinese investments have definitely influenced the whole country but

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mainly economic and social development. China`s involvement in numerous road construction projects in Kenya is the direct proof of improvement of the overall situation in the country. Kenya is the country with a stable political situation that made it an ideal regional base for Chinese investors to expand their trading business. Nowadays, China is offering favorable loans to Kenya, builds hospitals and schools in the less-developed areas and sends volunteers to train the locals.

The impact of Chinese trade and foreign investments has different dimensions and influence on the economic and social development and it can be both positive and negative. There are some gains from the cheap products and equal quality both for consumer and producer of goods. Moreover, local producers are the losers due to competition pressure, but more often they can get cheaper supply or producer goods. Nowadays the implications of China-Kenya economic relations have intricate dimensions with direct and indirect consequences. The majority of indirect impacts relate to the loss of regional markets and the opportunity to take part in the international trade that has been lost. Chinese investments present an opportunity for technology transfer and the possibility of upgrading local enterprises. In some regions of Kenya, Chinese investments threaten the rights of workers and there must be some steps taken in solving this problem.

In order to expand cooperation in the fields of education, culture, tourism, health, environmental protection and further build up mutual understanding and stable and prosperous relations between both countries, a number of two-side initiatives are on-going. In order to attract Chinese investment in the tourism sector resulting in direct flight connections between China and Kenya, Kenya and some other countries in Africa have been granted “Approved Destination Status”. The popular tourist destinations of Egypt and South Africa were the first countries to be granted such status. In June 2006, China and Kenya signed a memorandum for setting up the website called “Kenya-China Economic and Trade Cooperation” in order to strengthen trade relations between two countries.

It is a well-known fact that China should build a stronger social basis for China-Kenya relations. Lacking a non-governmental capability, current people-to-people exchanges have more negative than positive contributions. It is important to strengthen NGOs and civil society groups to nurture these relations, create better platforms for public diplomacy and diversify diplomatic skills and stakeholders.

It is necessary to put huge efforts to build human capital and overcome language and cultural differences between two nations in order to facilitate the transfer of business knowledge and technology to a wider array of the Kenyan population. For example, when China`s government is employing Chinese people to work in Kenya they should provide all possible ways to transfer knowledge and new technologies to Kenyan population in order to raise the countries human capital and to develop its technology. Mutual exchange between Chinese and Kenyan businessmen should be supported with business schools and public administration institutes focusing on building competences, leadership skills and values.

Another step for Kenya is to learn from the successes and failures of other states relations with China and their policies towards economic and social development at the same time learning from their own practices. It is important for these two countries

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to conduct the investigation as well as the examination of the policies that are beneficial for long-term development and the areas that must be improved. It will be helpful for Kenya to examine the United States` relationship with China and replicate successful policies. Kenyans could certainly learn from Western experts about better management of a difficult economic situation as well as protecting the economy from foreign competition.

Moreover, there is a great need to ensure the implementation of laws and regulations in Kenya, to ensure compliance by the Chinese investors. Such laws include labour law, social responsibility law and local content requirement. The Raw Material Development Council (RMDC) should see to compliance with local content requirements by all foreign firms (Olugboyega, Oyeranti, Adetunji Babatunde, Olawalle Ogunkola and Abiodun S. Bankole, 2010).

China`s investment relations with Kenya just like any relationship has some pros and cons. This suggests that optimal outcome of the relationship will depend on the policies and institutions that are put in place to maximize the positive effects and to minimize the competing effects.

In order to strengthen China-Kenya cooperation, it is necessary first of all to build strong institution, as the practice from other African countries shows that simply transferring these institutions is not enough. First and for most, it is necessary to reduce corruption and be transparent and have a strong leader and accountable governance. A far as middle class is dependent on economic growth, the time is an important factor in institutions building but it is always necessary to start with little steps.

Kenya can do more business with China because there is much knowledge to be gained from China. However, Kenya will need to restructure its foreign policy because poor governance and lack of transparency exists, following through on formal trade agreements to accommodate the realities of new emerging economic powers such as China.

Sub-Saharan African countries run a trade imbalance when China is involved. The low quality manufactured consumer goods imported from China caused a major loss to Kenyan textile and manufacturing industries. The Chinese companies more often are hiring Kenyan workers; however, most of these workers are relegated to doing more physical intensive jobs than the Chinese workers, which is already an imbalance. Therefore, Chinese relations with both countries will be more beneficial when the trade imbalances can be reversed to match this win-win cooperation.

It is important that China pave the way for future mutual interdependence between China and Africa. China needs to adapt, strengthen and protect its relationship, and also learn how to build a real friendship between rising power of China and constantly developing African continent.

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