
Michael Chege

Introduction

Few subjects in contemporary international relations cause as much excitement and controversy as the current rise of economic initiatives by the Peoples Republic of China in Africa. Speaking from the sidelines of the November 2006 China-Africa Summit, Wenran Jiang, a political scientist from the University of Alberta, commented that no major power had accomplished what China, a developing country with big-power ambitions, had done that month: to bring 48 out of 53 African heads of state to Beijing for a conclave on aid, trade, and economic cooperation. “I don’t see any parallel in history. The U.S. never did this nor did Russia…symbolically, this is a very, very big event.” Economic deals emanating from the Beijing forum between the 48 African countries and China amounted to $1.9 billion. Writing in Africa’s leading periodical, New African, the Nigerian columnist Femi Akomolafe claimed to be joyous about the increased presence of China in Africa. On the other hand, Human Rights Watch in New York deplored the absence of human rights violations (in Sudan and Zimbabwe especially) from the summit’s agenda. Antoine Halff for his National Interest article picked a catalogue of African denunciations of Chinese neocolonialism, polluting industries, cheap goods, and “mercantilism.” Writing for South Africa’s influential Business Day, columnist Alan Beattie also warned that “the money China is pouring in, despite protests of good intent, does have potentially malign consequences for the economies and politics of the continent,” citing adverse environmental factors and the risk of unsustainable public debt.

But the excitement spurred by the subject goes beyond such sharp differences in opinion. Compared to well-worn subjects like global terrorism, the wars in Iraq and Afghanistan, the Middle East, Caesar Chavez, and the interminable negotiations of the Doha Round, the escalating trade and investment activities of China in Africa, particularly in the exploitation of natural resources, comes with a sense of novelty, even drama, sparked by speculation about China’s political motives and their consequences on “Africa” and “Africans,” often presented in these discussions as single, undifferentiated entities. In alarmist terms, it is speculated that China intends to exploit African resources to consolidate the country’s claims to super-power status, in which case

3. Antoine Halff, “The Panda Menace,” The National Interest (July/August, 2007). Halff is convinced nonetheless that the United States should constructively encourage, not hinder, China’s economic initiatives in Africa.
China’s preemptive “grab” of choice resources from Africa could provoke new competition among the world’s most powerful states, reminiscent of the “Scramble for Africa” in the 1880s. A new “scramble for Africa” is in fact a recurring theme of the growing literature and political commentary on the consequences of China’s new economic role in Africa. And what if China comes out on top as a result of its Africa strategy? Some contend that this would be the beginning of the end of Western interests in Africa. Forget the tired subjects of contemporary international relations. A new global power game could be shaping up unobserved in Africa. That is new and worthy of attention.

Unfortunately, a solid and objective understanding of the brave new world likely to be sparked by China’s resounding economic entry into Africa has been poorly served by most of the academic and nonacademic literature on the subject, which can be split into two broad categories. At one extreme, there is a growing literature based on a hyped “yellow peril in black Africa” syndrome blending into supposedly academic analysis on the subject, which shockingly reproduces some of the worst racial stereotypes this side of the Civil Rights Movement. The majority of what is written in this genre makes sweepingly alarmist, exaggerated, and ominous predictions on the long-term impact of China’s trade and investment initiatives in Africa, for the West and for Africans. To the extent that it is based on any economic analysis, it tends to see China-Africa trade and investment as a “mercantilist” zero-sum game, in which Africa is mostly likely to lose while China gains.5 In many ways, the literature faithfully but unwittingly reproduces the old Marxist-oriented and now-discredited “underdevelopment” and “dependency” theories of the 1960s and 1970s, under which exploitation of African natural resources by Western multinationals led to extended African poverty and super profits to the West. Goods in Africa are said to replace African products and retailers in much the same way as Western trading companies of the colonial era allegedly did.6

Much of this flies in the face of the historic economic gains that China and East Asia made from global commodity trade and investment in the second half of the last century. Often highly speculative, some of this commentary contends that China’s imminent displacement of Western political and economic interests in Africa will jeopardize prospects of widely shared prosperity, economic liberalization, and democratization, guided by Western states and the Bretton Woods institutions, just when reforms are beginning to show promise. Like the dependency theorists, this literature treats Africans as inert pawns in a big power game. In condescending terms, some of it authors make the case for more Western technical advice on building of institutional capability to enable Africans to weather the self-serving schemes of a cunning China. This ignores the diverse forces of agency among African states, investors, and business groups. One must wonder what is meant when African states are urged to avoid “unequal relationships” (another favorite of the dependency authors) and to “recognize that there are important areas where their national interests diverge from Beijing’s”—the most elementary rule in international relations.7

Fortunately, not all the writing on China’s policies in Africa takes on the alarmingly speculative and analytically mistaken characteristics of this trend. There is a growing but well-informed mi-

minority opinion, to which this paper is wedded, that treats China’s contemporary economic activities in Africa as no more than a subset of globalization; that is, south-south trade and investment, partly underwritten by Western finance and technology in which the north and the south stand to gain. Subject to rule-based economic interaction between states, China’s entry into Africa has the potential to increase economic and political competition in the continent that would result in an overall welfare gain for African peoples. The rules at issue are the need for a more liberal multilateral trading and investment system, now hostage to political interests in the Western world and some developing countries.8

This does not imply that China’s transgressions in supporting African dictatorships should be overlooked. Far from it. The problem of how the democratic world (and the United Nations) should deal with tyrants and serial abusers of human rights—in places from Burma to Sudan to Zimbabwe today (and who knows where else tomorrow)—should be dealt with as a separate issue, whose solution lies in diplomatic and military responses as much as in economic and commercial ones. Moreover, the problem of big power support for tyrannies abusing human rights in Africa is not one that can be restricted to China. As The Economist recently reminded its readers, “China is not the only country to prop up brutish regimes” in Africa, citing the example of French support for Chad’s Idriss Deby among others.9

To find out whether the speculative perversity hypothesis presented here or its opposite, beneficial globalization as espoused in this paper, fits best the realities of Chinese economic relations with Africa, it is necessary to test both positions against available empirical evidence. One way of doing so is to examine the universe of China’s commercial and investment activities in Africa, using historical trends or cross-section data from different countries in order to find out if they confirm or refute either of the two positions. Another approach, which this paper adopts, is to analyze the effects of China’s economic interaction with African states on a country-by-country basis.

It begins with the backdrop to contemporary economic relations between China and Kenya by revisiting the hostile relations between the two countries in the Mao Zedong era, over the relevance of a socialist revolution in Kenya. In the wake of Deng Xiaoping’s “four modernizations,” that hostility gradually mutated into a fruitful phase of interaction between China and Kenya. From the evidence presented by this paper, economic interaction between China and Kenya—particularly after 2002—derogate from the received wisdom of a predatory China let loose among hapless Africans (at worst) or a calculatingly benign Beijing out to gain more from the deals than its African partners (at best). It also brings into center stage, the power of agency, demonstrating that African states are indeed capable of making choices that benefit them in the intensified phase of trade and investment in cooperation with China. It concludes that Kenya’s case may not be as exceptional as it seems at first blush.

8. See in particular Harry G. Broadman, Africa’s Silk Road: China and India’s New Economic Frontier (Washington, DC: World Bank, 2007). The author is indebted to many perspectives in this pioneering book. See also Andrea Goldstein, Nicholas Pinaud, Helmut Reisen, and Xiaobao Chen, The Rise of China and India: What’s In It For Africa? (Paris: OECD Development Centre, 2006), which argues that although the impact of the rise of China and India in Africa will be differentiated, its impact will be largely positive provided African countries take measures to avoid resource dependency and “Dutch Disease” from the influx of foreign mineral earnings.

The Mao-Kenyatta Era: Differences over Revolution

Kenya acquired its independence from Britain in December 1963, and diplomatic relations with the People's Republic of China, as opposed to Taiwan, were established soon after, courtesy of the radical left wing of the ruling Kenya African National Union (KANU) party led by then KANU vice president and Minister for Home Affairs Jaramogi Oginga Odinga. On February 5, 1964, Wang Yutien was appointed China’s ambassador to Kenya. For the KANU left however, harnessing China’s revolutionary agenda and that of their own to the emerging trajectory of independent Kenya proved more difficult than they had bargained for. Not only did they meet stiff resistance from the right wing of their own party and from entrenched Kenyan capitalist interests, but they also suffered machinations from Western intelligence operatives in Nairobi that saw them sidelined from the mainstream of Kenya politics by the late 1960s. As a result of this internal acrimony and the decline of the left, China-Kenya relations went into cold storage for a decade and did not begin to thaw until after Mao’s exit from the stage in 1976 and that of Kenyatta two years later.

Economic ties between Kenya and China, however, antedate independence. As a British colonial state, and despite the Cold War, Kenya was exporting raw materials to be processed in China in the 1950s and early 1960s: sisal fiber, raw cotton, wattle bark extract, and pyrethrum. In return, Kenya bought semi-processed and finished products from China: base metals, tea, fabrics, fruit preparations, and sundry manufactured goods. In 1963, Kenya’s last year under colonial rule, the volume of trade between the two countries amounted to 9.2 million Kenya shillings ($1.2 million at the prevailing exchange rate), and it was largely in Kenya’s favor: Kenya’s exports were valued at thrice what the country bought from China. In the following year (1964), however, the value of Chinese exports to Kenya rose, and they were more diversified than they were previously. It is interesting to note that the new product range (at the height of Maoism) essentially differed little from that observed at the close of the twentieth century: paper, stationery, cotton yarn, textiles, sheet glass, and household items like clocks, chinaware and porcelain, toys, hand tools, and bicycles.10 Kenya’s export product range to China did not change immediately after independence either, but the volume of trade rose to thrice that of pre-independence levels. However, it is worth observing that this trade was a tiny proportion of the volume of international commerce transacted by the two states. But it was a foundation on which much else was to be built in the ensuing period.

In July 1964, the Chinese ambassador paid a visit to then Minister of Finance James Gichuru to negotiate economic and technical cooperation between the two countries. They soon agreed on the dispatch of a Chinese delegation of 15 experts to Kenya in order to nail down specific areas of economic cooperation. Meanwhile the relevant departments in the Kenya government were invited to forward suitable project proposals to the Ministry of Finance. From a long list of proposals from the Kenya side, the Chinese delegation in early 1965 committed itself to the construction of a textile factory and a sugar refinery, both to be financed from the sale of Chinese consumer goods provided gratis to Kenya.11 This was customary Chinese “aid” at the time. Offers to train Kenyans in the skills of ivory and bamboo carving in China were thrown into the bargain. None of these proposals was to see the light of day.

Instead, they fell victim to the internal political schism within the Kenya government between

the radical left in the ruling party (which favored socialism and closer ties to the Soviet bloc and China) and the increasingly dominant faction of the party led by President Jomo Kenyatta and KANU party secretary General Tom J. Mboya, which preferred a “mixed economy,” predominantly driven by the private sector but with ample room for producer cooperatives, state-operated enterprises (the “parastatals”), and small-holder production for the market. Kenyatta and Mboya were suspicious of Chinese political intentions in Kenya at the time (with good reason) and were determined to increase cooperation between the new state, and the United States, Britain, and Western Europe.12

Shortly after independence, Jaramogi Oginga Odinga led a high-powered Kenyan “good-will delegation” to Beijing to discuss enhanced ties between the two countries. Even though the delegation consisted mainly of his allies in the party, he had the full support of Jomo Kenyatta at the time. In Beijing, Odinga implored China to join independent African states in a war against apartheid South Africa and the remaining colonial territories on the continent.13 Imperialism and colonialism, he told his hosts, were a mutual enemy of China and Africa. His ally, Information Minister R. Achieng Oneko, followed suit in August 1964 and met then Chinese vice premier, military commander, and minister for foreign affairs Marshall Chen Yi, no less. This was no minor achievement considering Marshall Chen Yi’s high profile in China’s political establishment at the time.

Earlier in the same year, Chinese premier Chou En-lai had made his famous statement about an “excellent revolutionary situation in Africa” after a visit to some 10 African countries. The Kenyatta government’s immediate response was that the Chinese premier’s expectations did not apply to Kenya, as it had already completed its anticolonial revolution in the previous decade. Relations between the two countries throughout 1965 were tense, reflecting the divisions in the cabinet. In March 1966, Kenya expelled the third secretary in the Chinese embassy, Yao Chun, on suspicions of plotting subversion. He had in fact protested at the adoption of a motion by Kenya’s Senate condemning Chou En-lai’s “ripe for revolution” remarks. In the growing internal breach, speeches were made by the anti-China side in Kenyan Parliament warning against imperialism from the Eastern bloc, led by cabinet ministers close to Kenyatta and Mboya. As left and right in the ruling party fought it out, China became even more closely identified with the left wing of the ruling party, much as the Western states were associated with their opponents. The prospective economic ties between China and Kenya were the first casualty of this two-way struggle. Relations between the two states deteriorated, ending in diplomatic break in 1967.

As the war of words between the two sides escalated, the Chinese embassy protested against speeches by three cabinet ministers in Parliament—Mboya, J.N. Osogo, and Daniel arap Moi—claiming that they had subjected the Peoples’ Republic of China “to slander, vilification and grave provocation.”14 Moi in particular was accused of “brazenly vilifying China.” In August 1966, the Red Guards held a demonstration outside the Kenya embassy in Beijing, pasting it with posters protesting Kenya’s “reactionary politics” and breaking some windows. The Kenyan government handed a protest note to the Chinese embassy in Nairobi, but unable to get a satisfactory explana-

12. The left lost the battle and was evicted from government in April 1966. The epic struggle between the two factions in the party, waged with partisan support from the respective blocs in the Cold War, is narrated in Cherry Gertzel, The Politics of Independent Kenya (Nairobi; Heinemann Educational Books, 1968) and by the U.S. ambassador to Kenya at the time, William Attwood in his memoirs, The Reds and the Blacks (New York: Harper and Row, 1967).


tion, it recalled Kenya’s ambassador to China. In apparent retaliation to the Red Guards’ actions, youths affiliated with Kenya’s ruling party KANU staged a counterdemonstration outside the Chinese embassy in Nairobi, during which some of the embassy’s windows were broken. In June 1967, Kenya declared the Chinese chargé d’affaires persona non grata, ordering him out of Kenya immediately. Since the Chinese ambassador was on leave in China, this left the embassy without any serious top-level representation. In response, China expelled the Kenya chargé d’affaires in July 1967, leaving the Kenya embassy there without any top-level representation—a condition analogous to that of the Chinese embassy in Nairobi. The Chinese ambassador did not return to Kenya after his leave was over, and his Kenyan counterpart did not go back to Beijing either. With the ambassadors and their deputies now out of their stations, China and Kenya had severed diplomatic relations in all but name. This remained the case for 11 years. The economic dreams of 1964 could not therefore be realized. This was to remain the case until Mao Zedong and Jomo Kenyatta had exited from the scene. The thaw began with the first visit to China by a Kenyan head of state, when President Daniel Arap Moi (Kenyatta’s successor) paid a state visit to China in 1980.

Yet even then, economic and political relations between Kenya and China did not immediately assume the proportions that worried some observers 20 years later. They went through a transition from state visits for the first time in history, and confidence-building mechanisms at the highest levels of both governments that cascaded downwards to the levels of cabinet ministers, legislators, and leaders of the ruling parties in both countries. This was followed by the obligatory “friendship” agreements that typified China’s relationships with African countries in that era, followed by more detailed arrangements on development projects, technical assistance, and limited state-managed trade. The phase of freer trade and investments that was to characterize economic relations between the two countries in the first decade of the twenty-first century had yet to begin. But the confidence-building mechanisms, the toning down of revolutionary and counterrevolutionary rhetoric, and the new efforts at promoting trade and economic development in the 1980s helped lay the foundation for change from the politically charged climate of the 1960s and 1970s to the mutually beneficial era of the opening decade of the new century.

Transition to the Business and Investment Era

President Moi, the same man who had repeatedly accused China of plotting revolution in Kenya in the 1960s, lost no time in reaching out to the post-Mao People’s Republic of China. Moi’s main motivation was to diversify the sources of Kenya’s external development funds, but the visit also had a subsidiary agenda: to secure new development projects for Moi’s Rift Valley home region in order to shore up his political base. Moi held talks with China’s de facto leader, Vice Chairman Deng Xiaoping, and Prime Minister Zhao Ziyang. Kenya had dispatched an ambassador to China at the end of 1978, thus opening the embassy that had been technically closed at the height of the “Cultural Revolution” in 1967. China had in the meantime appointed an ambassador to Kenya. Ji Pengfei, the then vice premier of China’s State Council, visited Kenya in August 1980, and Moi paid a state visit to China a month later, the first of the three he was to make there before his retirement in 2002.15 The man who had berated China in Kenya’s parliament in 1966 now came back full of praise for China’s modernization, orderliness, and cleanliness. By the time he left office in 2002, Moi had succeeded in endearing of himself to the political authorities of the People’s Republic of China. Moi’s initial state visits opened the way to a flurry of negotiations and diplomatic exchanges at

15. The others took place in October 1988 and May 1994.
lower levels of government. Between 1978 and 2000, two Kenyan foreign ministers led strong delegations to China: Wilson Ndolo Ayah in 1991 and Bonaya Adhí Godana in 1999 and 2000. KANU leaders and parliamentarians led by the Speaker followed suit. But this was a trickle compared to the number of top-level Chinese delegations that came to Kenya in the Moi years, indicating how seriously China took Kenya, the gateway to eastern Africa and the most developed and diversified economy in the region. Between 1980 and 2002, 20 top-level Chinese diplomatic entourages came to Kenya. They included Prime Minister Zhao Ziyang (1983), Foreign Minister Wu Xueqian (1987), President Jiang Zemin (1996), and Prime Minister Zhu Rongji (2002). These visits in turn spurred lower-level technical exchanges and activities, such that by 2000 in Kenya, the press reported an important development or commercial initiative involving China virtually every month of the year. At this point it should be observed that China did not just come to Kenya as a donor and as the beneficiary of “mutual trade and cooperation.” As a rapidly modernizing developing economy making the transition from Communist-era central planning to globally competitive production, China was also in Kenya to learn from areas where Kenya had made outstanding progress like agriculture and tourism.

As a result of Moi’s first visit to China in 1980, Kenya and China concluded two agreements. The first one was on “economic and technological cooperation,” covering a wide variety of projects: a new sports stadium (which had been under discussion since 1977); technical support to two new universities; scholarships; and military and cultural exchanges. The second one was another state-managed trade agreement between Kenya and China that resembled those of the 1960s in many ways. Typical of China at the time, this involved exchanges of goods between a China state trading agency and its equivalent in Kenya. The most important component of the economic cooperation agreement, however, was the Moi International Sports Center in a suburb just outside of Nairobi’s central business district. It was built at the cost of 930 million Kenya shillings (approximately $52 million), 48 percent of which was financed by Kenya. It included a sports stadium with a seating capacity of 60,000 people, an Olympic-size swimming pool, and a modern gymnasium thrown into the bargain. It was intended for completion in time to host the fourth All-Africa games in 1987 and to thus showcase the new China-African cooperation to all of Africa. China’s contribution to the construction costs (52 percent) was funded by an interest-free loan from China, thus marking a break from the Chinese commodity-financed projects of the 1960s and 1970s, like the aborted Kenya textile mill in 1964.16

Under the economic cooperation grant, China also constructed a new teaching hospital at the brand new Moi University in Eldoret, the Gambogi-Serem highway, and provided teaching equipment at Egerton University. All these projects were located in Moi’s Rift Valley Province homeland, although, to be fair, they did serve a national constituency. China committed itself to providing 10 scholarships annually to Kenya and two top-level military exchanges per year.17 But it was not all a one-way affair. Keen to develop its own tourist industry, China in 1980 requested Kenya to train Chinese students in tourist management at Utalii College in Nairobi, Kenya’s flagship training institution for skills in the tourism industry. Chinese officials also seemed interested to learn from

16. Most equipment and construction material came from China, but from Kenya too. After some false starts, the complex was completed in time for the All-Africa Games.

17. That Kenya was looking after its own interests is demonstrated by a 1980 agreement signed with the United States, which allowed the U.S. Rapid Deployment Force to use Kenya ports and some bases. Kenya’s army received equipment and training from the United States and still does.
Kenya's tea and coffee sectors—products that were to feature two decades later in its agricultural modernization drive. Kenya replied positively to both requests.

In view of the remarkable transition that was made in China-Kenya trade in the run-up to the second half of the 2010 decade, it would be necessary to observe that while there was little growth, much less diversification, in Kenya's exports to China in the 1980s. It should be observed that there was little growth, and much less diversification, in Kenya's exports to China in the 1980s. It was not until the second half of the 1990s that Kenya's imports from China picked up. This can be seen in figure 1, which shows that there was very little change in the value of Kenya's exports to China between 1980 and 1993. Kenya's imports from China picked up, especially in the second half of the 1990s. Figure 1 compares the trends in China-Kenya trade in the 1980s and 1990s. It is clear that there was very little change in the value of Kenya's exports to China between 1980 and 1993. At no time in those years did Kenya's exports to China exceed $5.1 million. Apart from 1983, when they hit an all-time low, Kenya's imports from China ranged between $12 million and $24 million from 1980 to 1993. All of this was a small part of each country's total trade. The proportion of Kenyan exports to China between 1980 and 1999 was less than 1 percent of Kenya's world exports.

In contrast to the sluggish growth in exports to China, Kenya's imports from there grew gradually from an average of $10.81 million between 1980 and 1985 to an average of $29.3 million between 1990 and 1994. Trade then picked up after 1995 when imports from China amounted to five-fold their 1989 value. Unlike the early 1960s, the trade balance now favored China. And it was a sign of coming change: total trade in 1999 was about four times that of 1980.

The phenomenal growth of Kenya's imports from China after 1994 deserves an explanation particularly in view of the fact that the Kenyan economy was undergoing a most difficult phase.
over these years. Kenya’s real GDP grew at an average of 1.9 percent between 1990 and 2003, while income per head declined by 0.6 percent over the same period.\textsuperscript{18} The rapid increase in Kenya’s imports from China (or elsewhere) in the second half of the 1990s therefore did not originate from rising incomes in Kenya. It originated from two other sources. First, Kenya fully liberalized the exchange rate in 1994 as part of its economic liberalization program, with World Bank and IMF support. This made it possible for Kenyan firms and citizens to purchase foreign currency to import goods at lower real prices than before because the reform program had also reduced external tariffs, substantially. Second, China’s industrial modernization, using domestic and foreign capital (Asian and Western) was turning out products that Kenyan’s (and Kenyan industries) desired at more competitive prices than other suppliers, including those based in Kenya. What was happening was displacement of import sources and local suppliers in favor of China. Chinese exports to Kenya now consisted of household electrical appliances, capital goods, agricultural tools, textiles, drugs, building materials and equipment, and machinery. They were thus more diversified than they were in the 1960s and 1970s. For the first time, Kenyan firms and individual traders began traveling to Dubai and then eastward to Hong Kong and mainland China to obtain products directly rather than through intermediaries like the old state trading corporations. It is worth noting that despite repeated efforts by both governments to boost the volume of Kenya’s exports to China, the balance remained still overwhelmingly in favor of China.

**Cooperation in Making Money: 2002–2007**

The much despised Moi government gave way to a broad-based reform coalition (the National Alliance Rainbow Coalition or NARC), which won the 2002 general elections, the third in a series of competitive elections the country had held since 1992 when KANU acceded to the principle (but not the spirit) of competitive multiparty politics.\textsuperscript{19} The government had presided over a slow-motion economic calamity that brought the average annual GDP growth rate down from the 7 percent (1970–1979), when it came into office, to 0.6 percent in 2002. It had also raised the national poverty level from 48 percent in 1982 to an estimated 56 percent in 1997.\textsuperscript{20} The Moi government had an appalling human rights record and had instituted systematic terror against political opponents. China overlooked these realities as it strengthened its economic relations with Kenya—but then so had some Western governments like Britain (until the late 1990s) and France. One can argue that, amid the many failures of the Moi era, one positive development it made was to lay the foundations for improved trade and economic cooperation with China, thereby diversifying the country’s investment sources and widening the country’s access to external markets, without jeopardizing existing ones.

When President Mwai Kibaki took office in January 2003, his government instituted a broad governance and economic reform program that produced economic recovery within three years.

\textsuperscript{18} The data are from World Bank, *African Development Indicators* (Washington, DC: World Bank, various years), http://publications.worldbank.org/ecommerce/catalog/simple-search?has_results_p=1&search_type_to_pass=title&search_text=african%20development%20indicators.


and accelerated growth thereafter, resulting in the longest period of sustained growth (2003–2007) since the roaring Kenyatta years. GDP growth rose from 2.9 percent in 2003 to a projected 7.1 percent in 2007. Poverty levels declined from 56 percent in 1997 to 46 percent in 2006, according to the best household expenditure survey done on the country to date. Economic growth was broad based, originating from all sectors of the economy: agriculture, tourism, wholesale and retail trade, manufacturing, telecommunications, construction, transport, and the financial sector. The government instituted free primary school education in 2003 and also improved the delivery of health care particularly to the most needy. As a result, HIV-prevalence rates fell from 15 to 6 percent between 1999 and 2004.

Most of the investment driving this growth was domestic. Unlike many other African states, external aid to Kenya accounted for only 5 to 10 percent of the budget over this period, and foreign direct investment (FDI) inflows, though growing exponentially by 2007, were modest in comparison to local capital formation. The United Nations Conference on Trade and Development (UNCTAD) estimates cumulative FDI into Kenya from 2000 to 2004 at $402 million—an annual average increase of $50 million—which, as in 2006, was much smaller than the annual gross fixed capital formation. FDI sources were still largely European and mostly British. Yet even if investment from China (or elsewhere) did not play a central role in this economic turnaround, prospects for profits in the reinvigorated economic life of Kenya were already attracting external investors keen to gain a foothold in a promising economy. Corporations choosing to invest in Kenya were not necessarily attempting to spur economic growth; rather, they were investing in an already growing economy in which they saw an opportunity for profit. By 2007, General Electric, Virgin Atlantic, Google, Hewlett-Packard, Cisco, and Tata of India (among others) had opened offices in Kenya. The spectacular rise of Chinese trade and investment in Kenya during the Kibaki years followed similar profit-seeking motives.

China-Kenya economic relations in the Kibaki era also began with high-level political contacts between the two states followed by a series of agreements. But this time unlike in the past, independent operators from Kenya and China were part of the act. President Mwai Kibaki made a state visit to China in August 2005, with 11 Kenyan trade- and investment-seeking delegations in tow. He held extensive talks with President Hu Jintao and Chinese government officials, resulting in 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. President Kibaki’s delegation also paid the obligatory visit to Shanghai, where he held discussions with its mayor Han Zheng, on the functioning of special export industrial zones. Kenyan business delegations explored prospects in tourism, joint ventures in power generation, and machinery.

This visit was followed by a highly successful Chinese trade exhibition in Nairobi in mid-2006.

---
22. Compared to $4.1 billion in gross capital formation in 2006, FDI that year was $50.1 million. The year 2007 could turn out to be an all-time record following the privatization of 51 percent of Kenya Telkom, which brought in US$400 million to the government from the new majority owner (51 percent) France Telkom and US$170 million invested into Equity Bank (the fastest-growing bank in Kenya) by Helios, a London-based private equity fund.
23. As of 2005, about 70 percent of Kenya’s FDI originated from Western Europe and the rest from South Africa, India, and other Asian countries. See UNIDO, Africa Foreign Investor Survey 2005 (UNIDO, 2005) p.35.
Meanwhile a Chinese trade delegation came to Nairobi following up clues and suggestions from the China Trade Center in Nairobi—the largest in eastern Africa—all the time protesting that they were in Kenya to buy more local products rather than sell Chinese ones. In April 2006, President Hu Jintao visited Kenya, as part of a five-nation tour that took him to the United States, Saudi Arabia, Morocco, and Nigeria, once again indicating the seriousness with which China was taking Kenya. The reasons behind this can be read in the trends over the last five years in trade, the rise in official development assistance, investment in the construction industry (particularly roads), and the so-far futile prospecting for oil in northeast Kenya and the coast. It would be useful to look at trends in each of these sectors more closely.

**Trade**

As a result of new investment and trading opportunities in Kenya’s expanding economy, Kenya’s imports from China continued to rise along the lines we observed in the 1990s, but this time the pace was even faster. Imported Chinese goods to Kenya rose by a factor of three between 2001 and 2005, from $139 million to $457 million.\(^{24}\) In addition to the increase in value, the composition of imports was also changing as the breakdown of trade between the countries in 2006 shows (see table 1).

Table 1. Composition of Kenya’s Trade with China, 2006 (in thousand U.S. dollars)

<table>
<thead>
<tr>
<th>Commodities</th>
<th>Domestic Exports</th>
<th>Percent</th>
<th>Imports</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Food</td>
<td>2,981</td>
<td>15.7</td>
<td>3,102</td>
<td>0.8</td>
</tr>
<tr>
<td>2. Beverages and Tobacco</td>
<td>n</td>
<td>n</td>
<td>n</td>
<td>n</td>
</tr>
<tr>
<td>3. Crude (non-fuel) materials</td>
<td>12,751</td>
<td>67.0</td>
<td>1,622</td>
<td>0.3</td>
</tr>
<tr>
<td>4. Mineral fuels/lubricants</td>
<td>n</td>
<td>-</td>
<td>1,622</td>
<td>0.4</td>
</tr>
<tr>
<td>5. Animal/vegetable oils</td>
<td>7</td>
<td>0.0</td>
<td>53</td>
<td>n</td>
</tr>
<tr>
<td>6. Chemicals</td>
<td>288</td>
<td>1.5</td>
<td>40,714</td>
<td>10.0</td>
</tr>
<tr>
<td>7. Manufacture Goods</td>
<td>2,902</td>
<td>15.3</td>
<td>201,429</td>
<td>49.0</td>
</tr>
<tr>
<td>8. Machinery/Transport Equipment</td>
<td>91</td>
<td>0.5</td>
<td>163,678</td>
<td>39.7</td>
</tr>
<tr>
<td>9. Miscellaneous</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>19,020</strong></td>
<td><strong>100</strong></td>
<td><strong>412,217</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Customs Department, Kenya Revenue Authority, 2008.

n = negligible

Applied exchange rates are those of the IMF for 2006.

From table 1, which is typical of China-Kenya trade in the past eight years, it is evident that in addition to volume growth, the composition of China-Kenya trade had changed considerably from the period of the 1960s to the 1980s when Kenya sent agricultural products to China and received lower-end consumer goods and textiles in return. In the post-liberalization period, the value of

Kenya’s traditional exports to China (food, beverages and tobacco) amounted to about $3 million (16 percent of total exports), a declining share. The bulk of Kenya’s exports to China consisted of two new major commodity classes: (i) unprocessed nonfuel materials (mainly soda ash and recycled metals), which contributed 67 percent of all exports’ and (ii) most interestingly, manufactured goods which accounted for 15.3 percent.

On the import side, the change in commodity composition was just as dramatic. Although the volume of imported Chinese household consumer goods continued to rise, other manufactured goods (electronics, building fittings, office equipment, medicine, furniture, etc.) now dominated the manufacturing category, which on its own accounted for half of all Kenya’s imports from China. Significantly, about 40 percent of the Chinese imports to Kenya were made up of machinery and transport equipment, for industrial and agricultural production, and the services sector. In other words, although Chinese household consumer goods continued to find their way into the Kenyan market by dint of competitiveness, a large proportion of imports from China went to fuel productivity in building construction, agriculture, and the industrial sector of a resurgent economy. Both countries gained from this. In February 2006, the Kenya government removed all duties on computers and computer components, thereby adding another item to the growing list of rapidly increasing goods from China, which in this case helped strengthen a nascent information and communications technology (ICT) sector mostly in Nairobi and Mombasa.

There is a popular view among critics of China-African relations that Chinese imports are ruining the African manufacturing sector. Chinese retailers are said to be edging out African ones, as if African consumers are not the ones who decide whose business to patronize as in all market economies. Chris Alden, for example has claimed that this was happening in Central Kenya.\(^{25}\) In fact the opposite was true. Retail trade in Kenya is overwhelmingly dominated by small scale, “informal sector” operators, and nowhere more so than in Central Kenya and Nairobi. The products traded include local manufactures (bottled drinks, toiletries, cigarettes, processed foods), local farm produce, and—for sure—imported goods including many from China, notably clothing and textiles, electronic goods, and home-construction components. The retail trade sector has been one of the drivers of Kenya’s renewed growth. From a decline of 2.5 percent in 2002, wholesale and retail trade has steadily grown to the rate of 11 percent in 2006, among the four fastest growing sectors.\(^{26}\) Wholesale and retail trade was also labor intensive in a job-scarce society. There were gains, therefore, for exporters to Kenya (like China) and for Kenyans themselves.

Neither did Kenya manufacturing suffer as a result of Chinese imports. The manufacturing sector in Kenya grew at between 4.5 and 7 percent between 2003 and 2006.\(^{27}\) Kenya’s manufactured products were diverse and growing, ranging from food processing, textiles, wood products, footwear, paper products, cement, chemicals, industrial equipment, and medical drugs. These were sold in local and regional markets of eastern Africa, but exports to Europe and the United States were also growing.\(^{28}\) Those were the same products China critics claimed were being displaced by the

---

25. Chris Alden, “China in Africa,” *Survival* 47, no. 3 (2005): 156. In a sweeping statement typical of this literature, Alden claims that “across the continent from Namibia to Central Kenya, traditional products and retailers have been edged out by Chinese businesses.”


“flood” or “tsunami” of cheap Chinese goods. Kenya’s manufactured output therefore rose even as imports from China were rising to record levels. Both Kenyan retailing and manufacturing businesses, therefore, were expanding in spite of the country taking a record Chinese imports—and in some measure because of those imports.

To be sure, there were some serious problems in Kenya’s trade with China, but these are not of the kind that draws criticism from the critics of China-African economic ties. One perverse effect of Kenya’s exports to China, for example, is the increasing procurement of local scrap metal for sale to Chinese companies. As we saw from table 1, “crude” metals, are one of the fastest rising Kenyan commodity exports to China. These go to meet China’s well-known appetite for metals like iron and copper. Not all of it, however, is legally acquired. Kenya has in fact witnessed the growth of criminal syndicates that steal telephone and electric wiring and then smelt it into copper for export to China. The same thing is happening in iron and steel edifices that are pilfered, broken down, and then exported as scrap metal. One might call this export diversification via theft and plunder. The government has taken action in the last two years to stop these activities. Arrests and prosecution followed, but it remains a problem all the same. Corrective action is therefore necessary on the part of the Kenyan law enforcement machinery. Equally important, the rules governing trade regulation between the two countries call for a closer look, something best done in multilateral fora like the World Trade Organization (WTO) since the problem affects other countries in the region too.

Development Aid

Although as stated earlier, Kenya is not as aid-dependent as most of its African neighbors, the government is still determined to increase both the volume of concessional development aid and its absorptive capacity for it, to supplement local investment, and FDI. Part of the inter-donor initiative to support the government’s efforts has been the Kenya Joint-Assistance Strategy (KJAS), which brings together 17 donors (mostly Western governments and multilaterals like the World Bank, the European Union and the UN family) in the interests of “coordination” among themselves and “harmonization” of their programs with those of the government. All this is in line with 2003 Paris Declaration on Aid Effectiveness to which most donor governments and multilateral development agencies subscribe. This new administrative device was expected to raise both the levels of aid and the capacity to use it more effectively. Whether the Paris accord is working as assumed or not is a matter of dispute. However, China is not a member of the KJAS, which is a source of irritation to the Western donors in Kenya, particularly in view of China’s increasing role as a bilateral donor to Kenya, as illustrated in table 2.

Kenya’s main multilateral donors have traditionally been the EU, the World Bank and the African Development Bank, while its main bilateral partners are the United States, the United King-
dom, Japan, Germany, France, the Nordic countries, Italy, and now China. That China’s contribution in aid to Kenya increased from 0.08 percent of total external assistance in 2002, to 13 percent in 2005, is significant in its own right. But it belies the fact that China rose from among the lowest contributors of development assistance to Kenya to become the largest bilateral donor in 2005 (with $56 million), second only overall to the European Union ($60 million). This, however, should not be taken as something indicative of a trend. Aid disbursed to Kenya by different donors varies greatly from year to year, depending on Kenya’s institutional capacity to absorb funds, delays in project preparation, and tendering for construction work. Other donors could come out on top in 2006 and 2007 when the figures are finally computed. But by collaborating only with the Kenya government, China had clearly become an important—not to mention popular—player among Kenyans, largely because of more rapid design and completion of projects, compared to other donors.

The attraction of Chinese development assistance lies in its bare-bones bureaucratic simplicity, in comparison to the donor red tape that in part motivated the Paris Declaration toward higher efficiency through improved coordination between donors. Once agreed on at the political level, China-funded projects are completed by Chinese contractors more quickly than others. Kenya’s attraction to Chinese projects does not therefore spring from China’s habit of not asking questions about human rights and democracy in African states—the reason for which China has been roundly (and rightly) censured for its operations in Sudan and Zimbabwe.

### Table 2. Distribution of Aid Sources to Kenya Showing China’s Contribution: 2002-2005 (in million U.S. dollars)

<table>
<thead>
<tr>
<th>Sources</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multilateral</td>
<td>181</td>
<td>229</td>
<td>266</td>
<td>242</td>
</tr>
<tr>
<td>China</td>
<td>0.20</td>
<td>6.5</td>
<td>7.1</td>
<td>56</td>
</tr>
<tr>
<td>Other Bilaterals</td>
<td>272.8</td>
<td>300.5</td>
<td>342.9</td>
<td>379</td>
</tr>
<tr>
<td>Total</td>
<td>454</td>
<td>536</td>
<td>616</td>
<td>677</td>
</tr>
<tr>
<td>China’s Share (%)</td>
<td>0.08</td>
<td>2</td>
<td>2</td>
<td>13</td>
</tr>
</tbody>
</table>


Between 2003 and 2005, most of China’s development aid to Kenya went into a rural telecommunications project that linked Kenya’s administration units, with Chinese equipment of course; the controversial “tying of aid” to donor suppliers is still part of China’s aid policy. But China is not the only culprit. Bilateral donors who “untie” aid to Kenya are still a minority. Other projects included rural and urban roads and additional maintenance at the Kasarani Sports Complex. The Nairobi Roads Project, now in progress, is a fine example of the “China way” of doing development, which has earned China’s aid the popularity referred to earlier. As a result of the economic boom since 2003, there has been an unprecedented growth in the number of personal and business vehicles, particularly in and around Nairobi. Kenya registered an average of 5,000 vehicles per

30. Before the catastrophic handling of the December 2007 elections and the subsequent interethnic violence, Kenya had the best Freedom House ratings (i.e., 3 on a scale of 1 [best] to 7 [worst]) in eastern Africa. Western donor concerns in 2004 and 2005 had more to do with laxity to deal with past and present corruption at high level. Budget support was cut, but the project aid continued. There is agreement now that the judicial and administrative machinery to fight corruption is in place, but there is continued disagreement on how effective it is.
month in the first six months of 2007, and the trend is unrelenting. This is partly a reflection of growth in business and partly an example of the consumer priorities of an emerging middle class indulging itself in personal cars, mostly used ones from East Asia. But roads in and around the capital have remained the same, and worse for the unattended wear before 2002. As a result, driving in Nairobi has become synonymous with long traffic jams and habitual breaking of traffic rules in the effort to get ahead. The drive from the city center to the airport, which used to take 20 to 30 minutes, now consumes two to three hours at the worst of times. This is now a political as well as an economic issue.

The Kenyan government and its international development partners had been working on a new road network for the city since 2003. But the project became a victim of delays in preparation, bidding, and tendering. As a result it failed to take off, adding to the misery of Kenyan drivers, not to mention trucks from the neighboring countries (Uganda, Rwanda, Burundi, Sudan) on their way in and out of Mombasa harbor. When President Mwai Kibaki attended the November 2006 Sino-African Summit in Beijing, he must have had that in mind. He secured a 676-million-yuan aid package (approximately $95 million), part of which (174 million yuan) was intended for the upgrading and expansion of a 30-kilometer road linking the Jomo Kenyatta International Airport to the Nairobi city center. But after last-minute consultations between the two governments, China agreed to throw in an additional 69 million yuan to decongest traffic in Nairobi, bringing the total deal to 745 million yuan. And so in addition to the city-to-airport road, China pledged to construct 72 kilometers in bypasses from the central trunk roads in and out of the city (to the southern, northern, and eastern suburbs) removing some six “roundabouts” (or traffic circles) in the process. This will give Nairobi’s road network a facelift of the sort it has not had since the 1950s. In April 2007, Jia Qinglin, a leading Chinese oil official, came to Nairobi to sign the project agreements. Within two months, Chinese surveyors had taken site surveys to lay groundwork for the earth movement in advance of the construction of “China Road.” And the motorized middle class and business transporters were relieved.

Large-scale Construction and Contracts

It is now estimated that there are 44 firms from mainland China operating in Kenya. Nobody knows for sure. The large ones include Jiangsu International Economic and Technological Cooperation Company, Sichuan International Economic and Technological Cooperation Company, China Road and Bridge Construction Company, China Import Export Group, China Import and Export Corporation, and China Wu Yi Construction Company. There is also an increasing number of small- to medium-size Chinese firms in auto repair and maintenance, home furnishings, construction equipment, agricultural machinery, and of course, restaurants and the hospitality industry. Kenya’s Ministry of Trade and Industry estimates that completed construction and engineering projects by Chinese companies in 2006 accounted for $870 million. That amount will be doubled, and possibly more than doubled, if one considers the projects due for completion by Chinese companies in Kenya in 2008.

Of all Chinese construction companies in Kenya, the most successful so far is China Road and Bridge Company, and it has attracted admiration and condemnation in equal measure. Since entering the Kenya market in 1985, it has built more than 1,000 kilometers of trunk roads. By 2005, it had completed 11 projects worth nearly $200 million. Among these are the Gambogi-Serem and

Kipsigak-Shamakhokho roads in western Kenya, both of which will open up some of the least-developed parts of Kenya to local and international markets. Its most ambitious construction project so far, however, has been part of the Nairobi-Mombasa road, the Mtito Andei-Bachuma Gate section of which, by consensus among Kenyan motorists, is now the best road in Kenya. “We call this section ‘China Road,’ and it is the best road in Kenya even in East Africa” a 35-year old Kenyan driver, Francis Kuria, is quoted as saying. The travel correspondent of Kenya’s leading newspaper was even more effusive: “Mombasa Road must be one of the greatest drives in the world…I mean it.”

The criticism against China Road comes from local and international contractors who complain that at this rate they will be shut out of business permanently. It is again the sort of example that is often cited in support of the argument that success of Chinese enterprises in Africa comes at the expense of African ones. But, looking at the road construction scene in Kenya today, one can detect a fair distribution of operators between local, European, and Chinese contractors, a competitive scene in which to be on a winning streak, Chinese companies must be offering a quality product at a lower cost than their competitors. In the current economic boom, construction in Kenya by Chinese companies (particularly in roads and housing) is not only a leading source of employment, but it is also providing infrastructure at lower costs, thereby making Kenya’s economy more competitive overall.

But an even bigger player in the Kenya construction industry has come in recently, China Wu Yi Company, which secured a $37.2-million bid for the first phase of the modernization of Nairobi’s Jomo Kenyatta International Airport (eastern Africa’s aviation hub) in September 2006. The total Nairobi airport modernization program is expected to cost $1.23 billion, 90 percent of which will be financed by a syndicated loan from Kenyan banks and financial institutions and 10 percent by the World Bank. The first phase, of which China Wu Yi Company won the competitive bid, involves the building of a new apron, new taxiways, and an extended fuel-hydrant system. The project has been broken into three phases, lest construction becomes too disruptive for normal operations. The project was scheduled for completion in just 10 months, indicating the urgency with which it is viewed, but the deadline was extended by several months after the post-election riots disrupted operations.

The airport requires this facelift because when it was completed in 1977 with World Bank International Development Association (IDA) credit, it had the capacity of 2.5 million passengers annually. No improvements were undertaken throughout the Moi era. Indeed the airport became the locus of major scams in customs, immigration, cargo handling, and allocation of duty-free shops. But with Kenya’s international tourist arrivals having risen from 977,000 in 2003 to 1.4 million in 2006, the airport was handling 4.2 million passengers in 2006 compared to the 2.5 million it was designed for. Facilities were congested and uninviting. By March 2008, China Wu Yi was still at the site after working 24 hours per day for the most part. Apart from the disruption caused by the post-election violence, the main cause of the delay was a cement shortage, local production capacity having been exhausted by the surging local construction needs and those of the region.

---

35. Airport “passenger” figures are based on the number of times people transit in or out of the airport.
36. In response, one local cement manufacturer, Athi River Mining, was constructing a new plant, while the other two, Bamburi and Portland Cement were expanding their capacity.
China Wu Yi and China Road and Construction Company provide yet another example of Chinese construction companies that are providing African countries with quality infrastructure at a bargain, something confirmed by the analysis of the performance of Chinese construction firms in Angola, Sierra Leone, Tanzania, and Zambia by Stellenbosch University’s Center for Chinese Studies.37

But local competitors do not see it that way and are increasingly demanding protection. There were 224 “large-scale firms” in building and construction in 2006, according to the government survey of industrial production, buildings, and construction.38 Yet although Kenya’s emerging construction industry contains a large and increasing number of large-scale players, in addition to a profuse informal sector, concerns about China’s entry and impact have been raised, as we have seen with respect to China Road and Construction Company. Kenyan construction firms demanding protection rationalize it in the fashion of the old “infant-industry” argument: they need to be shielded against foreign competition in order to emerge as profitable domestic and regional players. In a typical example, Spencon Limited, a Kenyan construction firm with 28 years of experience, most of it handling large-scale donor-funded projects in Tanzania, Zambia, Mozambique, Uganda, Malawi, and Sudan, is now demanding protection against Chinese construction companies that “have taken the country by the storm.”39 Its regional director for Kenya is cited as demanding “a bit of protection—because we do not have the competitive edge over our partner,” concluding that “we should not expose ourselves to too much competition.”

There may be a case for state nurturing of local construction companies into successful international competitors. It is sometimes suggested that is what the Asian newly industrialized countries (NICs) did, even though there are disagreements on exactly how it was done. But it was different from protection against international competition, which is what is being proposed here. The old infant-industry protection argument lay behind the failure of African industrialization initiatives in the 1960s and 1970s, even as East Asian countries were laying the groundwork for entry into international markets by a mix of policies—concessional credit, research and development, and new skills—all intended to help them break into global markets. Protection hurts home nationals the most. And it is a mistake Kenya dare not repeat.

Critics of Chinese construction firms in Kenya and in the rest of Africa, however, may be on firmer ground when they make allegations of violation in local labor laws by Chinese employers, whether hiring their own or local workers. At one extreme the companies are charged with using prison labor, even if no evidence to that effect has ever come out in Kenya. However, as the International Confederation of Free Trade Unions in Brussels has said, “China is not the only country where such exploitation is rife, but its blanket ban on unions is greatly facilitating the phenomenon.”40 In addition, Chinese construction firms have been accused of undercutting competitors through financial subsidies from their government in one form or another. All these complaints relate to “behind the border” reforms of the type identified by Broadman,41 which are best settled by compliance to international standards established by the WTO and the International Labor Organization (ILO). Reforms of that kind, not least within Kenya, would go a long way in

38. KNBS, Statistical Abstract 2007, 139.
41. Broadman, Africa’s Silk Road.
leveling the playing fields and establishing a fair basis of competition.

Tourism and Air Travel

In May 2004, China designated Kenya as “an approved tourist destination,” thereby opening the way for Chinese citizens to gain hard currency for visiting Kenya as tourists. Kenya Airways, the country’s national carrier, 40 percent of whose equity is owned by KLM, therefore began planning flights to mainland China in addition to the already existing ones to Hong Kong. Critics of the growing China-Africa relations immediately balked at this development as a threat from Chinese tourists “flooding” Kenya’s famed game parks and other attractions. Nothing of the sort, however, has happened. The number of mainland Chinese tourists to Kenya in 2006, the first time such data was collected, was insignificant compared to the number of international visitors arriving from the United Kingdom (the leading source of foreign visitors to Kenya), Germany, Italy, France, and the United States—Kenya’s traditional sources of in-bound long-distance travelers. The occupation of hotel bed-nights by visitors from China to Kenya was, in fact, put at only 25,000 in 2006, a mere 0.4 percent of the total. Whether the numbers will increase in the future is difficult to tell. Yet if the expected tourist influx from China failed to materialize in the first two years since the approval was granted, Kenya and China have found other ways to mutual gain that were wholly unanticipated by the fixation on international tourist travel in 2004.

Kenya Airways is one of the few airlines that has been reporting consistently increasing profits (until 2006) despite rising fuel prices, global terrorism, and disease scares like the avian flu. It has earned numerous international awards including “Airline of the Year” in 2006. In its 2005–2006 financial year, it reported a record after-tax profit of $54 million, up from $50 million the previous year. It experienced, however, a drop of 19 percent in profit in 2007 for the first time in years. A large part of this remarkable performance is explained by outstanding (Kenyan) management of the airline, based on a strategy of converting Nairobi into an African travel hub. This strategy aims at connecting international travelers arriving in Nairobi to African destinations, and then bringing to Nairobi African passengers who wish to connect to flights going to Europe, Asia, the Middle East, or other parts of the world. In May 2005, Kenya Airways inaugurated flights to Shanghai and Guangzhou and was toying the following year with direct flights to Beijing. In November 2007, however, the issue was resolved in favor of providing a daily flight to Guangzhou, and then entering into cooperation with South China Airlines to connect its passengers to other destinations inside China.

None of the Kenya Airlines routes to Asia is running at a loss, the absence of large numbers of Chinese tourists notwithstanding. And the reason is to be found in the “hub and wheel” strategy for Africa described above. The airline brings African business travelers—from west, eastern, and central Africa—to Nairobi for its connections to China, and particularly to Guangzhou, easily one of the most popular market sources for China’s manufactured goods and fabrics sought by African suppliers. It then brings them to Nairobi, for connections to the rest of Africa. For African business travelers, this routing enables them to avoid the cumbersome and sometimes humiliating application for transit visas in Europe, which is the alternative route to the Far East. Far from being exploitative, then, this is a win-win situation: Kenya Airways makes a profit on its air flights to China (and indeed Southeast Asia and Dubai), while Chinese firms get access to African markets.

42. The total number of international visitors to Kenya from Asian states (other than India or Japan) in 2006 was 54,600 (i.e., 3 percent of the 1.4 million tourists who visited the country that year).
The Failed Expedition for Natural Resources

As evident from the foregoing, China’s economic interests in Kenya so far have been predominantly outside the much-hyped area of its voracious appetite for African natural resources. This demonstrates that China’s business policy toward Africa goes beyond investment in oil, timber, and minerals, a point recently made by Chris Alden.44 In focusing on trade, construction, and travel in Kenya, China’s interests are no different from those of its Western and African competitors. Still, China has shown interest in oil prospecting in Kenya and in one mining project on titanium. Neither of them can be classified as a success yet. In fact both have run into serious problems.

After the visit by China’s president to Kenya in April 2006, the Kenya government allocated China National Offshore Oil Company (CNOOC) exclusive rights, with no competitive bidding, to 6 out of the 11 available oil exploration blocks in the country. Current but outdated mining laws allow the government to do that.45 This opened 28 percent of total oil exploration area coverage in Kenya to CNOOC. The decision provoked immediate protests from Spain’s Compania Espinola de Petrolas (Cepsa) and Sweden’s Lundin International, both of which had lodged application for exploration rights before CNOOC. Furthermore, both companies complained that CNOOC had given Kenya an inferior deal compared to theirs. A deal was subsequently worked out under which CNOOC ceded some of the blocks to Cepsa and Lundin International, but at a fee to CNOOC. Though reprehensible, this is again perfectly legal under Kenya’s laws. However, CNOOC’s exploratory studies had shown no promise by mid-2007. Petroleum exploration in Kenya started in the 1950s when Shell and British Petroleum drilled 10 wells at the coastal town of Lamu that proved to be dry. With improved underground oil surveillance technology, more companies have since joined in: Woodside Energy (Australia), Chevron, Exxon, and Petronas of Malaysia. None of them has found commercially exploitable quantities of natural gas or oil. And it remains to be seen if CNOOC will buck this trend.

With regard to titanium mining, China made entry into this project, located at Kwale, south of Mombasa, through a Canadian company, Tiomin of Toronto. Tiomin started the project in the 1990s but experienced financial problems just as production was about to come on stream. The project had experienced delays as a result of protests from environmentalists, bureaucratic delays in government, and most important of all, difficulties in buying out local land-owners whose lawyers had laid claims in court for higher compensation than what Tiomin and the government valuers had proposed. The delays cost Tiomin financial backing from its underwriters in Canada. China then offered, or was asked, to step in, depending whose version of the story you hear. But as of April 2008, excavation had not commenced, and Tiomin laid off a large number of its Kenyan staff pleading delays in the arrival of capital funding from China and Canada. The titanium mining case and that of oil exploration confirm the theme of China’s enthusiasm for natural resources from Africa. But, as previous sections of this paper indicate, it was only a small part in a wider set of Chinese economic engagements in Kenya. Trade, construction and investment were just as important, and they have ample room of benefiting both the African state concerned as well as China.

---

44. Christ Alden, “China and Africa.”
45. The right to allocate oil prospecting and drilling rights rests with an inter-ministerial committee chaired by the minister of energy with representation from the Ministry of Finance, National Environment Management Authority, the attorney general, and the National Oil Corporation of Kenya.
Alleged Perverse Competition with Kenyan Products

Press reports that China is about to embark on mass production of agricultural goods currently marketed globally by Kenya and other developing countries have caused some concern in Kenya. The products concerned are three: (i) cut flowers, of which Kenya is now the leading global supplier to European markets up from nothing in the 1980s; (ii) tea; and (iii) coffee.46 Tea and coffee have historically been Kenya's leading commodity exports. Whether this adverse eventuality will come to pass, and whether there are ways in which Kenya can position itself to retain its market share, or change to producing other farm products is a matter of conjecture. It is worth noting the products China has in mind are not identical with those of Kenya. Product differentiation in the three commodities is fairly advanced. A lot depends on what Kenya does to anticipate global market trends in these and other production lines and to respond accordingly. This is the basis of survival in markets through the ages, and it should be no different now—for Kenya or any other African states that feel threatened either by China or other competitive Asian agricultural producers notably Vietnam, Malaysia, and Thailand.

In any case, it is not true that China, as a country, is behind calculated moves to undermine Kenya in marketing these products globally. If anything, Kenya's real threat to the European flower market comes from lower-cost neighbors like Ethiopia, which is already attracting Kenyan flower farmers with subsidies, free land, and 10-year tax holidays. Uganda, Tanzania, and Rwanda are late entrants into the international cut-flower market in competition with Kenya, in most cases with official development assistance. It would be more appropriate to state that international agribusiness firms—in both Kenya and China—are positioning themselves in competition, particularly with regard to cut flowers. Over time, ownership of Kenya flower-production enterprises geared to the European market has fallen into the hands of multinationals (mostly Dutch and British) like Finlays, Oserian, Sulmac, and Flamingo Holdings. Those promoting flower cultivation in China—predominantly for the Japanese as opposed to the European market—include the same or similar multinationals: Finlays of Australia, Van Den Berg Roses of Holland, and AGB Flower Lily, a Dutch-Taiwanese company. This seems like globalization in action—international companies producing in a low-cost country for export to a third country. The solution to the problem lies in coming to terms with global competition, not baiting new entrants or alleging conspiracies to undermine African producers.

Conclusion

If there is one unambiguous lesson that impoverished African countries can learn from post-Mao China and other rapidly industrializing countries in East Asia, it is that closer integration into global markets at all levels—investment, production, trade, migration, ideas—is one of the surest ways out of mass poverty at this juncture of human history. That also happens to be the incoming lesson from India, as that country gradually dismantles its Nehru-era protectionist regime and excessive business regulation, welcomes foreign investment, and embraces foreign trade as a driver of growth. It is not a painless transition, any more than it was when Western Europe and North America made it, and there are bound to be false starts, setbacks, as well as pleasant surprises. It

is a rapidly changing environment in which each country, as Dani Rodrik has so elegantly put it, should pursue a pragmatic set of policies best suited to its conditions under the principle of “one economics, many recipes.” What remains off limits in this scheme of things is the intellectual diktat of one-size-fits-all development formulas and ideas contrary to quintessential liberalism, including the benefits of pluralism, competition, and nondiscrimination on such bases as race, gender, and national origin.

This paper on China’s economic relations with Kenya sought to demonstrate that while a small number of outstanding studies on this increasingly popular subject have made a significant contribution to a pragmatic repertoire of mutually beneficial policies between China and Africa, as Rodrik recommends, a large proportion of what is available tends to be unnecessarily brash and ominous about the emerging relationship. Its evidence also tends to be selected to suit the argument being made. In many cases the “facts” it provides are not even true, as we saw in case of the retail trade, textile exports, and tourism in Kenya. It assumes African governments, business classes, intellectuals, and policymakers to be either inert pawns or easily manipulable in the hands of China. Either way, “Africans” are deemed to be badly in need of the gratuitous advice the literature offers or recommends. Its economic analysis is often faulty and it uncannily reproduces the old arguments of African and Third World exploitation by external capital, only this time the rhetoric is slightly more conservative in orientation. None of this will help Africa anymore than it has in the past.

It is true that China has made colossal political blunders in its policies toward Sudan and Darfur, in its support for the dictatorship of Robert Mugabe in Zimbabwe, and in its interpretation of the sources of electoral violence following the December 2007 elections in Kenya. For that it deserves censure, as do all states that have made and continue to make or support political mischief in Africa. China’s business corporations have been accused of wreaking environmental havoc, but then so have many local and Western companies. Irresponsible political decisions and irresponsible business behavior in Africa deserve to be halted irrespective of who is involved. It would be to throw out the baby with the bathwater to condemn, on these bases, China’s economic engagement with Africa, against so much evidence of mutual gain that is associated with it.

The surging entry of China into African economies will continue to raise anxieties. As Albert Hirschman wrote, all epoch-making political and economic innovation tends to provoke fierce rhetoric on the damage that radical change is likely to do to the old order, even when some benefits are grudgingly accepted. The rhetoric emphasizes the perversity that change will cause (like the alleged pollution and exploitation by Chinese firms), the jeopardy into which existing reforms like democracy in Africa will be placed by China, and the futility of the new policies since they will change little, as some say of China’s investment in Africa. Such rhetoric was invoked when universal suffrage was decreed in Western democracies, when automobiles were invented, and when rock music became popular with young Westerners. To quote another example, the purchase of Rockefeller Center in New York City by the Japanese Mitsubishi Estate (part of the Mitsubishi Motor Corporation) in 1989, led to wide speculation that the Japanese would bid for all choice American properties, before descending on the best American homes. This did not happen, but it

---

48. The People’s Daily (December 30, 2007), blundered in attributing the violence in Kenya to premature imposition of democratic elections by the West. Kenyan civic groups and the press immediately denounced the comment.
had an effect on American property values sparked primarily by the speculation—which now assumed its own life—rather than anything Japanese investors did. One must therefore guard against the same eventuality overtaking the alarmist positions now being paraded about China in Africa. As the Kenya case demonstrates, there are severe challenges as well as rousing opportunities for African countries in the emerging economic relationships between China and Africa. Useful and objective analysis should be concerned with working out modalities of reform, within and between countries as Broadman\(^5\) shows us, to advance areas of mutual gain while counteracting perversities. There are plenty of these in China-African economic cooperation, not to mention inter-African trade, to occupy those who wish to help rather than engage in scaremongering based on speculative scenarios.

---

50. Broadman, *Africa’s Silk Road*. 

38 | ECONOMIC RELATIONS BETWEEN KENYA AND CHINA