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China's Pivot to Kenya: Challenges for Kenya Behind COVID and BRI for its 'Vision 2030'

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Abstract

Kenya is dependent on China to speed up its national development strategies following its 'Vision 2030' plan because it finds Chinese loans comparatively better than other loans because of varied reasons explained in the paper. Chinese Foreign Direct Investment (FDI) has increased in Kenya as China finds it feasible to invest in the region looking at the viability of the project. The paper aims to see whether Kenya is benefiting from China's partnership and how effectively it helps to expand Kenya's economy. The paper also understands China-Kenya relations along the lines of the Belt and Road Initiative (BRI) and all the infrastructural projects in Kenya. The paper examines the debt-trap diplomacy of China and brings front how the pandemic is accelerating the Kenyan economy's downfall into China's hands.

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1. Introduction

The cornerstones of the Sino-African relationship have tremendously improved after the Bandung Conference (Indonesia) in 1955 and ever since then; China has assumed a significant role by expanding its grip in various parts of Africa, especially in the East African region. In the 21st century, China is leading an international coalition. (Tripathi 2017) This paper will concentrate on Chinese investment in East Africa, specifically Kenya and the impact it has had on bilateral relations between the two countries in recent years.

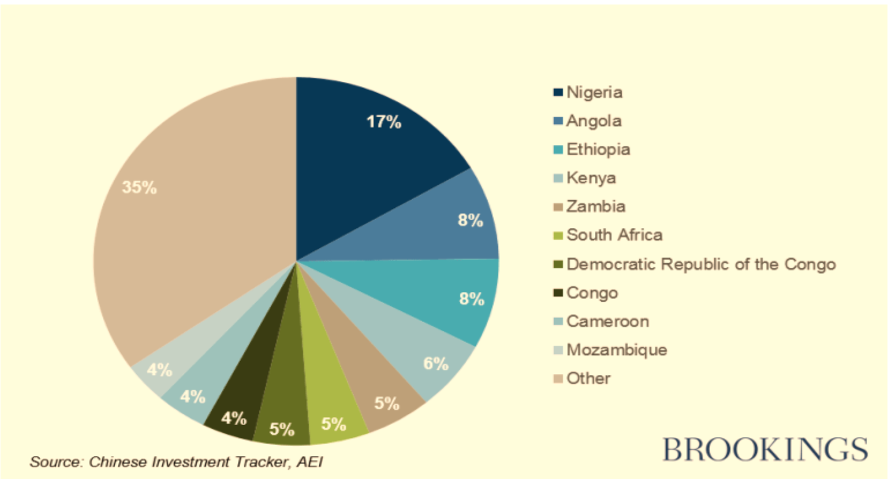
China has been emerging as one of the fastest-growing economic powers in the world, through its flagship project BRI (Belt and Road Initiative) which was launched in the year 2013. China aims to promote common development through win-win cooperation with several countries throughout the globe, focusing on developing regions like Central Asia, Africa and East Asia. Experts believe that Kenya would be one country that might reap the biggest rewards from this initiative.

The important question that arises here is what led African nations to become of interest to the major economic powers? To put it sarcastically, the world of politics has always been steered by the Darwinian principle of the 'survival of the fittest' and the bitter-sweet rivalry ensuing in the African continent sets the perfect stage for this power struggle among wealthy nations. The various state-owned companies which have invested in infrastructure usually set up their bases in most of the African countries. In September 2018, delegates from both China and Africa met at the seventh annual Forum on China-Africa Cooperation. The collaboration and cooperation made Africa one of China's greatest allies in the current global market environment; the change was very evident from the increasing Chinese investment in the African continent in the last five years. In 2018, at the China-Africa Cooperation Forum, China released a statement that it would be providing $60 billion as financial aid to Africa. (Maverick 20018) Primarily China's economic interest in Africa lies in the mining and oil sector. Later it expanded into infrastructures such as utilities, telecommunications, port construction, transportation and food processing. Africa is also a rich source of raw materials such as platinum, cobalt, manganese, uranium and is estimated to contain 90% of the world's supply of platinum and cobalt, 2/3rd of manganese and 35% of the world's uranium. It also accounts for 75% of the world's coltan, which is used in electronic devices such as coltan. (Natalie (Qiaolin) Mao: 2017) Thus, mining in the continent accounts for 1/3rd of the Foreign Direct Investment in the African nations.

Globally the Chinese investment has increased, after Asia and Europe in the list, Africa is seen as the third-largest harbour of Chinese investment. According to the figure given below, one of the biggest beneficiaries of Chinese investments in Nigeria; at the 2015 Forum on China–Africa Cooperation(FOCAC) Summit, five out of $60 billion was dedicated to Kenya, Ethiopia, Nigeria, Angola.

In the entirety of the African subcontinent, energy and transport sectors are focal points of the Chinese investors. China focuses on ease of transportation and building railways in Kenya, Ethiopia, and Zambia, as well as a few other countries. For example, the Chinese Export-Import Bank made a deal to provide around 85 per cent of the total funding for the $475 million Addis Ababa Light Rail, serving the requirements of 4 million residents of the region.

Chinese Investments in Africa in 2018



According to the World Bank, more than 30 African countries are in cooperation with China on infrastructure investment plans. Concerning Kenya, Chinese investment has a large impact on the transport, construction, economic, education, and agricultural sectors and on exploring.

2. China's Strategic Interests in Kenya

Kenya is a country with massive potential, especially in terms of building its infrastructure. It is on the verge of having a booming economy with its fast pace growth in terms of building railways and hence, China sees this as a great opportunity for its benefits. China has believed in Kenya's potential to flourish and has accelerated cooperation with their Kenyan counterparts in the endeavour to shift from contractors to investors.

Kenya can have strong industrial growth in many sectors such as agriculture, forestry, mining, manufacturing, energy and tourism. China realises these factors and since Kenya is the third-largest economy in Sub-Saharan Africa, Kenya has recently reached lower-middle-income status, with a GDP (Gross Domestic Product) of $95 billion.

2.1. Why does Kenya need China? Vision 2030 and other Factors

Firstly, some organisations loan out large sums of money with the lowest payable interest, and these loans are only given out to the poorest of the countries. This, in turn, causes harm to countries like Nigeria or Kenya which are termed as 'middle-income' countries. They do not have sufficient sources for these low payable interest loans and hence need to look elsewhere for their needs to be catered to. Second, it takes about nine years for countries to receive non-Chinese loans from other sources with low interests and this takes up too much time. Third, China does not impose the economic conditions required by the IMF or the World Bank. Lastly, the main aim of China is to maximize its profit and the projects are solely based on China's profit maximization. The economic condition of the beneficiary country is not looked at and only focuses on its convenience and returns. Furthermore, decisions are made fast and, in some cases, the full process of approval, as well as completion of the project, takes about 2 years.

Kenya is more dependent on China to speed up the implementation of its national development strategies.

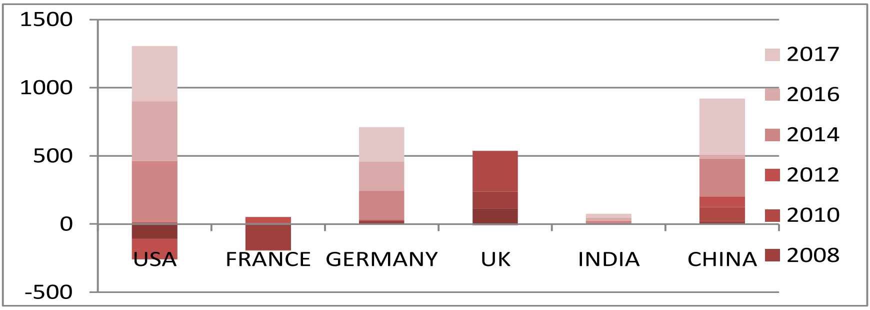
1. Kenya has adopted an inclusive development strategy for sustainable development as outlined in “Vision 2030” and China is playing a significant role in the economic growth of the country.
2. Kenyan markets and industries are looking ahead to find more good fortune in the promising Chinese market. Kenyan entrepreneurs and business households aim to trade more of their high earning commodities which are mostly agricultural products like tea, coffee, flowers, herbs and avocados, many of which are favoured by Chinese consumers. Kenya aspires to increase the trade volume of its products, especially its agricultural commodities; avocado is one of them, which enters the Chinese market indirectly.
3. China is considered to be Kenya's highest trading partner and also acts as a major source of its foreign direct investment (FDI). According to recent statistical studies, contracts and deals in terms of investments as well as exports and imports between China and African countries have increased more than 200 times in the last 40 years, from $765 million in 1978 to $170 billion in 2017. In 2018, trade volume between China and Kenya was $5.3 billion, and China’s non-financial direct investment in Kenya doubled to about $520 million.
4. The massive benefit of Chinese operations in Kenya has been attributed to their spirit based on the fundamentals of equality, mutual benefit, and win-win cooperation for both parties.
5. Apart from monetary benefits, both countries are also making huge contributions to social causes that improve the local people's welfare and standard of living, especially in environmental protection and the education sector. (Ndegwa 2019)

Kenya’s vision 2030 is mainly concerned with growth, and development in the nation’s infrastructures (UNCTAD 2012, 33).

One of the fast-growing sectors with great potential is that of infrastructure wherein the government is enthusiastic about bringing private investments to boost the country's economic development. This, in turn, opens a door of opportunities for China to invest in Kenya. Horticulture has also become a major export sector with great potential in addition to the tea and coffee industry. Furthermore, tourism is a sector that the Kenyan government is trying to refurbish, and natural resources extraction are based on the developments in various geological explorations is another major area that the government is looking out for (UNCTAD 2012, 33).

All these sectors provide opportunities for Chinese investments in substantial proportions which could prove to be beneficial for both countries. A large number of partially or wholly foreign-owned companies under the field of mining, oil and gas, agriculture, tourism and transport, manufacturing and service have been set up in Kenya. The United States, the United Kingdom, France, Germany, Netherland, India and Japan are countries that have set up outlets of major companies in Kenya (UNCTAD 2012, 49-56). However, China leads this front with more than 50 Chinese companies present in Kenya.

FDI flows in Kenya (Millions of US dollars)



Source: Data compiled from IMF and UNCTAD FDI/TNC database

There is no question, as to why Kenya is becoming an important country for new investments. Instability in the government was one major issue for investors but the new constitution addresses it and has made provisions for greater separation of powers to maintain political stability. At present, the environment for investing has become all the more favourable in Kenya because of the New Government.

According to Xinhua, published on 17 April 2018, Due to the prevailing economic situation, Chinese FDI was expected to rise in Kenya in 2018. Stephanie Onchwati, Investment Analysts at Cytonn, China wanted to invest majorly in the real estate business sector and was expecting very high returns from the same. "Due to stable macro-economic conditions, we are likely to see more Chinese FDI into Kenya in coming years as the Asian nation seeks to invest in countries with high growth potential". She also mentioned how the Chinese private sector is likely to follow its government and invest more funds into Kenya further noting that Chinese firms are beginning to set up manufacturing plants to produce goods that were previously imported and hence improve Kenya's balance of trade. (Xinhua, 2018)

3. How China Gains in Kenya

The reason for magnificent investments in the African countries can be attributed to its large market and presence of consumers, but why Kenya specifically could be because of its suitable climate and soil where cultivation is suitable. According to J. B. Maverick, a market analyst, pointed out three important "Reasons Why Chinese are investing in Kenya"?

3.1. Incentive to a Developing Economy

Kenya is rich in natural resources such as limestone, soda ash (5% of world production), salt (8,50,000 metric tons annually), gemstones, fluorspar, zinc, diatomite, oil, gas, gypsum, wildlife and hydropower. As an important emerging market economy, the Chinese leaders recognise the increasing need for natural resources, food and product markets necessary for continued economic growth. The focus on resource-rich Africa especially Kenya is a logical one for China. By working to secure a solid base of critical raw materials, China strengthens its economy for decades to come. Mining investments account for nearly one-third of China's total foreign direct investment, or FDI, in African nations.

3.2. Political Motivations

The nature of China's political motivations is partially revealed by its extensive investments in African infrastructure, specifically in Kenya. If China can rise to a position where it exerts major control over essential economic elements such as the utility sector and telecommunications in African countries, while also developing military influence, then it also holds considerable political alliance in those nations.

3.3. Good Business Sense

China itself has to consider where its primary emerging market opportunities exist. It has already heavily invested in other Asian emerging markets such as Central Asia and as well as in South America. African economies provide another sensible choice to take advantage of excellent growth opportunities both for political reasons and investment returns.

The geostrategic location of Kenya supports two major policy objectives –

1) It provides China with a much-needed foothold along with port access on the eastern coast of Africa. The magnitude of Chinese investments indicates that China intends on using Kenya to push its objectives in Africa for a longer time to come. Furthermore, the Chinese push to develop infrastructure within Kenya as well are also indicative of the manner it intends on utilising the sea access provided by Mombasa.
2) It also provides China with another naval access point along the Arabian Sea peninsula which contributes to the proposed 'String of Pearls' theory. Kenya's proximity to Djibouti and the proposed plans for that region also indicate a larger strategy of accumulation of small yet operationally efficient ports to gain and control over the greater Indian Ocean Region. The Indian assessment has perceived China as a major threat in this region, and Chinese policy plays well by creating a virtual entrapment of India. A port in Kenya would play to that very policy goal, by reducing the deploying time of the People's Liberation Navy, or by simply acting as a support base.

Major Investments by China in Kenya (2012-2018)

Investment	Project Type	Year of Starting	Year of Ending	Funded By	Purpose of the Project
Railway sector SGR (Standard Gauge Railway) 609 KM	New Railway Line	October 2013	June 2017	90% China Export-Import Bank ($3.6 billion) 10% Kenyan govt	For passengers and cargo transportation between Mombasa-Nairobi
Educational sector (Empowering vocational and Technical Institutions)	Vocational education and training	Phase-I (2010) Phase-II(2013)	Is expected to end by 2020	Phase-I (US$30 million) Phase –II (US$158 million) Chinese company AVIC International Holding Corporation	To supply modern equipment and train the Kenyans to boost technical and vocational education
Development sector (Pearl River SEZ) in Kenya(Eldoret)	To boost Kenya economic growth	September 2015	Is expected to end by 2019	I stage-Guangdong New South Group& African Economic Zone(DL Group) (US $2 billion)	To boost the country's industrialization, to solve unemployment issues
Construction sector African Technology Challenge(ATC)	(Program for the construction industry) To upgrade the construction	November 2017	----	Chinese firm AVIC international	Increasing technical expertise as well as increased employment opportunities of the youth especially in the

	industry				construction sector
Infrastructure Sector	Kenyan's Lamu Port Project	July 2014	Ongoing project	Kenyan government $480 million	To cut over-dependence on Mombasa port, also to open up the northern frontier
Infrastructure (Transport Sector)	Nairobi-Thika Highway Project	2009	July 2011	African Development Bank(AfDB) -$180 million Export-import bank of China-$100million Kenyan govt. $80 million	Commercial and transport Corridor i)enhance transport services ii)reduce transportation cost
Agriculture sector	Agro-chemicals market	----	----	----	i)To enhance productivity ii)Development of a robust fertilizer and iii)Pesticide manufacturing sector

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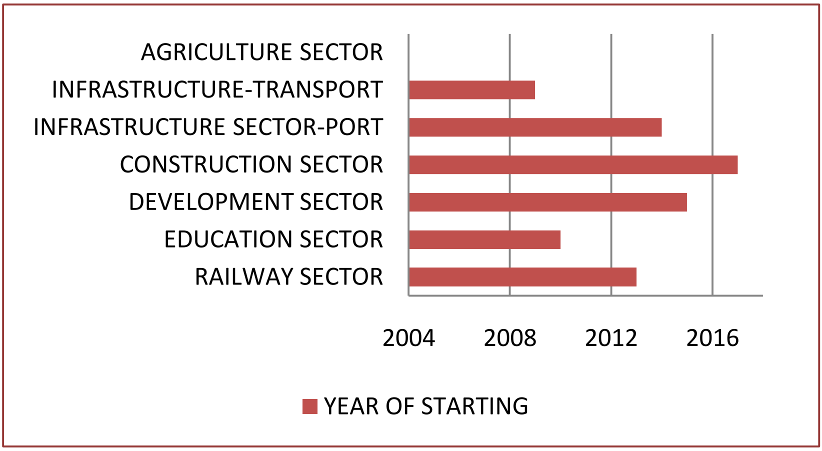
"Kenya seeks Chinese Investment to develop Agro-Chemicals Industry" http://www.china-invests.net/20160922/41836.aspxchina-invests.net (accessed on 2 May 2018

Graphical representation of Chinese Investments in Kenya starting from 2012-2018



Source: China Global Investment Tracker

Apart from the infrastructure sector, agriculture is another main concern for Kenyans as their exports are also concentrated in the agriculture sector. Due to its suitable climate, Kenya has become one of the main exporters of flowers, tea and coffee in the world.

Tea and coffee is the largest sector of the economy and accounts for about 22% (UNCTAD, 2005). Kenya has been trying to attract investors in the agriculture sector too, to enhance productivity.

Kenya being in a state of development requires taking various measures to improve productivity. Kenya has witnessed rapid growth in the agrochemical industry. With the Chinese expertise in this field, there has been an increase in the transfer of agricultural technologies which have resulted in a productivity improvement. Kenya is looking to China, the leading producer and exporter of fertilizers and chemicals that protect crops from diseases and pests, to develop its Agrochemical industry.

Despite Kenyan's vision to develop the agriculture sector, there exist several challenges, including natural calamities like drought and floods. In 2016-17, the drought hampered the production of the agricultural sector. This further increased inflation and food prices were soaring.

The productivity rate keeps fluctuating due to reasons like drought and floods as well as pests and other crop diseases depending on the crops. Production of coffee had fallen by 15.1% and even tea reduced by 7.0% in the year 2017. Similarly, sugarcane production declined from 7.2 million tonnes in 2016 to 4.8 million tonnes in 2017(Kenya National Bureau of Statistics 2018).

Kenya's economy is heavily dependent on its primary and tertiary sectors where out of the total labour force around 61% is under the agriculture and service sector contributing to more than 47% of its Gross Domestic Product. Its main import partners apart from China are India, UAE and Saudi Arabia, they collectively constitute approximately a quarter of its total imports which are essential to its survival.

4. BRI in Kenya: The Challenges

The Belt and Road initiative of the Chinese government has drawn Kenya under the spotlight for Chinese investments. Throughout history, the Chinese have always been interested in the ports of Africa. The Kenyan coast was the main location of the ancient Chinese "maritime" Silk Road and where it began in Africa. Kenya, flanked by the Indian Ocean in the east, the country operates as a trade link to other neighbouring regions. Billions of dollars have been invested in several infrastructure projects, the development of ports being one of them.

The construction of Lamu port by the Kenyan government has diverse significance, even though this particular project is not funded by the Chinese, however, it is being directed under China Communication Construction Company. The project was started in October 2016, Kenyan government has invested $480 million in the project. This new port will help to transport the rising amount of cargo and will also reduce over-dependence on Mombasa port, the busiest port in East Africa itself. Lamu port is expected to be ten times bigger than Mombasa port. The construction of the port is likely to benefit both China and Kenya.

But will Kenya be able to translate the funds invested into substantial profits, or will it turn out to be a liability? The major challenge faced by Kenya is the poor transportation system and Salafi al-Shabaab militant group attack. It is unable to function effectively or reach its potential concerning trade with its neighbouring countries due to the lack of a robust transport system and with the military attacks, the projects are getting delayed. However, the project remains China's largest foreign initiative to date with multi-billion-dollar investments in ports, railways and other facilities.

In the year 2009, the initiation of the Nairobi-Thika highway project was started by the three Chinese companies, China Wu Yi (Kenya) Corporation, Sheng Li Construction Company and Sino Hydro Company(AFDP, 2012). The Chinese investors have altered the common Kenyan perspective of the Chinese. The former no more looks at the latter as mere producers of fake products but rather as potential investors to invest in various infrastructure projects. The project improved transport service by reducing the costs improved accessible public transportation provided job opportunities and enhanced urban mobility as a whole. The beneficiaries of the highway are mainly people residing along the route. The populations residing along the route are about 1 million most of who are engaged in horticulture and dairy farming and require efficient and reliable transportation (AFDP, 2012). As a whole, this highway project has yielded a good result. Analysis of the $3.6 billion railway project in Kenya shows that 90% is funded by the Chinese Export-Import Bank and only 10% is by the Kenyan government, and it is the biggest infrastructure project so far since independence. It connects a large part of East Africa to the major Indian Ocean port of Mombasa, China in this manner tries to improve trade bringing up how it will be helpful to Kenya yet truly it serves Chinese interests. Kenya is also expected to play a major role in China's belt and road initiative through the standard gauge railway development.

China Road and Bridge (CRBC) have also launched a railway technology training facility to improve the capacity of Kenyan employees. This has benefitted the Kenyan workforce as they are trained with new skills for the Standard Gauge Railway line (SGR). The SGR aims to connect Kenya, Rwanda, Uganda and South Sudan (Yang, 2017). SGR is made to transport people and cargo between Mombasa which is the biggest port in East Africa and Nairobi the capital of Kenya, and the government of Kenya has invested approximately $1.5 billion in the Kenyan railways. The Kenyan government is optimistic about SGR as it would cut down the cost and travel time between Mombasa and Nairobi. It has transported more than a million passengers and it was also made to transport cargo that comes from the ports of Mombasa to Nairobi; it is said to have transported more than 300 thousand tons of goods which will facilitate trade (Yang, 2017). The SGR project has also employed more than 46,000 locals. Kenya's GDP has seen an increase of 1.5% (Liu 2018). The investment has been viewed with a lot of positivity by the government; however, critics argue that it has just become a burden for the Kenyan government. As it has invested a huge amount of funds from the Chinese Bank, they believe that it could be yet another debt trap in the future.

The question that persists now is how long would the costly railway line system that incurred such heavy prices remain functional? Heavy rainfall since March has caused floods in the region; the speed of the train coaches is affected by the heavy rainfall. According to the news report with the extension of the SGR, the geologists have confirmed that the area had underground fault lines which could affect the stability of the modern railway line (Xinhua, 2018). Just like any other investment, this too has its challenges; it could be a drain on Kenyan resources in the future.

A court of appeal in Kenya concluded that the $3.2 billion Standard Gauge Railway (SGR) initiative between the Kenyan government and the China Road and Bridge Corporation (CRBC) was illegitimate. The petitioners alleged that the initiative was not put out again to tender and also that the tendering method was not conducted, even though it was a government grant, the cost of which would be borne by Kenyan taxpayers. The newly built Chinese railway line from the seaport of Mombasa to Kenya's capital, Nairobi, has escalated transportation prices by 50%. Because the railway line is of 50% greater cost, entrepreneurs continue to deliver products by road transport. As of now, the Chinese enterprises are doing their best to maintain the SGR with the support of the Kenyan government.

5. Will Covid accelerate Kenyan Economy's fall into China's Debt Trap diplomacy behind the BRI?

Along with the above-mentioned challenges Kenya face, this pandemic has accelerated Kenya's fall into China's Debt trap diplomacy. There can be the possibility of China taking advantage of the COVID-19 crisis to expand its strategic footprint in Kenya. It was forecasted that Kenya's GDP (Gross Domestic Product) would largely be affected by the virus and would decline further than ever before.

To curb the spread of COVID-19, the government of Kenya had to focus on strengthening the healthcare system of the country as well as tend to the immediate needs of the infected in terms of providing adequate medicines as well as oxygen cylinders. Thus, Kenya has started defaulting its loans due to its concentration on the Health sector and this could accelerate the Kenyan economies submission to China, as a collateral payment Mombasa can fall into the hands of Chinese control. Mombasa is not just the gateway into Kenya, but also into its landlocked neighbouring nations Burundi, the Democratic Republic of Congo, Rwanda, South Sudan, and Uganda. Therefore, losing it means losing the sovereignty of the nation, in essence. Kenya has accepted over US $5 billion in loans for the SGR which has now been extended to the Rift Valley – en route eventually to South Sudan – but is running at a loss. Its losses seem bound to be magnified by the COVID-19 economic crash. The African Union has appealed to the international community for at least US $100 billion to help the continent deal with the health and economic fallouts from COVID-19. The first request was a suspension of debt interest payments – which the G20 agreed to the World Bank and International Monetary Fund have called on all official bilateral creditors – such as China – to provide immediate debt relief to low-income borrowers. However, 'What will China do for its debtors now facing economic collapse? Some fear that a malign China will leverage this crisis to seize strategic assets, Due to the Chinese experience of dealing with port cities in the past, it has realised the importance of control over ports. The Macao and Hong Kong issues have given China enough lessons to understand the value of controlling these ports to expand their empire, hence, such an opportunity for expansion will not be passed by China easily.

6. Conclusion

Regardless of what challenges these investments may face, China's involvement in Kenya isn't fruitless completely for Kenya, there is no doubt that all these have indicated beneficial outcomes for the country's development as the country's economy has expanded through these years. Kenya's Vision for 2030 is to stabilise and improve the three major pillars of the state, political, social and economic sector following Kenyatta's dream to make Kenya a country that is welcoming to all nations in every sector. However, the current situation of Kenya-China relations makes it very difficult to achieve its vision. Kenya is "putting all her eggs in one basket"; in the foreseeable future, there will be a strong presence of China in every sector of Kenya which will also make it very unlikely for other nations to enter into the Kenyan business market and invest. It is no secret that China has taken advantage of this monopoly in Kenya on several occasions and will do the same if in future Kenya tries to diversify following its vision of 2030. One more factor that works against Kenya, in the long run, is the way China visualise its relations with the African nation. For China, Kenya has been a dumping yard of its cheap goods and products as testified by the balance payment deficit of about 7 billion dollars and another fundamental problem of the China-Kenya relationship is china preference of using Chinese labour for all the developmental projects. Chinese policy requires that every loan should go to a project that is built by a Chinese company known as "tying". In this regard Kenyan governments need more leeway to make sure they prioritise the most profitable projects that their citizens need and in a manner they want – for example, using local materials and labour. Estimates show almost 40% of the labour force of Kenya is either unemployed or underemployed and this has been made worse due to the Chinese influx of labourers into Kenya, who are far more skilled than their native counterparts.

Another significant effect this relationship has on the Kenyan economy is placing a barricade in its diversification of import partners. Statistics show that in 2000, Kenya's major import partner for electrical equipment including computers was Europe (majorly the United Kingdom) which constituted around 44% of its importer's trade share, however now when these imports have risen in great quantities (from thousands of dollars to billions), it shows Kenya has been importing more than half of it from China which has crippled its ability to deal with other partners making it more dependent on China and hence giving China privilege to influence its growth and development. Kenyan government need to conduct more due diligence of companies. For instance, some Chinese companies are used for infrastructure projects despite being on World Bank blacklists for corruption. Through the import-export survey, it has been seen that there are more imports as compared to the country's exports which signal that the country is in deficit. The Chinese companies are looking for a market to export their goods which in turn could harm the domestic producers as well. Thus, concentrating on areas where export is massive with high returns should be Kenya's focus, for example, the market for tea, flowers, coffee bean a comparative advantage to Kenya and hence, there is a win-win scenario for both parties.

Indeed, Kenya seems to be stuck between a rock and a hard place; unable to access favourable loans from others, and tied loans from China. Keeping in mind, what happened with Chinese investment in Sri-Lanka wherein China signed a 99-year lease agreement on Hambantota Port, which left Sri Lanka to struggle with debt, Kenya should take precautions and learn a lesson from it, further making sure that the investment funds and benefits which it reaps out of these investments are in sync with each other so that Kenya may get the maximum benefit and not fall into a debt trap.

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