Figure 1: Revolutionary friendship is as deep as the ocean. Designer: Guo Hongwu, 1975 (IISH, 2019)

Chinese Investments in the Kenyan Economy: From a Vicious to a Virtuous Circle?

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ABSTRACT: Many scholars today are occupied with China's engagements with Africa, as China is slowly changing the rules of development. One of the largest nations it is interacting with today is Kenya, and this thesis will apply three theories in international relations to the case of economic development under Chinese investments in Kenya: the theories of Wallerstein, Alden and Nurkse which elaborate on global, regional, and national engagement with developing economies respectively. The main objective of this thesis is to identify and illustrate the effects of China's financial support and investments in Kenya's economy. China's rhetoric of mutually beneficial cooperation reflects, at least theoretically, its benevolence and underlying focus on development. China's underlying economic and diplomatic motivations will be discussed, followed by expounding on the presence of Chinese businesses in Kenya, the Chinese One Belt, One Road initiative, and Kenya's Vision 2030. The Kenyan government should be careful to keep the economic growth in its own hands by not relying too much on Chinese credit loans and investments, but focus at generating its own capital.

KEY WORDS: Kenya, China, Wallerstein, Alden, Nurkse, Development, Credit Loans, Infrastructure, One Belt One Road, Vision 2030.

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Abbreviations and acronyms

CARI: China Africa Research Initiative

CRBC: China Road and Bridge Corporation

EU: European Union

GDP: Gross Domestic Product

OBOR: One Belt, One Road

SGR: Standard Gauge Railway

1. Introduction

In the past decades, China has made an unprecedented appearance in the international sphere. Whereas China was regarded an underdeveloped nation in the start of last century, it has now developed and grown into the role of the nation with one of the largest economies, distributing rather than receiving development aid, and earning itself a place amongst the top players in the international field. A remarkable transformation of the nation's foreign policies can be observed over the past decades, causing the West to closely monitor the development of this young power, expanding amidst both Western powers and the global South; specifically, it's engagement in Africa.

Whereas after the Cold War, most Western imperialists pulled out of the African continent as their focus moved towards their own domestic development and a grander, international cooperation, China developed a strong interest in Africa. The West has left an 'investment-shaped' gap in many African nations, and with the vast sources of raw materials found on this continent, China was more than eager to 'fill up' this gap, as China's growing economy needs to fuel its industrialisation (Edoho, 2011). Moreover, Chinese economic activity can be seen throughout Africa in the form of the many investments in infrastructure and agriculture, and the interest-free loans and gifts that China generously provides.

Many scholars today are occupied with China's engagements with Africa. African nations have been trading with China for centuries, however, the level and intensity of this trade has been increasing rapidly since the 2000s (Onjala, 2010). The opinions on the Sino-African engagement differ widely, ranging from appraisals for the cooperation between China and African nations that promote mutual development, to fears and accusations (mostly by Western nations) of China trying to take over the continent. It should however be noted that the perceptions of the actors involved, such as "Africa", "China", or "the West" are words that fail to do justice to the relationship and identity of these actors. Africa is often treated as a big mass that stands equal to a country, when it should be regarded as a widely spread and diverse continent with its rightful nations and republics. China is within itself representing many different communities, one indication being for instance the many different Chinese dialects, and it should be noted that the whole of China is not merely represented by the actions of its government. The West is often mentioned as a single actor, but as it is spanning multiple continents with different ideologies, systems, and cultures, this is a superficial term that should not be used light-heartedly either.

Cooperating with many underdeveloped and developing nations in Africa, China is slowly changing the rules of development. China's steady development was rooted in financial support from the West and its expanding industrialisation. The West is seen to be active across Africa as well, but with the large number of credits for investment that China has opened up for African nations, the pace of (economic) development has significantly increased for the continent. Many nations are involved in the Chinese New Silk Road initiative. Additionally, China is more than willing to share its experiences of its own recent developments. Since the decolonisation era, development strategies and theories have flourished in academic literature and policies worldwide. Often quoted for their relevance in development initiatives in Africa, and illustrative of the main development approaches in the last century, are the 'Washington Consensus' and the 'Beijing Consensus'. The former is characterised by the promotion of capitalism in the West from 1945 onwards. On the other hand, the latter is based on China's own national experiences with development strategies. Inherently, the Washington Consensus focusses on democracy and the free market: this free market would be installed around the world as a self-regulating, automatically adjusting system that stabilises the economy in a fruitful demand and supply equilibrium (Gilpin, 2011). Adjusting to reality, Western developing projects have frequently shifted, focussing on internal 'trickle down' economics, neoliberal structural adjustments, or micro credits – all strategies rooted in capitalism. Exporting this Western economic system to non-Western, underdeveloped nations has seen many problems in its implementation and execution, such as corrupt elites and governments abusing their power or money being spend in unsustainable ways, which is why the Chinese development experience might be highly valuable for developing nations worldwide.

The Beijing Consensus emerged as an alternative development strategy, specifically focussing on African nations. The model is based on China's domestic experiences with rapid development, modernisation, urbanisation, and economic expansion from the 1980s onwards: with success, since the absolute poverty in China has fallen from 53 to 8 percent (Ravallion and Chen, 2007). The Beijing Consensus already advanced significantly compared to the Washington Consensus, relying on both pragmatism and idealism, rather than theoretical approaches with no foundation in the actual world. Aid distributed under the Beijing consensus is politically and economically unconditional, as it is building on China's development strategy of the 'Five Principles of Peaceful Coexistence' (Brautigam, 2009, p. 30):

1. Mutual respect for sovereignty and territorial integrity;
2. Mutual non-aggression;

3. Non-interference in each other’s internal affairs;
4. Equality and mutual benefit, and
5. Peaceful coexistence

These Five Principles resonate in the Beijing Consensus, and move beyond the Washington Consensus’s unsuccessful attempts of liberalisation, privatisation, and structural adjustment in Africa, which never found a legitimacy in the South (Brautigam, 2009). China is fuelling development outside of its borders by sharing its own experiences with other developing nations under the term ‘South-South’ cooperation, emphasising beneficial cooperation between developing nations, also known as countries of the southern hemisphere, as many of such nations are located below the equator. China however remains a newly developed states, and has the urge to foster its domestic advancement and economic growth, and China’s investments in the Global South thus not only aim at benefitting the underdeveloped nations, but also at benefitting China. One of the largest ‘southern’ nations China is interacting with today is Kenya. Kenya has already made significant political, structural, and economic reforms since its independence in 1963, which is slowly lifting the nation from poverty and underdevelopment; still, the nation’s economy is fragile. As ideological development stories can be, they are always unique to the nation or society at hand. China’s development values appeal for constructive dialogue, and African nations emphasise with China based on their shared history of colonialism and underdevelopment (French, 2014).

The Kenyan government has, as many nations have, adopted a ‘Vision 2030’. One of the key aims of this strategic development plan is to transform Kenya intro a regional economic centre – and one of the means to do so is to increase intra-African trade and diversify the domestic markets. Next to import and export with its neighbours, Kenya has also engaged in high levels of trade with China (Fiott, 2010). But China poses as an unique partner of Kenya: as part of the establishment of the New Silk Road under the ‘One Belt, One Road’ initiative, China has plans of expanding and improving infrastructure in Asia, Africa, and Europe. Kenya is an important partner for China as it serves as a gateway between East Africa and the land-locked Central African countries. For instance, they have worked together with China for Kenya’s largest project since Kenyan independence in 1963: the Standard Gauge Railway (SGR) between Mombasa and Nairobi (Wissenbach & Wang, 2016). This is also the first realised flagship project of Kenya’s Vision 2030, which dedicates a large part of its time, efforts, and funds towards enhancing various transportation and infrastructure nodes such as rail networks, maritime ports, or airports (Vision 2030, 2019). Chinese credits have largely financed such projects. Furthermore, Chinese organisation are innovating and adapting quickly to the Kenyan market, acting upon the domestic needs, where for instance one of Kenya's largest telecom training centres is established by a Chinese firm. Profits from these Chinese organisations are however not always redirected to the Kenyan economy, but also find their way to the Chinese domestic markets.

As China's growth is remodelling the international balance of power, the large One Belt, One Road infrastructure project provides one with a relevant stage for analysing Kenyan development. Aiming to involve more than forty countries stretching over Africa, Europe, and Asia, it (re-)connects 70 percent of the global population (Godement et al., 2015). Hosting amongst others the New Silk Road 'African Hub' and the Standard Gauge Railway, which is China's largest investment project in Africa, Kenya holds an important place in this worldwide project. Therefore, investments from China in Kenya under the New Silk Road project from the past two decades will be discussed in this thesis. Specifically, this marks the start of China's New Silk Road initiative, to two year after the opening of the Mombasa-Nairobi Standard Gauge Railway in 2017, enabling the observation of its short-term effects. Two renowned international relations theorists and one researcher specifically devoted to explaining the relationship between China and Africa will be discussed, and their theories and frameworks will be applied to Chinese investments under the One Belt, One Road initiative in Kenya. The first theory is a state-centric international relations theory focussing on the global division of labour by Immanuel Wallerstein: the World System Theory. The second framework is based on Chris Alden's perspective on the four possible roles China might be adopting in African nations. The third theory is an economic development theory by Ragnar Nurkse: the Balanced Growth Theory. As China promised to respect the sovereignty of the nations it is interacting with, adopting a strategy of non-interference in each other's domestic politics, it is solely focussing on economic benefits and interactions (Brautigam, 2009). Therefore, this thesis will focus on the economic relationship between Kenya and China. The research question that will be studied is: *How can the theory of Wallerstein, Alden, and Nurkse help us understand the Chinese investments in the Kenyan economy?* The research will be structured by the following two sub-questions: *What is the nature of the Sino-Kenyan relationship?* and *Is China promoting economic development in Kenya?*

Current development theories aim at establishing models for growth and prosperity, and many of these theories are based on and constituted by the successful development stories in the past, meaning they focus on the 'developed' nations of today: mainly, the United States of

America and the nations in the European Union. The Washington Consensus focussed on how Washington-based institutions such as the International Monetary Fund and the World Bank believed economic development should go, according to the theories of neoliberalism, with little to no regard of the political, socio-economic, or geographical circumstances of the respective developing nation. The Beijing Consensus was already more relatable for developing nations as it regarded not Western theories, but the story of China's development policies. Nevertheless, many international relations theories strongly disregard the different starting points of the nations that are still to be developed today, and fails to consider the contemporary circumstances of persisting poverty. Rather, it focusses on reaching a democratised capitalist end-stage that is established by the West and labelled as 'developed' (Acharya, 2014). Scholars are pressuring the discipline of international relations to reconsider theories of development by grounding them in world history, including the unique region- and nation-specific contexts and environments. Therefore, this thesis will apply three theories in international relations to the case of economic development under Chinese investments in Kenya. Applying existing theories to a non-Western context will extend the knowledge in international relations to include more societies and cultural identities. Moreover, considering more than one theory will allow for different perspectives on Kenyan economic development. Furthermore, the impact China has is often generalised to be applicable to Africa in broad terms, whilst the African nations differ vastly in their economic, political, and social environment. The existing researches focus on the oil-exporting nations. This thesis aims to remedy this by focussing on a single, oil-importing nation, examining China's economic presence in Kenya, as well as some of the generalised assumptions surrounding Chinese presence in Africa.

The main objective of this thesis is to identify and illustrate the effects of China's financial support and investments in Kenya's economy, the underlying incentives, and what will benefit Kenya. Theories by Wallerstein, Alden, and Nurkse will guide the discussion. These three theoretical approaches will be discussed in Chapter 2, with Wallerstein's World Systems Theory indicating the unequal exchange of capital between the periphery and core countries and emphasising the relevance of capitalism; Alden introducing four the possible roles of China in Kenya as being a development partner, an economic competitor, a neo-coloniser, or drawn to Africa by the gap that was left by the West; and Nurke's Balanced Growth Theory highlights the importance of large amounts of planned, balanced investments to spur production and investments in a poor economy: the need of a 'big push' to overcome the vicious circle of poverty.

The sub-questions as formulated in the introduction suggest the direct of the research, the first sub-question considering the foundation of China's presence in Africa politically and economically: *What is the nature of the Sino-Kenyan relationship?* China's rhetoric of mutually beneficial cooperation reflects, at least theoretically, its benevolence and underlying focus on development. Nevertheless, many international powers regard China as a 'threat', and Chapter 3 will investigate the nature of Chinese presence in Africa and Kenya, discussing the large size of development aid and credit loans by the Chinese government, indicating that although the Chinese involvements generates a lot of new capital in Kenya, China's incentives are still to benefit its own economy. Additionally, the Sino-African economic ties strengthen the diplomatic friendship between China and African nations. These diplomatic ties will be briefly discussed, where China is observed to have utilised this relationship to internationally renounce Taiwan and gain its preferred votes in United Nations discussions.

The second sub-question focusses on the impact this Sino-Kenyan relationship has on the economy of Kenya and the development of its markets: *Is China promoting economic development in Kenya?* In Chapter 4, the presence of China in the Kenyan economy will be explored, looking at the influx of Chinese businesses in Kenya and how although many Kenyan workers are employed in these China-owned businesses, the higher positions are occupied by Chinese workers. Moreover, these Chinese companies greatly improve production methods and increases the amount of capital that is flowing between domestic markets in Kenya; however, local Kenyan business owners go out of business due to Chinese competitors, and Kenyan companies are bought by Chinese owners, redirecting profits to the Chinese instead of the Kenyan economy. The worldwide Chinese One Belt, One Road initiative will be discussed, with the largest project in both Africa and Kenya being the Mombasa-Nairobi Standard Gauge Railway. These Chinese infrastructure investments will aid Kenya in developing into a newly industrialised, middle income nation by 2030, as explained in its long-term development strategy Vision 2030. The conclusion will consider the nature of Chinese investments in Kenya and the possible consequences.

All analyses regarding the case study of the Chinese influence on the Kenyan economy derive from academic peer-reviewed articles and books, data from transnational institutions such as the World Bank or the United Nations, institutional and academic reports, and renowned newspaper articles. Chinese data on aid and investments are hard to obtain, as China has adopted a non-transparency towards its economic data; therefore, estimations by respected scholars and research institutes will provide insight on these numbers. Newspaper articles and unprocessed data provide more limited sources insofar as they are not peer-reviewed, but will nevertheless be used as some of the most recent developments are not yet processed in academic literature. By combining such various datasets, the research will be approached from different angles, and a more complete insight will be given of the considerations at hand.

2. Theoretical Framework

This section explores three theoretical perspectives to frame the relationship between China and Kenya. Three authors are considered to better understand the Sino-Kenyan (economic) relationship: Wallerstein's World Systems Theory being a critical international relations theory; Alden's frameworks evaluating the foreign strategies of China's in Africa; and Nurkse's theory considering economic development in his Balanced Growth Theory. The theories focussing on the world-system theory, bilateral relations, and national development economics, derive from different theoretical traditions, conceiving international relations in dissimilar ways, and emphasise different aspects of transnational relations. Wallerstein's theory provides us with a foundation to understand international economic interactions and thee different roles nations have in world trade, and Alden and Nurkse's theory elaborates on this by discussing bilateral relations and domestic economic development.

Some concerns about the Sino-African relationship will be raised, for which Kenya provides a substantial case study for further China-Africa research. Wallerstein's World Systems Theory represents the global economic relations, indicating he unequal exchange of capital from the economically weaker periphery states to the stronger core regions, the cheap labour and raw materials from the periphery states being exploited by the core states. Alden discusses the possibility of China being a development partner to African nations, an economic competitor, or a neo-coloniser, drawn to Africa by the gap that was left by the West. Lastly, Nurkse's economic development theory discusses how poverty in a nation can be overcome by large amounts of planned, balanced investments, to spur production and consumption in the domestic market economy. This paper provides some insights into the various perspectives on the Sino-African relations, and apart from discussing the three main lines of arguments of the theorists, this theoretical knowledge is utilised to expand on the knowledge on Kenya's developing domestic economy. Bringing these three theories together will make for a new perspective on global, regional, and national engagement with developing economies. Together, these perspectives will aid this research on the impact of Chinese investments on the Kenyan economy by utilising Wallerstein to place the China-Kenya relationship into the world system, considering Alden's roles to understand the nature of these interaction, and exploring Nurkse's theory to follow Kenya's development and China's investments.

2.1 Wallerstein's World Systems Theory

China earned itself a spot as the number one international influence in most African nations by improving its economic and diplomatic relations with the post-Cold War newly independent states. Most of these relationships are young, which is why it is important to not only consider the bilateral relationships, but also the overall global interactions of China with developing nations. China promotes such cooperation under the term 'South-South' cooperation. China views itself as part of the Southern nations, having recently started escaping its status as developing nation, and focusses on cooperating with other developing nations under a notion of mutual development, non-aggressed, respected sovereignty, and thus equality (van de Looy & de Haan, 2006). In Kenya, China can indeed be seen as the largest trade and development partner. In the typical 'North-South' cooperation, there is often an inequality in the relationship, as nations in the 'North' are often more developed and economically stronger. Immanuel Wallerstein's Theory of World Systems is the basis of the current world-systems perspectives, including the relationship between developed and developing nations. In this theory, Wallerstein aimed to incorporate the rise and development of capitalism, industrialism, and nation states in the world system (Skocpol, 1977). Capitalism is regarded to structure the world system, its functioning influencing the dynamics within this structure. It is often said to refer to the world as being divided by the bilateral and international division of labour. Wallerstein defines a 'world-system' as

> a social system, one that has boundaries, structures, member groups, rules of legitimation, and coherence. Its life is made up of the conflicting forces which hold it together by tension and tear it apart as each group seeks eternally to remold it to its advantage. It has the characteristics of an organism, in that it has a life-span over which its characteristics change in some respects and remain stable in others. One can define its structures as being at different times strong or weak in terms of the internal logic of its functioning (1974, p. 229).

Wallerstein argues there have been only two varieties of such world-systems: the historical world-empires, where one single political system attempts to control large areas; and a system that we observe today where a single political system stretching global areas does not exist: the 'world-economy'. Without one controlling body, societies form a system by their economic interdependency (Chase-Dunn & Grimes, 1995). Today's world-economy, or world-system, has survived for 500 years, and capitalism has been able to flourish, as there is not one political system restricting the economy, but a multiplicity of political systems (Wallerstein, 1974). No political entity can control this world-system, enabling a constant economic expansion; however, the distribution of the capitalist rewards between nations is very skewed. The primary units of analysis of such a 'world-economy' are the nation states, which are divided amongst core countries, semi-periphery countries, and periphery countries. In *figure 2*, Wallerstein's theory is visualised. The core states on the left represent the richer, developed nations which import cheap labour and raw materials, and focus on high-skill, capital-intensive production, exporting high profit consumption goods; the periphery states on the right supply these core states with the cheap labour, natural resources or low-skill, labour-intensive produce, whilst consuming the finished goods, which creates a large economic benefit for the core countries (Wallerstein, 2004). In the middle one can find the semi-periphery states, that both consume and produce goods, import and export goods and labour, and have developed some fields of production to be higher-skilled. It is mainly the division of labour that unifies this structure and the different statuses nations can gain.

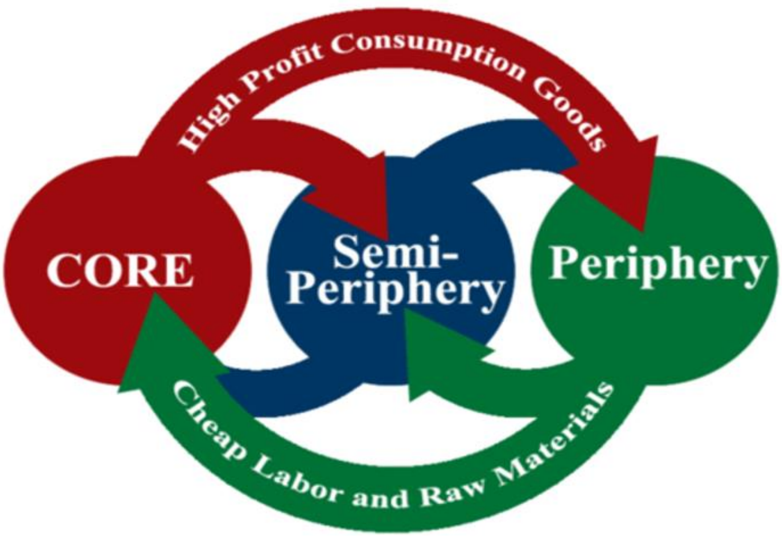


Figure 2: Wallerstein's World System Theory Model (Moyer, 2016).

This model represents the current economic relations in the world and indicates the unequal exchange of capital from economically (and often, politically) weaker states to the politically stronger regions (Wallerstein, 2004). Nevertheless, the semi-periphery states indicate the dynamic characteristic of this system, where revolutions in industrialism, technology, and infrastructure can allow nation states to grow to a semi-periphery state or core state – or lose their status over time (Wallerstein, 2004). As Wallerstein has stated, the world system is a world-economy rooted in capitalism (2004, p. 23-24). This means the largest economies are the hegemons, which does not necessarily have to be the largest nations: as history has shown, European colonial powers such as the relatively small nations of the United Kingdom or the Netherlands have had large influence on the world economy, controlling the spread of industrialisation and development on the Southern hemisphere.

The processes of colonisation, other historically pre-existing institutional patterns, or social rebellions in a nation are however largely ignored in Wallerstein's theory. The core areas are explained to end up with strong states primarily because of the plentiful taxable surpluses, and a dominant capital class desiring state protection; the periphery ends up with weak states as little to no profit is made from engaging in world trade, and the dominant capitalist class turns away from its government and towards business in the core states (Skocpol, 1977). By merely relying on arguments about economic interactions and world trade, many socio-historical factors are ignored, which could be a reason why additionally, no explanation of the dynamics of how capital is accumulated and economies expand globally can be found. The process of how a periphery or semi-periphery nations can develop into a core state remains unclear, other than Wallerstein mentioning the occurrence of 'technological innovations' – which themselves remain unexplained. The following two theoretical perspectives by Alden and Nurkse respectively attempt to explain more the dynamics and nature of bilateral relationships, and how a nation can move forward in its development.

2.2 Alden's perspective on China's foreign strategy in Africa

Chris Alden (2007) argues that that there is no one role that China adopts throughout Africa, and no single impact of China in Africa can be established. A promise from China's side to treat all African nations as equal trade partners whilst striving for mutual (economic) progress is what characterises Chinese strategy of current bilateral Sino-African relations today. China has invested a lot of money in Kenya's industry and infrastructure, whilst refraining from interacting with Kenya's domestic political affairs. Alden states that "it is best to look at the nature of the individual African regimes in place and the underlying economy of particular countries" (2007, p.59), and has classified China's role in African nations today in four different viewpoints: the development partner, the competitor, the new coloniser, and the vacuum-inspired. It is important to look at the nature of Chinese interactions in order to establish its impact. Alden does emphasise that these four roles are oversimplified representations of the complex present and that they share overlapping interactions and characterisations (Alden, 2007). Taking one particular event or incident will capture at best a momentarily feature of the

Sino-African relation, and cannot be regarded as the whole – nevertheless, it is these singular captures of reality that shape the perception of the relations. Therefore, Alden's perspective helps us place Wallerstein's core-periphery roles into perspectives, as it expands on the nature of the role China has in Africa, going beyond economic interaction and world trade by including socio-historical factors. It will help us gain more insight on the incentives and methods of domestic economies interacting and expanding.

The first perspective by Alden asserts that China's main role in Africa is that of a development partner, who can mutually benefit African nations. As previously mentioned, China has economically developed into one of the richer countries in the world, leaving behind its status as underdeveloped and poverty-bound country. The recent modernisation experience gained by China in this experience, could be shared with African nations to benefit their (domestic) development. Additionally, China has taken up high levels of technical expertise, knowledge about technology in the production sector, and management capabilities that it is willing to share under the term "South-South" cooperation (Edoho, 2011). Deborah Brautigam (2011) supports this understanding of China being a progressive development partner, emphasising how Chinese investments can help improving the production process of African entrepreneurs and expanding domestic economic opportunities, creating jobs throughout the continent. With the many natural resources to be found, learning new production and extraction techniques are crucial for Africa's development (Karumbidza, 2007).

The second view that Alden has identified holds that China is merely engaging with Africa as a competitor, out of its own (economic) interests. China's intensive industries have created a lack of natural resources; where in many African nations, a lot of natural resources are still to be extracted and utilised. It is easy to envision China trying to accumulate the African resources, engaging as an economic competitor with both African and Western governments and businesses. Thus, China is adopting a form of capitalism with no space for benevolent economic deals or assisting or enforcing political development (Edoho, 2011). This is a likely role of China, as indeed no engagements with domestic political affairs throughout Africa are made, disregarding a nation's governance or stance towards human rights in selecting the Sino-African relationship, but merely judging the economic possibilities and capabilities of a country (Keenan, 2008). Increased Sino-African trade will benefit both economies whilst challenging the Western firms and ties already in place – however, insofar as this competition contributes to the restriction of the diversification or development of African economies, China will also be regarded as an economic rival within Africa (Alden, 2007).

Radically expanding the previous 'competitor' perspective, the third perspective theorises that China might be repositioning itself into the role of a neo-colonising power throughout the African continent. Researchers supporting this view believe that China's interest goes beyond the scope of economic interest; rather, China might have a (secret) agenda of expanding Chinese culture and power (Edoho, 2011). Alden illustrates this by the fact that more than 800 Chinese firms were found throughout African nations in 2007, where over three-quarters of a million Chinese citizens are employed or living with an employed family member, the numbers of Chinese in Africa surpassing one million in 2016 (Park, 2016). Still, hallmarks of typical colonialism, such as monopolising trade and obtaining territory are lacking in China's 'Africa policies' (Alden, 2007). There are however close economic ties between the African elites and China, the African civil society still being excluded, as seen in the past century's colonial times. It is a form of neo-colonialism that is also expressed by Wallerstein, in which politically, colonialism is overcome, but the quest for market expansion for raw materials and low labour costs still economically imperialises a nation (1983).

Alden's last view contends that China was 'pulled' into Africa by an economic vacuum that remained after the West retreated from their African nations after the Cold War. This is not so much a fourth role for China, as it is an observation of why China could have initiated its close contact with African nations. It is theorised by Edoho that globalisation this vacuum has expanded, as he defines globalisation as the integration of domestic economies through worldwide investment, trade, finance, and sharing of technology (2011). This expands the gap between those nations who are connected, and those who are not, creating large economic divisions. Amongst others, this has caused what has been coined 'brain drain' and capital flight in Africa, were citizens of less developed African nations – who have the (economic) capacities – leave their countries to find a more prosperous life elsewhere. This in turn leaves an even larger gap, or vacuum, for Chinese citizens to fill (Okafor, 2008).

Chris Alden has not established one theory on China's interaction with African nations, the cooperation between underdeveloped and developed nations such as Wallerstein did, or the mechanics of economic development as will be discussed in the next section about Nurkse's theory. Rather, Alden explained the observations he made in the many relations between China and African nations that he researched. A limitation in this framework for the four different roles that China adopts throughout Africa is one that he already mentions himself: that these are oversimplified versions of complex transnational relationships. As Alden's publications are recent and his arguments are continuously developing, with his latest paper on debt and industrialisation in China-Africa relations published in June 2019, and do not suggest there is one theory to explain certain phenomena in the world, there is no academic debate (yet) on his publications. He intends to explain different theories and perspectives on China-Africa relations without including his subjective, personal views and assumptions, and does not attempt to advise on which direction China or the African nations should go. Wallerstein provides a theoretical basis for the vastly different relationships between China as an aid distributor and African nations as receivers, and Alden expands on the incentives of why such relationships are established, and the benefits for either the periphery or the core countries. In the following section, Nurkse will expand on the domestic dimensions of economic development and how foreign parties can aid this development.

2.3 Nurkse's Balanced Growth Theory

The starting point of Nurkse's balanced growth theory is where Wallerstein and Alden ended: how to create a developmental breakthrough. Contrastingly, Nurkse focusses on the domestic market of the periphery – or underdeveloped – nation, rather than on bilateral or international cooperation, believing that such growth can only be achieved from within. In Nurkse's conception, the core of an underdeveloped economy is a deficiency of market demand in a nation due to a lack of domestic capital. A lack of demand decreases the levels of production; and with less production and demand, and thus sales and profits, the economy will not expand. A poor nation with a stagnating economy is stuck in a vicious circle, or 'poverty equilibrium'. This is indicated in *figure 3:* as workers have a low income, they have little incentive and possibility to save. According to neo-classical economics, savings equal investments, which means low savings result in low investments. Investments are however crucial for markets to further develop, thus with little investments, the capital formation is low as well. This results in a lower productivity of entrepreneurs, as with the low demand due to the lack of capital in society, the entrepreneur has no incentive to further develop or modernise its production process (Nurkse, 1964). China's role of development partner that Alden has identified might offer solutions here, as China is willing to share its production technologies and development strategies with underdeveloped African nations.

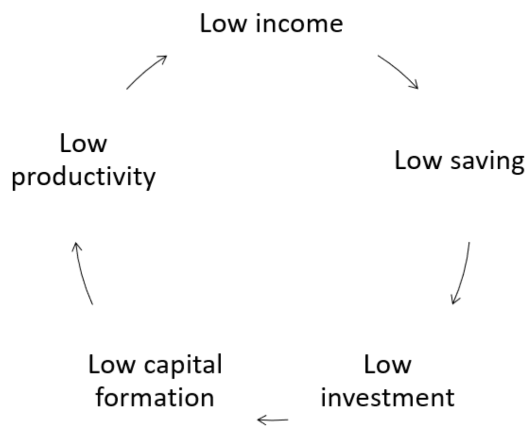


Figure 3: Vicious circle of poverty equilibrium (based on Nurkse's theory as explained in Bass (2008))

Nurkse's Balanced Growth Theory claims that governments of underdeveloped nations should invest with real capital in diverse markets in its nation, emphasising these have to be actual funds or credits, rather than 'merely' implementing monetary and fiscal policy measures. Nurkse states that poverty is due to a lack of capital in a nation, where both the consumption and the production side in market societies are lacking (Bass, 2008; Darity, 1982). As in poorer countries, saving is restricted due to low income, there is little capital available with which higher levels of consumption are stimulated. It can escape this poverty by investments: the state should construct capital goods such as infrastructure, and combined with the additional provision of credit by international organisations, this will foster economic growth. This economic growth will create new opportunities for investors, at which point the private investors will start engaging with the developing economy as well, further stimulating the economy and the trust people hold in the domestic markets (Bass, 2008).

Nurkse emphasises that the investments should be implemented according to the concept of 'balanced growth' which means that a large number of interdependent projects in diverse sectors should be initiated simultaneously – which has also been coined as the 'big push' (Hansen, 1965). The theory has been illustrated in Appendix A, with the 'big push' being the first step. In an underdeveloped nation, the markets are small, and little surplus is created to trade between markets. If capital investments are directed at only one markets, society and other markets will still have the same lack of capital, meaning they have no capacity to buy the produce. The surplus that is created with this narrow investment will not be sold and thus not generate profit (Nurkse, 1956). Investments from individual entrepreneurs are ruled out due to this small size of markets, and thus only such a wave of capital investments will generate possibilities to overcome the stagnating poverty equilibrium, and turn the vicious circle into a virtuous circle (Bass, 2008). The most important determinant of the expansion of the market is productivity, as with inefficient production processes or lack of produce, there will be little to no surplus to sell for profit. The capital that is provided needs to be employed properly in order to create more output, which largely depends on the use of new efficient technologies and machineries (Nurkse, 1964).

This process should then be sustained by private investments, which will be attracted and encouraged by the growing markets and increased trust in the economy. Larger domestic economies will also attract foreign investors, and this will further strengthen trust in the markets. Here, the nation should be careful to prevent a typical 'core-periphery' relationship as explained by Wallerstein, as that focusses more on the movement of capital towards to core country, away from the domestic, developing economy. Due to the lack of capital, the initial investment projects by the domestic government that will stimulate the economy have to be carefully selected to range throughout the whole economy and complement each other's strengths and links. Demand (or in economic terms, purchasing power) should be stimulated, as in a stagnating, poor economy, there is too little offered in exchange. The market is essentially too small, and should be stimulated to expand, so that each sector provides a market for the products of the other, and in turn, supplies the raw materials that are often so very abundant in underdeveloped nations.

Criticisms of Nurkse's theory include the assertion that the governments of such underdeveloped nations lack the real capital to invest in the domestic economy in the first place, and that virtually no aid organisation will have the trust and capacities to engage in such vast investments (Bass, 2008). An underdeveloped market is unappealing to invest in, as there is an inelastic consumer demand and often a lack of modernisation and innovative entrepreneurs. Capital from foreign investment has the high chance of being less profitable to the nation than domestic forms of capital provision, as the nation providing foreign capital always has its own domestic incentives. Such foreign investments can be regarded as colonial, as these investments often originate from the proving nation's demand for raw material for their own domestic industries. In line with both Wallerstein's and Alden's insights of neo-colonialism, Nurkse however warns for such investments, stating they are foreign only in a geographical sense, and cannot be seen as foreign economic investments, as the raw material market the foreign nation invests in essentially becomes part of their own domestic economy, with little to no gains and produce ending up in the economy of the nation 'receiving' the investments (Nurkse, 1956; Singer, 1975). This is why China might prove to be the game-changer in development theories. Over the last decades, China has grown from the position of a developing country, to a key international player. This recent development means that China has a lot of hands-on experience in defeating economic stagnation and underdevelopment, from which Kenya can draw valuable lessons to improve its own nation. The Chinese government has the economic capacities for all-pervasive investments, has a lot of technological production and development knowledge that it is willing to share, and is actively utilising this capital in order to accelerate development not only within, but also outside of its own domestic economy.

2.4 Conclusion

By combining these three perspectives on inter- and binational cooperation and domestic economic development, this thesis offers a coherent view on the economic relationship between

Kenya and China, and the (domestic) strategies both nations adopt. Wallerstein's World Systems Theory offers a concise overview of the international relations and the connectivity and interdependence of nations and their markets, but as this theory is based on Western capitalism and the past centuries, we need Alden to specifically understand the nature and incentives of such interactions in the newly risen China and Kenya. As this thesis focusses on the effect of Chinese investments on Kenya and its economy, it is important to consider a theory on economic development, and Nurkse's focus on improving production and expanding markets makes his Balanced Growth Theory a valuable addition to this research. The subsequent chapters will apply Wallerstein, Alden, and Nurkse's view on the Chinese involvement in Kenya.

3. Analysis: Current Presence of China in Africa and Kenya

As China's economy has been growing for the past decades and the nation is developing, there is an increasing demand for raw materials, cheap labour, and a respected place in the international community. The nation's strategy to expand into Africa fosters these goals, as the continent has many natural resources still to be extracted, a large labour force that is willing to work for lower wages than the Chinese, and there are likely possibilities of (new) diplomatic friendships. This section will first demonstrate how China has organised its economic presence in Africa as well as Kenya by establishing the Ministry of Commerce, which merged the ministries and departments of trade, economic relations, and foreign aid, indicating China's principle of mutual benefit by institutionalising the relationship between foreign development and economic profit-making. Next, Chinese foreign aid to Africa will be discussed, as it is estimated to come in second as largest aid distributor after the United States of America, but may surpass the USA if investments and interest-free loans are included in these numbers. Wallerstein, Alden, and Nurkse emphasise that investments in underdeveloped markets often mainly focus on production for export to the respective investing industrial country, rather than the expansion and advancement of the underdeveloped market. Placing Kenya and China in Wallerstein's model, Kenya can indeed be regarded as a periphery country, with which China is interacting as a core country. China is however not only interested in African nations economically, but this section will also elaborate on how the young diplomatic ties benefit China in the renouncement of Taiwan or in the voting process of the United Nations.

3.1 The Chinese Department of Foreign Aid and the Eximbank in Africa

Development aid aims at benefitting the lesser well off, but Chris Alden warns that in sum, developmental relationships can still have an exploitative character (2007). In 1960, China's first office dedicated to aid was set up by the State Council: the Commission of Foreign Economic Relations. Together with the Ministry of Foreign Affairs, the Commission decided on aid agreements, and in ten years, was upgraded to its own Ministry of Foreign Economic Relations (Brautigam, 2009). In 1982, the Ministry of Foreign Economic Relations was merged with the Ministry of Trade to become the Ministry of Foreign Economic Relations and Trade. This merge signalled that China had planned a closer relation between development aid and multiple other forms of economic engagement, including generating profit (Brautigam, 2009). As bureaus and commissions under the State Council were transformed into corporations, the Chinese government began moving towards international markets. Such aid corporations, under the State Council, had, separate from their main incentive of distributing foreign aid, the freedom to seek profitable opportunities (Brautigam, 2009). The Ministry of Foreign Economic Relations and Trade is now known as the Ministry of Commerce, which houses the Department of Foreign Aid, emphasising how relations that China establishes with underdeveloped nations under the term ‘developmental partner’ might have underlying economic incentives that favour the Chinese economy.

The steps taken by China to firstly institutionalise foreign aid, and secondly expand its objectives to include profit-making as well, exemplifies the State Council’s policy of mutual benefits in aid agreements. Through the Ministry of Commerce, the Department of Foreign Aid is able to give out grants and zero interest loans to foreign states. An additional, bigger corporation under the State Council is China’s Eximbank, which is responsible for concessional loans and ‘preferential credits’. There are two of such preferential credits: export seller’s credits, which are large loans for Chinese companies that operate abroad; and export buyer’s credits, which are loans issued to those who import Chinese goods or services (Brautigam, 2009). This way, the Chinese government stimulates expanding its economy internationally. Together with the governmental Department of Foreign Aid, Eximbank distributes foreign aid through concessional loans, which are generous loans with a low interest rate, and/or longer periods of grace for developing countries, specifically issued to promote economic development (Brautigam, 2009). Investments of such sizes and with these beneficial conditions are what Nurkse deems necessary for a nation to be pulled out of poverty; however, Nurkse theorised these investments coming from the domestic government rather than from a foreign nation. China’s policy of mutual benefit underlines these economic agreements, and it must be noted that the benefits for China must be at least as large as those Kenya, if not grander. For instance, unlike the zero interest loans, the concessional loans cannot be rescheduled or cancelled, meaning that China holds a certain level of power over the nations that have received such loans.

China's aid to Africa and Kenya

Deborah Brautigam is a respected researcher in the Sino-African International Relations field, and estimates China's official development aid to Africa to be $1.0 billion (USD) in 2008, growing to $1.4 billion in 2009; and Gu and Kitano have estimated this number to have grown to $4.9 billion in 2014 (2018). Transparency is lacking in the Chinese aid distribution as the Chinese government does not reveal data or figures about its finances, which is why these numbers are estimates which are derived from three main areas: external assistance expenditure by China's Ministry of Finance, concessional loans by China Eximbank, and debt relief by the Chinese government. China's donations are major in Africa, however, the numbers ought to be put in perspective. In 2008 China was not the largest aid donor, where for instance the United States of America has disbursed $7.2 billion of official development aid to African nations, Japan $1.6 billion and Germany, France, and the United Kingdom each disbursed around $3 billion. Between 2000 and 2013, China is measured to have committed US$31.5 of foreign aid to Africa, approximately $2.25 billion annually; the United States nearly tripled this by $92.6 billion from 2000 to 2013, or approximately $6.62 billion per year (Strange et al., 2015). The distribution of aid throughout Africa can be found in *figure 4*, were Kenya is seen to have received a significant amount of aid since 2000.

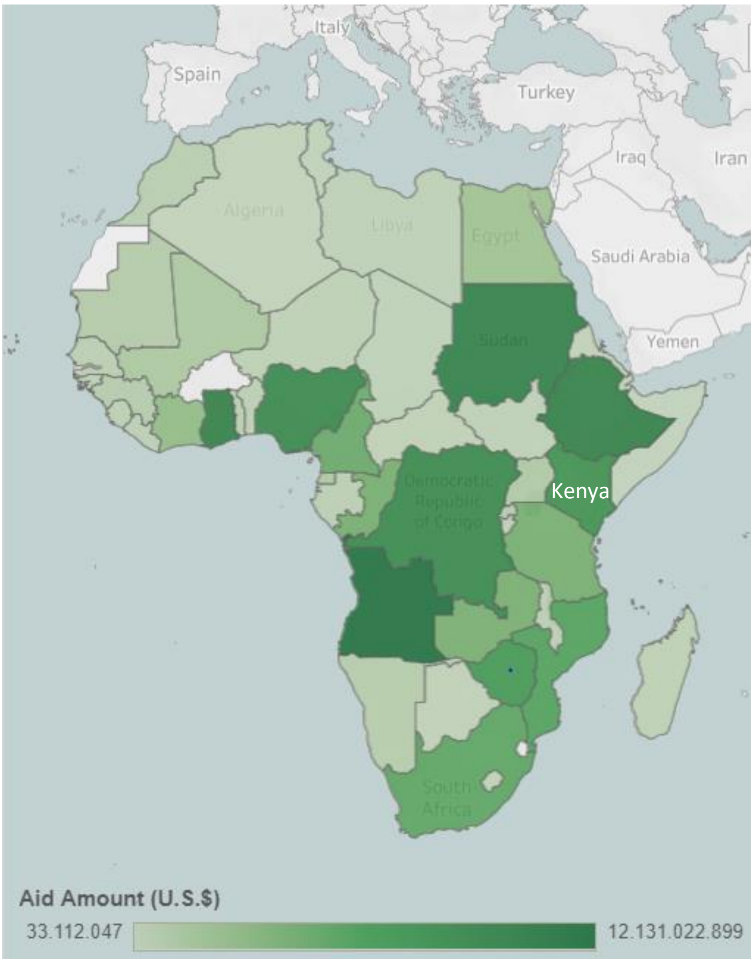


Figure 4: Chinese foreign aid distribution in Africa, 2000-2013. (AidData, Strange et al., 2017)

As elaborated on before, China is not merely giving out aid, but is actively engaging with and investing in foreign economies. Such activities are not classified as aid, but the enormous and unprecedented amounts of (low interest and interest-free) loans and investments provide opportunities for nations to lift themselves out of poverty. It may well be that these loans and investments combined with the official foreign aid exceed America's or European nations' size of foreign aid. It places China in the position of a development partner, stimulating economic growth in Kenya and sharing its knowledge under the term 'South-South' cooperation (Alden, 2007). Nevertheless, Alden claims that Sino-African relations are mostly asymmetric, and as feared by the West, will remain in favour of the Chinese (2007). Development aid does aim at favouring the lesser well off in such a relationship, but in sum, such cooperations can still have an exploitative character. Nurkse underlines that in underdeveloped nations the "inducement to invest is limited by the size of the market", translating to other nations having little incentive to invest real capital in an underdeveloped market as this will unlikely create profitable returns, China is seen to be closely interacting with nearly all African nations, of which several can be regarded as underdeveloped (Nurkse, 1964). Both Wallerstein, Alden, and Nurkse emphasise here that the investments in underdeveloped markets that are observed mostly focus on production for export to the respective investing industrial country, with no local consumption or products to trade. Therefore, although China is stimulating development in Kenya, we cannot yet conclude that China's role in Kenya is that of a development partner; possibly China's presence is more competitive or exploitative in nature.

3.2 China in Africa: diplomatic or economic?

Placing China into Wallerstein's World System, it would find its place in between a core and a semi-periphery state: great volumes of raw materials are imported and technology has advanced tremendously; however, there is still a large part of China that is willing to work for very low labour costs, or living in poverty. Most African countries have a large labour force that is very willing to work, an abundance of raw materials, and import the high-profit finished goods and thus can be scaled under periphery states. Kenya shares this cheap labour force and a high level of import of such high-profit consumption goods, but has on average little natural resources for other countries to import. Still, the implied movement of capital from the periphery to the core states can be observed between China and Kenya as well, as Kenya's trade balance with China is a deficit, which is rapidly growing (Onjala, 2010). This economic relationship might thus be more beneficial to China than it is to Kenya; however, the influx of Chinese capital does offer Kenya an opportunity to rapidly expand its economy. Trading with China opens up a large platform for exporting products from Kenya, and it can be a great market opportunity.

The question of how cooperation benefits are divided between China and Kenya is difficult to assess, as many externalities affect both the Kenyan economy as the international trade surround Kenya and China. Furthermore, China's secrecy around its foreign aid agenda makes it harder to establish clear cooperation incentives. The West has criticised China's foreign policies for collaboration with authoritarian regimes that disrespect the United Nations basis human rights, and for importing Chinese labour for their own benefit (Morlin-Yron, 2017). A recurring issue is the integration of environmental and social concerns, as in the African nations where European governments broke off their bilateral relationship due to the violation of human rights and corruption, or disregard of the environment and lack of fostering a sustainable future, China is seen to fill up this gap (Alden, 2007; Okafor, 2008). Kenya needs competent (governmental) frameworks and legal systems to channel the foreign investments in order to benefit national economic growth (Tebagana, 2014). At the same time, structures to foster the implementation of labour and environmental laws need to be implemented in order to conform the Chinese influences and practices in Kenya to the African benchmarks that focus on a sustainable and fair future (Karumbidza, 2007).

Diplomatic ties

Diplomatically, China is aiming to be meddling as little as possible in domestic affairs; however, internationally, the nation is not afraid to engage in diplomatic negotiations. The Chinese State Council has established a presence throughout Africa, and as can be seen in *figure 5*, a recent measure shows China has the most embassies and consulates in Africa in 2016, with the United States and France as close runner ups. Today, 53 out of the 54 African nations have these physical diplomatic ties with China, Burkina Faso committing itself to a Chinese embassy in 2018. The one nation that still remains to be swayed being eSwatini (formerly Swaziland). The main reason eSwatini and China do not share such diplomatic ties is that eSwatini recognises Taiwan as an independent nation. The remaining 53 countries have agreed not to have a diplomatic recognition of Taiwan, which strongly reflects in the Chinese embassy opening in Burkina Faso just two months after the nation but its diplomatic ties with Taiwan (Cocks, 2018). It is an effect of the campaign that China launched over the past three years to have the last official diplomatic allies of Taiwan cut their bonds, in order to prevent Taiwan

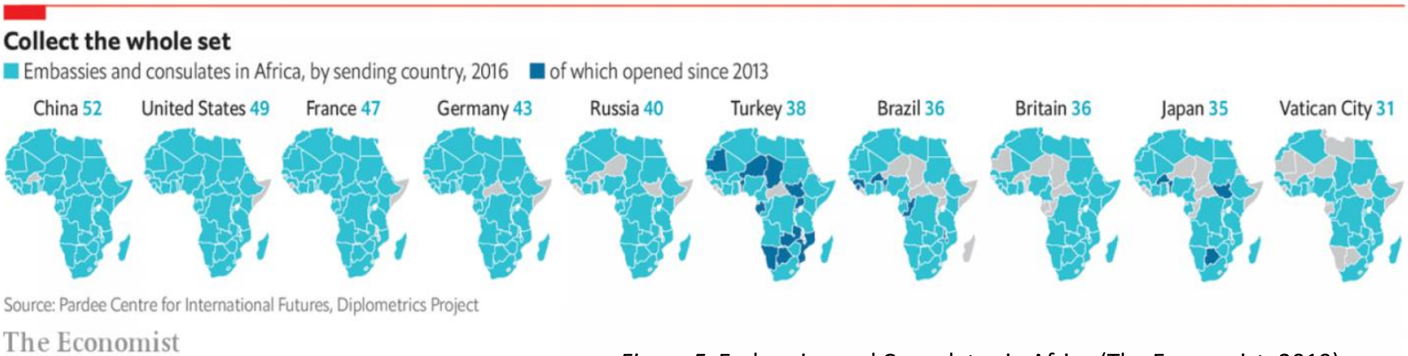


Figure 5: Embassies and Consulates in Africa (The Economist, 2019)

from gaining any formal independence. As China is now possibly one of Africa's most important trading and investment partner, many African nations were pushed towards this diplomatic renouncement of Taiwan due to their socio-economic challenges.

As all 54 African nations make up more than a quarter of the United Nations General Assembly, China made a tactical move with connecting diplomatically with 53 of them. To illustrate the strong force that China has formed for the United Nations negotiations: during a vote on the repercussions on North-Korea's violations of human rights in 2007, China clearly defined its oppositional stance to the proposed resolution, whereas every European country, the United States of America, Canada, the most of South America, and Australia approved this resolution. Nevertheless, subsequently all 43 African nations which received aid or investments from China at that time, voted against the resolution as well, or abstained from voting (United Nations, 2008). The resolution was adopted with a majority of 20 votes, but it shows the diplomatic power China holds over allies.

Economic ties

As mentioned above, China's growing economy has a sharply increasing demand for raw materials, and the African continent is rich with resources. This is one of the main (economic) reasons that China moved into African nations, together with its quest to expand the number of markets for import and export and improve its infrastructure worldwide. As Kenya does not have large reserves of natural resources or crude oil, China engaged with Kenya based on the market and infrastructure possibilities. Kenya has a coast on the Indian Ocean, providing as a great gateway into the landlocked nations in Africa. Compared to for instance the United States of America and the European Union (EU), Chinese trade with African nations has increased vastly over the past decade: the EU holds the place of the largest trading partner, with an increase of 41% over the past decade; the size of American trade merchandises shrank with 45%; and Chinese trade with African nations increased with 226% (The Economist, 2019). Additionally, large Chinese investments are made in Kenyan infrastructure and factories; unfortunately, what happens when Kenya is unable to pay back its loans to China, is still unknown. Nevertheless, the loans and investments that the Chinese Department of Foreign Aid and the Eximbank have made, are economically beneficial to both Kenya as to the African continent, where emphasis may be put on China reluctance to engage in any political affairs. The South-South relation that China and Kenya share provide a great example for developing countries to join forces and start interacting and cooperating more, creating a powerful body of periphery and semi-periphery states that is able to defend its own rights and wishes (Melville & Owen, 2005).

3.3 Conclusion

By institutionalising foreign aid and credit loans together with the Ministry of Commerce, China emphasises its policy of mutual benefits. The large number and sizes of the loans, aid, and investments conceivably puts China in the role of a development partner, also sharing its technological and developmental knowledge with Kenya. There is however the chance that with the core-periphery relationship that China and Kenya share, this an asymmetric relationship due to China's national incentives to benefit its domestic economy, with the product and profits from the investments directly going back to China rather than the local Kenyan economy. China itself has only recently developed its domestic economy to a prosperous one, and can be named an 'inexperienced latecomer' to investments in Africa (Alden, 2007). Many Western companies have been able to build upon generations of engagement with African states and peoples, gaining diplomatic trust and securing economic relations. This has resulted in China's 'Africa-strategy' to be constructed around the following three characteristics, as reflected in this chapter (Alden, 2007): 1) *Competitive political advantage*: China has a great willingness to engage in activities with any state available, regardless of its international standing, following the Chinese policy of non-interference in domestic affairs. The advantage lies in the ability of China to work with regimes that the West has cut its ties with based on for instance human rights violations. 2) *Comparative economic advantage*: the costs of employing Chinese labourers has increased in the past years, however, is still lower than the average cost of the Western employees. 3) *Diplomacy and development assistance*: Chinese governments have been befriending many governments throughout Africa, and with the economic aid and investments such relationships are strongly reinforced. Unfortunately, in the scenario that Kenya will not be able to repay the Chinese loans it received for infrastructure projects; it will put a large burden on its economy.

4. The interaction of the Sino-Kenyan economy: Chinese businesses, the OBOR, and Vision 2030

Where the first grounds for interaction with African nations were based on China's need for crude oil and natural resources, today a wide range of economic cooperation can be observed throughout the continent. This section will first discuss the presence of Chinese workers and companies in Kenya, and even though the Chinese businessowners mainly employ local workers, managerial positions are often occupied by Chinese migrants. The Chinese government is keeping a close eye on companies in Africa, and has taken most of the Chinese corporations settling in African nations under its wings, mainly on those corporations that engage in the extraction of raw material or those who operate in the energy sector, as these are most important to secure in support for China's domestic economic growth (Bates & Reilly, 2007). As elaborated in the previous section, China is distributing large amounts of aids and investments in Kenya; this does however not mean China is a benevolent development partner, and Chinese retailers and corporations are seen to dominate local Kenyan business owners. Nevertheless, Kenya's GDP is increasing, and its infrastructure has improved greatly by Chinese investments. This chapter will next discuss China's worldwide infrastructure project that aims at reintroducing the ancient silk Route, reaching from the far Eastern border of China to the Western coastline in Europe. The infrastructure investments are organised by the Chinese One Belt, One Road (OBOR) initiative, and is responsible for a substantial amount of capital moving towards Kenya. Overall, Kenya is improving its markets, and is aiming to become an industrialising, middle income nation by 2030. This goal is proclaimed in Kenya's Vision 2030, a long-term development strategy that will be discussed at the end of this chapter.

4.1 Chinese businesses flooding Africa

A trend can be seen since the 2000s where around 10-15 Chinese companies have settled in Kenya each year (Fiott, 2010). Many of such business initiatives, organisations for resource extraction and Sino-African cooperation organisations are financed with credit loans from China or gifts by the Chinese government, and apart from the colonial times, one nation funding such large amounts of capital for another is unprecedented in history. Therefore, it of importance to evaluate the opportunities that China creates in Kenya. Of the many Chinese companies settling in Kenya, many have shown to be prone to employing local workers. In 2016, around 78 percent of full-time and 95 percent of part-time employees in such Chinese companies were Kenyans; however, the (higher) managerial positions are generally occupied by Chinese migrant workers (Sanghi & Johnson, 2016). As theorised in Wallerstein's World System Theory, Kenya fits the role of the periphery state by providing a large cheap labour force and resources, whilst in this relationship China holds the role of core state with upper positions in management and possibly directs the profits back towards its own domestic economy. It prevents Kenyans from ending up in charge of the businesses and companies built with Chinese funds or established by Chinese entrepreneurs. It does however mean the Kenyan market economy is expanding, with more produce and trade possibilities, and more 'local' Chinese businesses supplying goods. Following Nurkse, the expansion of the market might lead to overcoming the stagnation of the market, attracting private investments; moreover, domestic trade can create a marketable surplus for foreign trade. However, Nurkse did not theorise a domestic economy to grow with all the foreign investments and trade being from one nation. This a situation only precedented in the colonial times, and we can only speculate about the positive and negative impact of the Chinese economy becoming intertwined with the Kenyan economy in today's international atmosphere.

Additionally, the Chinese government and Chinese companies are buying and taking over the most successful organisations throughout Africa. Bringing short-time gains to the African nations and entrepreneurs willing to sell their organisations, profits will leave the continent and be redirected to China, meaning in the long-term losses to the continent. Moreover, it might negatively impact the Kenyan export market, with China trading less with domestic organisations in African countries but more with their 'Chinese' counterparts that have settled in Africa. These Chinese-led organisations are observed to employ local labourers, but there is nevertheless an influx of Chinese workers emigrating to the African continent to work at the Chinese-owned companies (Keenan, 2008). In terms of Alden's perspectives for China in Kenya, China's interest in engaging with and in Kenya's economy, it is adopting the role of a 'competitor': following the laws of capitalism, there is no space for the Chinese corporations to engage in generous deals, and no incentive to look beyond the market at for instance Kenya's political situation or the status of human rights (Alden, 2007).

With supply chains between China and Kenya and by utilising their networks, small and medium Chinese enterprises are able to expand into the markets formerly dominated by Kenyans. Their low-cost (which alternatingly results in low-quality) consumer product drive out traditional suppliers, and in Kenya this is felt largely throughout the clothing and textiles industry (Alden, 2007; Brautigam, 2009). Especially in the rural parts, small-scale Chinese retailers have brought new goods to the population, and with their lower priced products concurrently undermine established retailers, who produce goods in more traditional methods, resulting in higher quality but also more expensive goods. Nevertheless, China-Africa scholar Deborah Brautigam believes that in combination with Chinese direct investments and development assistance, those Chinese businesses can help Kenya develop (2009). Brautigam sees the establishment of Chinese factories and businesses not as a merely targeting the provision of jobs and products, but, in accordance with Nurkse's 'big push', sees it as a larger opportunity spanning multiple sectors such as improving the local production technologies and inspiring African entrepreneurs to adopt business methods and machineries. Furthermore, the World Bank estimates around 40 percent of the African elites to keep their wealth outside of Africa, but Chinese firms might function as incentives for the African elites to return their wealth to their nations (Brautigam, 2009). Opinions amongst the Kenyans differ, as they see the influx of Chinese enterprises as both an opportunity to modernise technologies and society, as well as having a concerning negative impact on the local economy and businesses.

These Sino-Kenyan economic ties are increasing every year. Last September, President Xi Jinping announced at the Forum on China-Africa Cooperation (FOCAC) that China will be providing an additional US$60 billion in financial support to Africa. Economically, the United States of America is overtaken by China as Africa's second largest trading partner, where from 2006 to 2018 Chinese trade with sub-Saharan Africa has increased by 226 per cent - American trade shrank (The Economist, 2019). The European Union still holds first place in being the region's largest trading partner, but has only been able to increase trade with 41 per cent over 2006 to 2018. The Sino-Kenyan trade balance seems to benefit China: China represents a large potential market for Kenyan importers, the Kenyan have a much smaller chance of expanding its exports to China, than China does to Kenya (Sanghi & Johnson, 2016). China's many exports to Kenya might negatively affect local enterprises, nevertheless, the benefits that the Kenyan consumer derives from the availability of the more affordable and more diverse Chinese goods should not be underestimated either.

4.2 Chinese loans and the OBOR initiative

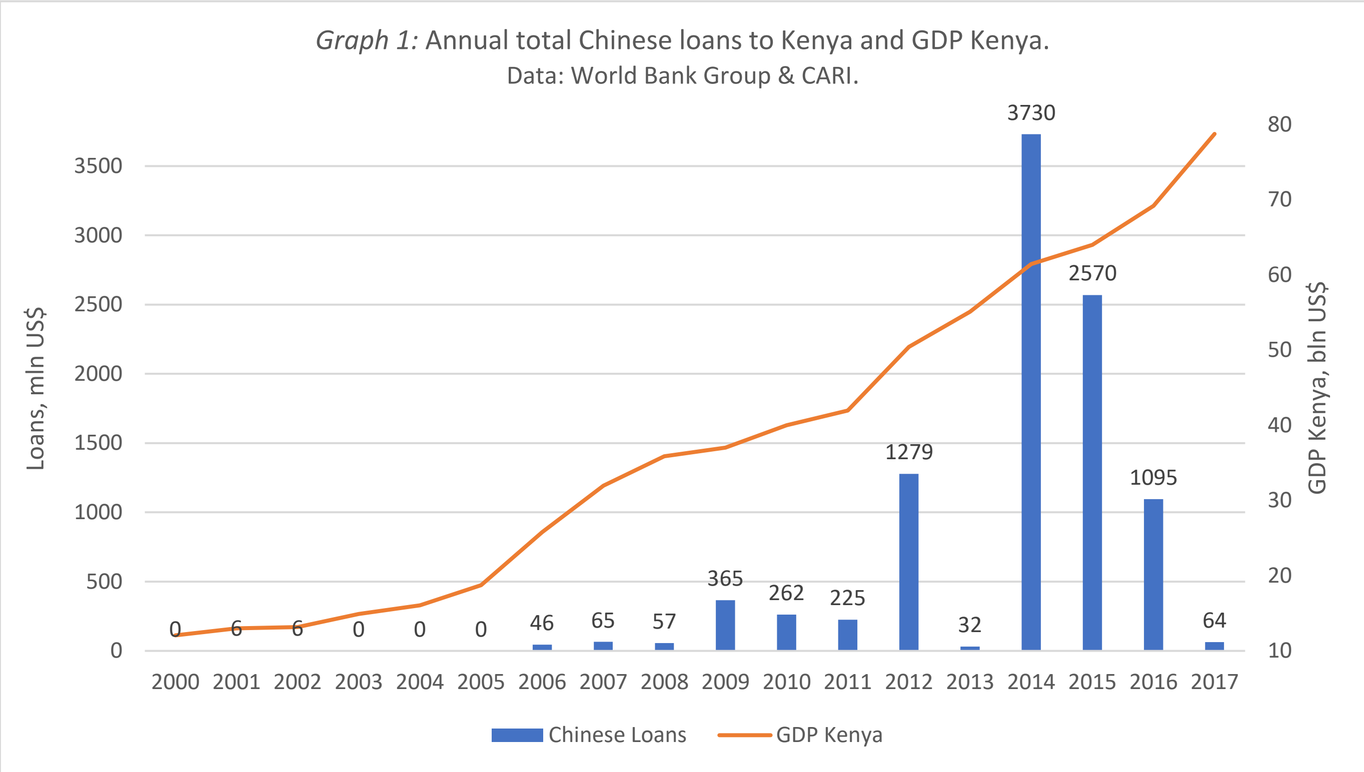
In addition to financing Chinese companies to settle in Kenya and the rest of Africa, the Chinese government gives out a lot of (credit) loans and development aid. The Chinese government handles its data very carefully and adopts a non-transparent policy towards the distribution of their loans and aid. The China Africa Research Initiative (CARI) at Johns Hopkins University has collected and analysed the data from the official sources, third parties and field research,

Country	Eximbank (millions US$)	Suppliers Credit (millions US$)	Total Chinese loans to government in 2000-2015 (millions US$)
Angola	6,937	22	19,224
Ethiopia	7,245	4,165	13,067
Kenya	6,319	0	6,849
Sudan	4,837	1,043	6,477
Cameroon	3,632	2	3,723

Table 1: Top 5 Chinese loans to African governments. Data: Atkins et al., 2017

and has created a comprehensive database on China-Africa lending (Atkins et al., 2017). Many of the economic involvement of the Chinese government is through loans with (very) low interest rates. *Table 1* states the five African governments whose loans from China were the largest between 2000 and 2015. The Eximbank plays a crucial role in Chinese economic assistance in African nations, and the size of these loans can be found in the second column. ‘Supplier’s Credit’ in column three are loans by Chinese companies to buyers of their goods or services. In the fourth column, the total Chinese loans to the African governments can be found; note that there are more forms of loans than the two states, for instance private/commercial Chinese banks, Chinese contractors, and Chinese investment funds (Atkins et al., 2017).

As can be seen in *table 1*, Kenya places third in size of loans obtained from Chinese parties. In *graph 1* (page 32), the annual combined loans of the Eximbank and other Chinese parties to Kenya can be found. Gross Domestic Product (GDP) is one of the methods to measure an economy’s health, and tracing the Chinese loans to Kenya per year against the GDP growth, one can observe a trend of growth in both. The first substantial loans in 2006 seem to have had a positive effect on the Kenyan GDP; but it was not until 2011 that the Kenyan economy boomed, with GDP exceeding US$40 billion. The graph shows an increase in Chinese loans in 2009, meaning a large increase in capital in Kenya, and Nurkse’s theorised ‘big push’ in the form of Chinese loans does indeed seem to push the Kenyan economy. The peak in Chinese loans in 2014 can be contributed to the start of construction of the Mombasa-Nairobi SGR, and whilst after that Chinese loans rapidly decreased, the GDP and thus economy seems to have a stable upward trend. The World Bank Group has estimated Kenya’s GDP to grow with almost 6 per cent, meaning a GDP of US$93 billion in 2019, and US$98,5 billion in 2020 (World Bank, 2019).



Many of the investments China makes in Kenya are part of the 'New Silk Road', also OBOR initiative. With investments and loans under the OBOR initiative China is aiming to physically (re)connect with Asia, Africa, and Europe, as the 'old' Silk Road did 2100 years ago during the Chinese Han Dynasty (260 BC-AD 24) (Li et al., 2015). The OBOR initiative was launched in 2013 by President Xi Jinping as a part of his 'Five-Year plans', which characterises China's long-term policymaking of balancing the slowdown of China's domestic economic growth (Stahl, 2018). President Xi has established a Silk Road Fund, and together with the Chinese Eximbank and China Development Bank, form the key lending sources for OBOR infrastructure projects. The Eximbank has provided more that 60 percent of the loans between 2000-2014 and is seen to favour the 'core' OBOR countries such as Kenya with its railway and port for loans under the OBOR umbrella (Chen, 2018). The New Silk Road connects Asia, Africa, and Europe, focussing on creating economic benefits for all countries involved by connecting domestic markets, and has specified the benevolent objective to bring development to the highly underdeveloped regions of northwest China and Central Asia (Li et al., 2015). China's aim is to create a resource and finance exchange system, and constructing a shared security (French, 2017).

In numbers, the OBOR initiative will (re)connect more than 50 countries that together account for around 70 percent of the global population, 55 percent of the world gross national product, and 75 percent of the existing energy reserves (Chen, 2018; Godement et al., 2015). The abundant energy and natural resources found in many African nations are essential for securing the success of the OBOR, and China's future domestic development. China will export its comparative advantage in infrastructure technology, and this physical, diplomatic, and economic connection will facilitate the exchange of resources, commerce, capital, knowledge, and peoples, taking it to such an extent that cultures, religions, and civilisations will be exchanged (Christian, 2000; NRDC, 2013). Additionally, there is an unofficial agreement in Kenya that the Chinese infrastructure organisations will locally source at least around half of its construction materials (Wissenbach & Wang, 2016).

Innovative plan for Kenya: The Standard Gauge Railway

Kenya has been actively engaged with improving its infrastructure in the OBOR initiative, as it provides Kenya with great economic opportunities not only with China, but also with Asian, African, and European nations (Musyimi, Malechwanzi & Luo, 2018). With Kenya's vision of developing into a middle-income country, Kenya became a member of the OBOR initiative in 2013, and focussed on connecting the nation with Uganda, Rwanda, and South Sudan through the 609 km long Standard Gauge Railway (SGR) (Musyimi et al., 2018). The Mombasa-Nairobi SGR is estimated to cost US$4 billion, and Eximbank is funding 90% of these costs; the remaining 10% is funded by the Kenyan Government (Morlin-Yron, 2017). Both nations wanted to emphasise how this was a cooperative project, emulating the Sino-Kenyan friendship. This is reflected in the construction process: the Kenya Railway Corp has developed the rail line, whilst the China Road and Bridge Corporation (CRBC) has built the section (Parke, 2016). Starting construction of the Mombasa-Nairobi SGR in December 2014, it has been finished eighteen months ahead of schedule in May 2017 (Wambare, 2017). Catching up on the planned schedule is not uncommon for Chinese constructors: the 'Tan-Zam Railway', connecting Zambia to the sea at the Tanzanian coast, was a Chinese construction project in the 1960s that was delivered two years ahead of schedule, which one of the reasons why the Mombasa-Nairobi SGR has been compared to the Tan-Zam Railway (Brautigam, 2009).

Unfortunately, technical training given by the Chinese on operating the Tan-Zam railway was not sufficient, and the railway's performance deteriorated under local operation. Chinese workers were re-stationed in the 1980s, and the railway started to become profitable. It raises the question if it was in fact not the Zambians but the Chinese who have benefitted from this railway construction (Monson, 2013). In order to prevent this in Kenya, the Government of Kenya and the CRBC have agreed to properly transfer technical knowledge to the local people. During the first five years, Chinese workers will operate the railway, and around 15,000 Kenyans will receive training on operating and maintaining the Mombasa-Nairobi SGR (Pius, 2016). It indicates a change in the Chinese attitude towards developmental aid in construction: rather than competing with the local workers, it is adapting towards Alden's role of development partner.

China poses as a competitor to the West for relations with African nations. Improving infrastructure on the continent has become China's comparative advantage, and the construction of the SGR is estimated to have created 46,000 jobs in Kenya. Chinese infrastructure institutions acknowledge the importance of infrastructure for modernisation, having themselves experienced this recently (Lian & Lejano, 2014). Having experimented with infrastructure technology, Chinese corporations are now able to provide African nations with effective and developed infrastructure technology. It must come as no surprise that Nurkse states infrastructure as one of the main areas for investments for a developing economy, and in Kenya, roots in the colonial system have been blamed for the economic stagnation. By literally replacing its colonial past by the SGR replacing and expanding the old British colonial railroad, Kenya has a chance of furthering African cooperation and sharing prosperity. The new railway has decreased the transit into the land from 16-24 hours to a maximum of 8 hours, thus decreasing the transport costs. This is one of the reasons why Nurkse places such importance on improving infrastructure for a developing nation such as Kenya: when transportation costs drop, investment is attracted, regional trade can be stimulated, and new export opportunities present themselves (Nurkse, 1964).

4.3 Kenya's Vision 2030

Nurkse emphasises domestic governmental investments being needed to break the vicious circle of poverty. With its long-term development strategy 'Vision 2030', Kenya aims to invest capital in its economy. Next to the Chinese, continent-spanning One Belt One Road initiative, Kenya's 'Vision 2030' focusses on expanding its economy and improving its infrastructure. The two projects launched around the same time, Vision 2030 being officially introduced in 2006. National economic growth in international relations is often translated to the increase of a nation's gross domestic product (GDP): a goal that Kenya is also chasing in its Vision 2030. On 30 October 2006, Vision 2030 was presented by (former) President Kibaki, emphasising the need of Kenya to development in the market environment. Now, 13 years later, the plans seem to have had a positive effect already, with a large increase in GDP as can be seen above in *graph 1*. The vision stands on three pillars: and economic, social, and political one, which ground the ten foundations: macroeconomic stability; continuous government reforms; enhanced equity and wealth creation opportunities for poor people; infrastructure; energy; science, technology, and innovation; land reform; human resources development; security; and public sector reforms. Overall, Kenya is aiming to become a newly industrialising, middle income nation by 2030.

In order for the Kenyan economy to develop, Nurkse's Balanced Growth Theory indicates the above-mentioned foundations of Vision 2030 to be crucial. Nurkse argues the economy needs to diversify, and that investments should be made simultaneously to generate the aforementioned 'big push'. The state should invest in domestic markets with real capital, in order for the supply and production of these markets to increase. Nurkse's theorised requirements are seen to narrowly correspond with Kenya's foundational goals in the 2030 Vision, focussing on government and public sector reforms to improve the macroeconomic stability, infrastructure, and energy, science, technology and innovation sector. These markets will reinforce each other, generating a complementarity of demand and consumption between said markets, fostering an expansion of the flow of goods and services into the economy. Domestic trade will need to be spurred, something that will be allowed through the foundational goals of enhanced equality and wealth creation opportunities for poor people, human resources development, and security. These previously describes steps can be traced back to the first three steps in the illustration of Nurkse's theory, as can be found in the illustration of his theory in Appendix A. Following Nurkse's theory, these investments and opportunities will lead to step 4 in the illustration, engaging multiple private parties through additional investments and increased domestic trade; the surplus from domestic trade can be utilised to expand the foreign trade market. This will result in the Kenyan economy to develop through the increasing domestic purchasing power and an increased trust in the market economy by both investors and companies.

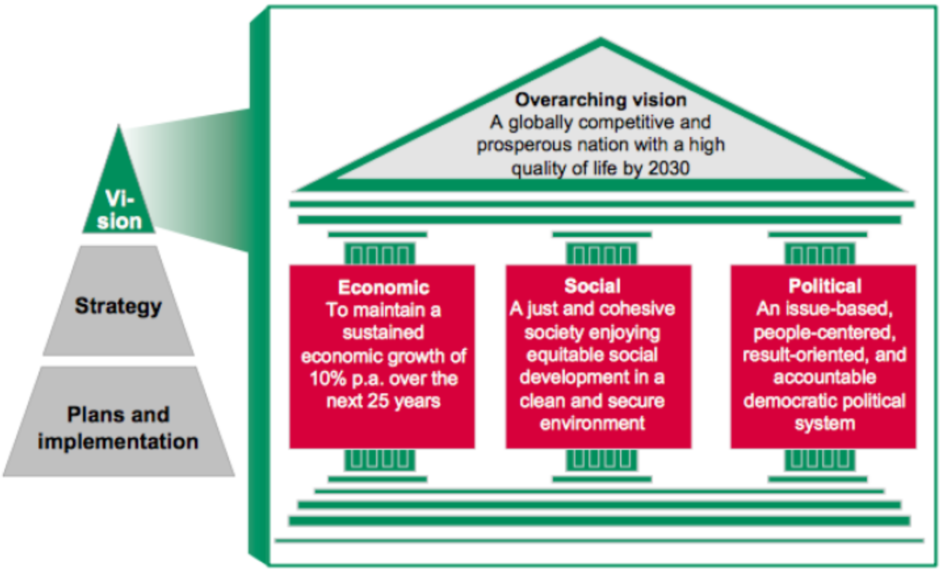


Figure 6: Thematic overview of Kenya's Vision 2030. (Kenya Vision 2030, 2007).

Embedding the three pillars shown above in *figure 6* suggest the broad range of segments of development within Vision 2030. Fiott (2010) has identified the four major goals of the Vision 2030:

- Diversification of the economic base (move away from solely agriculture);
- Increase intra-African trade in the region;
- Become the regional economic hub;
- Generate investments for transport, energy, and telecommunication infrastructure (deemed necessary for the project to be successful).

Vision 2030 is aiming to be an inclusive communication frame for realising the collective aspiration of increasing the quality of life of all Kenyans by 2030. With a current GDP that has almost quadrupled since the introduction of Vision 2030, the government of Kenya seems to be well on their way. The question remains: where the Kenyan government does not have the capacity to fund the economy in such large scales, where does Kenya get the initial real capital investments of step one in the Balanced Growth Theory? China foresaw this Kenyan problem and turned it into a Chinese opportunity. The first realised project of the Kenyan Vision 2030 was the Mombasa-Nairobi SGR: as mentioned above, a project largely financed by the Chinese government and railway businesses. Noteworthy is that the official Kenyan Vision 2030 website does nowhere mention China, the Chinese government, or the Eximbank as being a substantial donor and credit partner in the development projects. In the governmental report on the Vision 2030 growth for 2013-2017, the Eximbank is casually mentioned as one of the many donors (Vision 2030, 2019). China itself is specifically mentioned in the tourism section, stating that the marketing of Kenya's tourism had a positive effect and resulting in larger volumes of Chinese tourists (Vision 2030, 2013).

The Big Four

For the near future, the Kenyan President Uhuru Kenyatta has established the Big Four Agenda Projects, a 5-year development plan which specifically targets four sectors that he believes need extra attention in the Vision 2030 Agenda. The four pillars President Kenyatta wishes to develop further are manufacturing, affordable housing, universal health coverage, and food security (Big 4, 2019). He especially wishes to target younger people and assist their development, as the four pillars respectively aim to increase GDP, deliver 500,000 affordable homes, actualise 100 percent costs subsidy on essential health services, and fully overcome food insecurity and malnutrition nationwide. Additionally, the government has promised to create over 2.5 million new jobs in these 4 sectors of the 5-year plan. It aims to ensure constant GDP increase in cooperation with the government, the local people, local and foreign investors, and development partners.

4.4 Conclusion: Kenya's future

The Chinese government has financed some of the largest projects Kenya has even seen, and while aiming to expand Kenya's trade and economy, more than half of Kenya's total bilateral debt has recently been estimated to be owed to China (Cannon, 2019). The largest Sino-Kenyan project is currently the Stand Gauge Railway, which was, as elaborated on above, meant to bring flexibility and prosperity to Mombasa, Nairobi, and all the cities it connects in between; however, profits have had the nation waiting, and in the first years since opening, the railway has been losing money (Pilling & Feng, 2017). At a certain moment in future, Kenya will have to start paying back these loans to China. Debt repayment is tied to the sustainability and profitability of the large projects it funds. This requires the Kenyan government to adequately evaluate the prospected returns from the (infrastructure) projects, and domestic capacity should be built to operate them in the long run (Chen, 2018). This means Chinese enterprises should be involved in local training, and ideally, push the Kenyan government to facilitate the transfer of the skills and technology needed to maintain the projects from Chinese to African ownership. Currently, there is however no clear plan on how this repayment will happen, in what time frame, and where Kenya will get the proper credits as the promising SGR is not delivering its intended profits. Kenya has accepted an estimated $4.9 billion for the construction of the SGR, and losses in the first year of operation were reported to be equivalent to $98 million (Jacques, 2019).

Kenya's long-term development strategy Vision 2030 aims at expanding the nation's economy and improve its overall infrastructure, two domains deemed to be of high importance for development by Nurkse. As he states, when transportation costs drop, investment is attracted, regional trade can be stimulated, and new export opportunities present themselves. It will aid Kenya in its goal of becoming an industrialised, middle income nation by 2030, and with a current GDP that is almost four times as high as a decade ago, this goal seems more realisable than ever. Speculations are however that in the – not unrealistic – scenario that Kenya is not able to pay back the debt, China has its eyes on the newly renovated port of Mombasa (The Economist, 2019). African media reports that China may already be preparing to seize the port as a result of this debt-trap diplomacy: but losing the port will even further negatively impact the Kenyan economy and domestic profit, and could push the nation further into a serious debt (Jacques, 2019; Huang, 2018; Stahl, 2018). This might encourage the West to increase its economic efforts throughout Africa. This approach comes close to the way Alden has approached the basis of Chinese foreign policy as being a neo-coloniser, which is to maintain a low profile, not sharing any future plans or capabilities, but to calmly secure a position (2007). The European Union has already responded to this economically unstable situation, and has announced in September 2018 that €40 billion will be available as grants to Africa from 2021 to 2027 (Economist, 2019). In October last year, the United States has doubled its lending capacity for overseas private investments to US$60 billion. African nations now are in the position to select their partners in development aid and investment, and must take this opportunity to overcome colonial and cold war scenarios, as priorities and offers from foreign investors can now be weighed against the African standard.

5. Conclusion and limitations

The Sino-Kenyan relationship is a prime example of how the rules of development, development aid, and economic cooperation have changed in the past decades. It is important to consider such advancements in the sphere of international relations, as many development approaches are outdated or revolving around theory rather than reality, such as the relatively recent Washington Consensus. This research has employed three theories on international relations to evaluate the reasons and effects of Chinese investments in Kenya. Wallerstein's World Systems Theory offers a concise overview of the interdependence of nations and their markets, Alden researches the role and nature bilateral Sino-African relations, and Nurkse discusses improving production and expanding markets with his Balanced Growth Theory. Analysing literature, data, and news articles surrounding China and Kenya's relationship, this research has expanded on the nature of the Sino-Kenyan relationship and the effect of Chinese investments on the economic development in Kenya, whilst bringing together the theories of Wallerstein, Alden and Nurkse to renew the perspective on global, regional, and national engagement with developing economies.

Development aid and investments distributed by China follow the principles of mutual respect for sovereignty, non-interference in domestic affairs, and mutual benefits, as stated in the Beijing Consensus. It sympathises with the respective developing nations by its shared history of imperialism and its own underdeveloped past. As China's economy is still expanding, and the nation has developed into a key player in the international field today, there is an increasing demand for raw materials and cheap labour. The shortages cause China to move into African countries, as Wallerstein theorises core countries will find resources and labour in periphery countries, but we observe simultaneously that China is aiding development in these underdeveloped nations. China is not merely giving out aid, but is actively engaging with and investing in foreign economies. Combining these loans and investments with the development aid, China is likely the largest economic partner of many African nations, and disputably their main development partner. The establishment of the Department of Foreign Aid and the State's Eximbank exemplifies how China is institutionalising development aid. Nevertheless, even though the nation is promising to stay out of domestic political affairs whilst distributing aid, investment, and loans, China is trying to influence international politics by selecting its development partner based on their diplomatic orientation, such as the recognition of Taiwan.

Kenya is an important actor for China's One Belt, One Road initiative, as it serves as a gateway between East Africa and the land-locked Central African countries. Reintroducing the ancient Silk Route, China is investing a lot in the infrastructure of the many countries found along this route. In Kenya, one of the main projects is the Mombasa-Nairobi Standard Gauge Railway, which is funded for 90% by the Chinese Eximbank. A generous investment of China, but in order to secure a profitable future for the railway, the proper training should be given to the Kenyans operating and maintaining the SGR. The railway has been in use for over a year, and has not yet been profitable; speculations are that without the SGR's profits, Kenya will not be able to pay back their Chinese credit loans, and China will seize the Mombasa port.

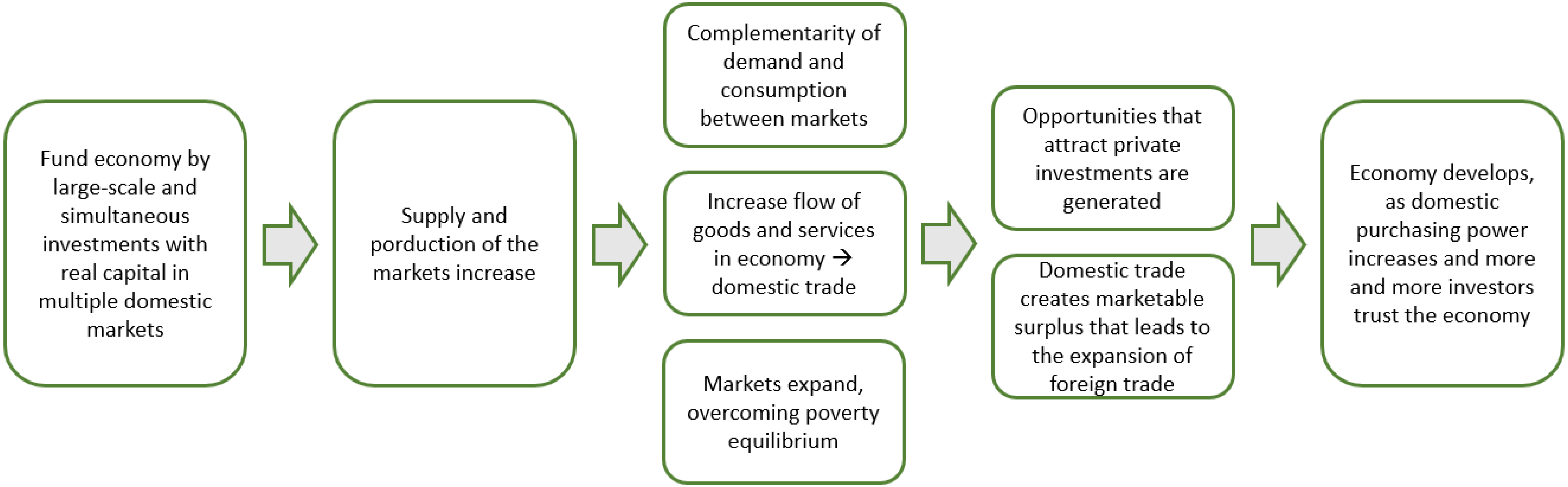
Nevertheless, China is promoting economic development in Kenya, as the many Chinese businesses settling in Kenya create large amounts of jobs, with the SGR creating an estimated 46,000 jobs in Kenya, and help diversify the market economy. Improving infrastructure and diversification of the market economies, together with large simultaneous investments, are in Nurkse's theory of great importance for a nation to be lifted out of poverty, or to break the vicious circle of underdevelopment. A larger, stronger economy might attract more investors to Kenya, and as currently many of the African elites keep their wealth outside of Africa, the increasement of Chinese firms might function as a catalyser to get this African wealth back to the continent. Opinions amongst the Kenyans currently differ, as they see the influx of Chinese enterprises as both an opportunity to modernise technologies and society and expand their economy, as well as having a negative impact on the local economy and businesses. Next to the Chinese, continent-spanning One Belt One Road initiative, Kenya has adopted its own long-term development strategy 'Vision 2030' in 2006, where the nation, amongst others, aims to expand its economy and improve its infrastructure. With a current GDP that has almost quadrupled since the introduction of Vision 2030, and the ambitious expansion of the Vision with the Big Four initiative, the government of Kenya seems to be well on their way.

China and Kenya have laid a strong basis for a sustainable partnership. Whether China's enhanced role in Kenya will spur Kenyan development, or whether China's self-interest will overshadow the shape of the partnership, remains to be seen. If China adapts itself to the Kenyan concerns of developing its economy and raising its population out of poverty, while pursuing its own, broader aims throughout the African continent, it will be a mutually beneficial relationship. Kenya hereby should take the initiative of moving beyond being merely a periphery country allowing China to enjoy its large, low-cost workforce and be one of the many chains in the OBOR initiative, and take matters in their own hands to further develop and diversify the domestic economy. Many aspects of Chinese engagement in Kenya are competing with the established Kenyan businesses, and thousands of newly settled Chinese businessmen are competing with the locals for the many job positions. The Kenyan government should be careful to keep the economic growth in its own hands by not relying too much on Chinese credit loans and investments, but focus at generating its own capital. China, as would any nation, will always have its national interests and preference to expand its domestic economy, which is why Nurkse, Alden, and Wallerstein warn for imperialist signs in such a relationship as between China and Kenya. And indeed, even though the Sino-Kenyan trade deficit sheds a negative light on the partnership, the overall effect of Chinese investments in the economy of Kenya has allowed Kenya to develop major infrastructure projects and increase its GDP significantly.

This research is limited as due to the scope of this thesis, it considers mainly the economic dimension of the Sino-Kenyan relationship, whereas this bilateral relationship is a lot richer with political, social, and cultural dimensions as well. Within this economic focus, there is the additional limitation of China's non-transparency policy, where facts and figures are only disclosed in restricted amounts. Moreover, the author of this paper is based in the Netherlands and has no knowledge of the Chinese and Bantu Swahili language, meaning only sources from and about China and Kenya that are published in English are considered in this thesis. The author has attempted to take a nuanced, objective stance towards both China and Kenya, and tries not to fall victim to the many alarmist Western opinions about Chinese engagement in Africa; nevertheless, the literature used and the professors teaching at the author's institution Leiden University were predominantly from the West. Furthermore, this paper discusses an ongoing relationship, and the latest published academic literature will generally still have information that dates back one to two years. A recommendation here is to follow Chris Alden's publications, as he closely monitors many China-Africa relationships and constantly updates his own frameworks and theories. This is also why in addition to peer-reviewed sources, non-peer-reviewed news articles are cited. Nevertheless, both China and Kenya are developing and expanding their economies at a fast rate, meaning that information and speculations in thesis might also already be outdated.

Appendix A: Illustration of Nurkse's Balanced Growth Theory

Designed by author.



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