

The Alternative of Chinese Aid in Africa:
Impacts of China's Development Strategy through
Chinese Aid, Finance, and Firms in Kenya

By

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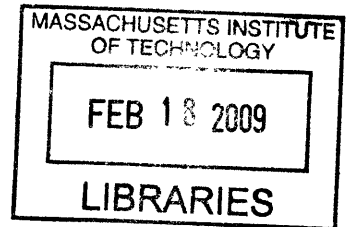
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ABSTRACT

This thesis examines the differences of Chinese and Western aid implementation and its effects in Africa through the case study of Chinese aid and finance for road development in Kenya. Today, Kenya receives tangible benefits from Chinese aid, firms, and finance in road construction. Chinese aid serves as an alternative to Western donor conditionalities in Kenya helping decrease the requirements of Western funding sources. Western aid, however, may not serve as a "substitute" for Chinese aid, therefore making Chinese aid unresponsive to Kenyan interests. The instantaneous and less bureaucratic nature of Chinese aid and China's personal interest in Kenyan infrastructure lead to an increase in road construction but eliminate Kenya's voice in Chinese aid decision. Furthermore, trainings to Kenyans illustrating a "South to South" relationship are really for building China-Kenya relations and are ineffective for Kenya's human capital development. In addition, this is the first study to outline how the combination of tying of Chinese aid to Chinese firms and China's "Go Out" policy create excessive power for Chinese companies in Kenyan road development and debt financing decisions as well as marginalize Kenya's interests. China's tying of aid and the competitive advantages of Chinese firms working in Kenya crowd out domestic industry and forfeit valuable opportunities to develop local neighboring industries. Kenya needs to treat its relationship with China not just as an aid recipient but as a player in a "mutually beneficial" relationship. In order to receive more responsive and effective aid Kenya must begin to leverage its assets desired by China in order to demand a stronger voice in aid decisions.

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Chapter 1: Introduction

Sub Saharan African development today relies on aid. Poverty, disease, and lack of infrastructure are just some of the many obstacles these nations face (Collier and Gunning, 1999). These developmental challenges, in turn, make Africa a large priority for donors' altruistic interests. After forty years of aid, however, African countries experienced little gains in economic development, and many even find themselves worse off than before (Easterly, 2007). GDP per capita in Kenya, like many of its neighbors listed below, was virtually the same between 1980 and the year 2000, and less than US\$300 more than its level after independence in 1963 (see Figure 1).

Figure 1

GDP per Capita for Kenya and Neighboring Countries for Selected Years

Constant US\$ (2000)

Country	GDP per capita 1965	GDP per capita 1980	GDP per capita 2000
Kenya	\$742.75	\$1,050.76	\$1,030.68612
Tanzania	\$497.08	\$599.30	\$535.13
Sudan	\$984.27	\$931.47	\$991.25
Somalia	\$1,088.19	\$1,037.01	\$863.07
Uganda	\$778.94	\$577.38	\$796.52

Source: World Development Indicators, 2005

Aid effectiveness, how well aid influences economic growth or other developmental outcomes, remains a great interest to scholars and policy makers.

Evaluations of aid policies find trends and prescribe new methods for implementing aid. Whether it is focusing on poverty alleviation or infrastructure finance, donors have implemented an array of different aid packages in the hope of sustaining equitable economic development for their recipients. In addition to the task of prescribing the correct aid package that addresses current theories in development, other factors outside aid effectiveness affect decisions in aid disbursement. The foreign interests of donors, for example, are a persistent issue because of their often competing agendas which can compromise the effectiveness aid. These include the development of domestic industry for donors, geo-political alliances, access to natural resources, and security interests. These outside forces affecting aid policy have undermined Africa's development goals in the form of aid-tying, technical training, and lack of coordination among Western donors (Easterly, 2007). For the past forty years these competing interests have accompanied aid and are more highlighted ever in the introduction of Chinese aid in Africa.

Typical to Chinese development, Chinese aid has entered Africa with rapid speed. Their influence in the region has spread leading to benefits in natural resource acquisition and export expansion in the region which has gathered much attention by international stakeholders. One of the main elements to China's Africa strategy has been aid to the region, predominately in the form of infrastructure development (Gill and Reilly, 2007). China's aid policies and implementation differ from typical Western donors. This has created great debate on the impacts of Chinese aid onto Western donor efforts and African development as a whole.

Large amounts of literature discuss the differences in general aid policy between China and other donors. China's policy of "non-interference," unlike Western aid,

bestows aid to Africa without asking for governance reforms. Western interests attack this practice of China as well as the clear connection Chinese aid has to natural resource acquisition (Taylor, 2006). We shall see that many of these concerns, though warranted for the concern of Africa's development, are hypocritical in light of many Western aid practices. How, then, is Chinese aid really different than western aid?

This thesis uses the case study of Chinese aid in Kenya to illustrate the realities of differences between Chinese and Western aid policy and implementation. Chinese aid to Kenya typically comes in the form of road infrastructure grants and loans. Kenya also receives debt relief and other grants from China, such as assistance for post-election violence recovery in the beginning of 2008 (Chege, 2008). This thesis, however, focuses on the impacts of road infrastructure aid to Kenya's domestic road infrastructure development.

The physical gains manifested in Kenyan infrastructure are undeniable, with more high quality road infrastructure than Kenya has seen in decades (Mwinzi, 2008). In general, Kenya and China relations involve access to natural resources and Kenya as a regional African headquarter for China in exchange for the rapid improvement of Kenyan infrastructure. China has been very forward about their interest in Kenya's natural resources, particularly oil and titanium, since bilateral relations began to swell in the late 1990's (Chege, 2008).

Chinese aid for road infrastructure in Kenya follows China's general policy of "non-interference" which has appears to help influence the lowering of conditionalities by Western donors in Kenya. With a history of burdensome conditionalities from Western donors, Chinese aid is a particularly attractive substitute for Western aid. How this aid is

disbursed, however, creates problems for Kenya's role in a comprehensive development strategy. Lack of transparency and exclusion of Kenyan officials in aid decisions are common place in Chinese aid projects. This gives Kenyans little power or choice in their own domestic infrastructure construction (Mwinzi, 2008). Furthermore, Chinese officials and companies pride themselves on helping Kenya through a "South to South" relationship through trainings and mentorship. The implementation of these projects, however, does not show such benefits for Kenya. These trainings for Kenyan officials have little impact on transferring skills. Instead they are most effective for building China-Kenya relations with little attention to real improvements Kenya's human capital stock (Kiiru, 2008).

In Kenya, China chooses to invest grants and loans in road infrastructure while Western donors typically fund anti-corruption and poverty reduction programs. Since issues of corruption, poverty, inequality, and lack of infrastructure (particularly in roads) are all urgent, why does China decide to focus on roads development while western donors focus on poverty and corruption? With China's growing interests in Kenya as both a regional headquarters and source for potential natural resources, China's interest in Kenya's infrastructure quality is also critical to maximizing their benefits from the region. This again brings about questions of China's influence in public spending in Kenya. Are roads given too much of a priority when China is the donor?

One of the most noticeable differences in Chinese aid and finance from Western sources is the implementation of China's "Go Out" policy. China finances a large number of Kenyan road projects today various subsidies reserved for Chinese overseas investments. Surprisingly, access to this finance is typically facilitated by Chinese firms

in the region. This causes Chinese firms to have a disproportionate amount of power in infrastructure, investment, and debt decisions for Kenya. Again, when Chinese firms are given so much influence in Chinese financing decisions for the Kenyan government, whose interests are prioritized with Kenya's public spending?

Chinese grant-funded construction projects have also introduced Chinese construction companies to Kenya. These companies bring lower prices for road construction but also competition for local industry in Kenya. Through China's "Go Out" policy, Chinese firms have several advantages in access to finance and various subsidies (Gill and Reilly, 2007). This, in addition to the tying of Chinese aid to Chinese firms, crowds out opportunities for developing the local construction industry in Kenya. This does not only forfeit the development of a Kenyan construction industry, but important linkages that could help develop neighboring industries as well.

Furthermore, Chinese firms only hire unskilled labor, reserving skilled positions for Chinese nationals, again denying Kenyans an opportunity for human capital development. Moreover, these workers rights are challenged by Chinese business practices. Chinese low labor standards, inexperience with worker unions and position of power in Kenya's road construction and finance make Kenyan worker rights in these projects a very low priority. Kenyan workers are the ones mostly likely to incur short-cuts in costs Chinese firms make to stay competitive in Kenya's construction industry.

In addition, China's lack of transparency in aid for resource deals in Kenya may create problems for future natural resource management an infrastructure. China's poor transparency in these agreements and Kenya's lack of voice in aid decisions may cause Kenya to follow unfair agreements. Worse yet, Kenya may have to suffer from China's

failure to follow through when aid for resource deals have no mechanisms for accountability. Problems with transparency in aid for resource deals will most likely fall onto Kenya.

Finally, what do these differences between Chinese and Western aid and their impacts say about the long term development of China and Kenya? The reality is China-Kenya relations do represent a mutually beneficial relationship. China though is experiencing the largest benefits from this relationship. Furthermore, international attention onto the China's presence in Africa shows how many other international powers also have vested interest in Kenya's assets and development. Kenya is not just receiving aid, but is delivering salient resources to these foreign interests, especially China. From Kenya, China is receiving advantages in natural resource exploration, regional headquarters for politically unstable oil-rich countries, and an expanding destination for Chinese exports (Onjala, 2008). Kenya needs to recognize its position as not a passive player accepting aid and take a more assertive role in agreements with China. In the conclusion of this thesis there are a set of recommendations for policy changes in Chinese aid Kenya can use to help make Chinese aid more effective *without* infringing on China's current benefits in the region. The fact these recommendations are not already implemented are a testament to Kenya's current limited role in China-Kenya relations. By leveraging their assets, Kenya should build a more active role in negotiations with China as well as other international interests in order to foster a more effective development strategy.

Methodology

This thesis is based on findings from field interviews with officials from Kenya's Ministry of Roads, representatives from the Chinese embassy and the Chinese Economic and Commercial Counsel in Kenya, Chinese construction companies in Kenya, as well as academic experts in this field. I conducted field work for this thesis in Nairobi, Kenya for ten weeks from June 13, 2008 through August 23, 2008 during my internship at United Nation-Habitat's Nairobi headquarters. In addition, my access to UN resources allowed me to do ample iterative literature reviews throughout my interview process. The short-time frame and sensitive security situation in Kenya, however, limited the stakeholder groups to which I was able to gain access. The lack of information I was able to gather from unskilled Kenyan workers who had worked in road construction and communities where Chinese road construction had been placed was particularly difficult.

In order to study the dynamics of Kenya and China's bilateral relationship, it was important to have representatives from all these stakeholders in order to verify information involving each party's role in road development. All contacts with Chinese representatives were acquired through the "snowball" effect, where new contacts stem from a previous contact, in this case the Chinese embassy. Although these interviews were conducted in English, my fluency in Chinese and being of Chinese decent gave me a strong advantage in collecting information from Chinese sources. This dynamic created a great amount of trust in my relations with Chinese sources which I believe helped in the openness of my interviews with Chinese stakeholders. Additionally, my role as a foreigner in Kenya arguably also gave me a de facto source of legitimacy with the

Kenyan government. I believe this ultimately also helped my access to information from the Ministry of Roads.

My channels of connection for contacts within the Kenyan Ministry of Roads were unrelated, and the “snowball” effect was relatively minor. However, all interviews were conducted with officials who were present at the Ministry of Roads during my weekly visits, meaning those who spent relatively more time in the field as opposed to the office were less likely to be interviewed. This also meant I was also unable to talk with many of the engineers who were working on current road construction projects far outside of Nairobi. In addition, data on Kenyan road development was obtained for 2005-2007 through the Ministry of Roads. This data contained cost, contractor, and project information.

Chapter 2: The Context of African Development

2.1 The Developmental Challenges of Africa: Economic Stagnation and Deep Poverty

Africa struggles as the poorest region in the world (Collier and Gunning, 1999). Most relevant to China's presence in Africa's development is the context of African development itself. Ironically, in 1960, scholars believed Africa had more potential even than Southeast Asia for economic development. Though African countries did experience moderate growth from 1960 to 1973, this growth did not compensate for the stagnation to come for the next twenty years. In the 1970's Africa's political and economic situation fell apart (Collier and Gunning, 1999). In effect, real GDP per capita of African nations, on average, did not grow between 1965 and 1990. East Asia nations meanwhile grew an average annual growth rate of 5%, and Latin America 2% per year (Easterly and Levine, 1995). Aside from overall economic growth, levels of poverty in Africa are devastating. Even since the late 1980's, the absolute number of Africans living on a dollar a day has increased. It has increased to six times the amount of people living in poverty in Latin America and two times the amount of people living in South Asia (White et al., 2001).

2.1.1 Geographic Challenges

There are many geographic constraints which can not be changed to improve Africa's growth. Firstly, they have the highest proportion of landlocked countries, meaning countries without any access to coastal areas or navigable water sources (Collier and Gunning, 1999). In fact, one third of countries in Africa are landlocked in the region

(Collier, 2006). Secondly, poor climate conditions also create many obstacles and instability for African development. Problems of erratic rainfall and poor and unexpected weather conditions make agriculture unstable and can lead to huge problems with food security. In addition, African climate conditions often carry more diseases and health risks, leading to shorter life expectancies (Collier and Gunning, 1999).

2.1.2 Demographic Trends

While most developing countries have large booms and changes in population throughout their development, Africa has had slightly different demographic trends challenges than most Asian and Latin American countries. This includes a persistently high population growth rate. Similar to Africa, populations in both Latin America as well as East Asia experienced large increases in population growth when public health measures improved which caused a decrease in mortality rates. Latin American and Southeast Asian countries, however, eventually experienced a decrease in birth rates, causing population growth to eventually go back down. In Africa, however, decreased birth rates, particularly in rural areas, have yet to decrease (Collier and Gunning, 1999). Furthermore, adult mortality has in fact has increased since the onset of AIDS throughout the continent (Collier and Gunning, 1999). This creates many developmental challenges for African nations since there are a persistently high proportion of young citizens who are dependent on those of working age. Particularly troubling to the future of African growth is how AIDS is also crippling this working age population who is supporting this high proportion of young Africans unable to work.

Another demographic issue is Africa's widely dispersed population that typically holds very low densities. This results in poor opportunities for market integration and efficient creation of public goods. Colonial legacy attributed to the low-density populations for many African countries. Colonial boundaries influenced the national boundaries seen today and therefore population distributions of Africa countries. These boundaries were drawn originally for purposes of colonial rule and are inefficiently small for domestic rule. Africa astonishingly has half the population of India divided among 48 countries. With such small populations divided between 48 governments, there is an inefficient return to scale for many of these nations for all the costs of creating a proper government (Collier and Gunning, 1999).

2.1.3 Lack of Economic Diversity

One huge factor in Africa's stagnant growth is that many African economies are based on natural resource endowments and primary exports. This can lead to many problems such as an over-valued currency which can make manufactured exports less-competitive in global markets (Collier and Gunning, 1999). African countries are dependent on primary commodities that have little value-added and do not offer opportunities for the development of labor skills or product upgrading (Collier, 2006). Export industries like manufacturing have many more long-term developmental benefits compared to natural resource exports. They offer development of skills and human capital which can lead to the development of other industries. Poor terms of trade can also occur not just from over-valued currencies but from external price volatility of

exports. In fact, it is often price volatility that is attributed to Africa's economic decline (Collier and Gunning, 1999).

In the 1980's, the World Bank and the IMF pointed to Africa's trade and exchange rate policies as the main cause of poor growth (Collier and Gunning, 1999). Compared to even other developing countries in Latin America and East Asia, African countries had even more drastically over-valued currencies and excessive tariffs on trade (Collier and Gunning, 1999). Unfortunately, even after trade barriers are remedied Africa is thought to have missed its chance to enter exporting industries. Today, these exporting industries such as manufactured goods are now dominated by mostly Asian economies. These domestic exporting industries have since grown into large agglomerations that hold many advantages which make African producers uncompetitive (Collier, 2006).

2.1.4 Ethnic Tensions

Africa's problems of ethnic fractionalization are also central to theories around the region's economic stagnation. Countries in Sub-Saharan Africa tend to have an incredibly high degree of linguistic and ethnic diversity. This diversity coupled with extreme levels of poverty and stagnant growth rates make ethnic tension extremely volatile and severe in African nations. Additionally, ethnic tensions in Africa make the region's economic stability very dependent on political outcomes (Collier and Gunning, 1999). Political stability with peaceful elections and governance for a reliable business environment rests greatly on the reactions and interactions by various ethnic stakeholders.

2.1.5 Corruption and the Over-Expansion of Public Spending

Furthermore, African nations such as in Ghana and Kenya have reputation for over-expanding their public sector and therefore public spending. In Kenya, public service employment was as high as 50% in 1990 despite its reputation as a “market-oriented” economy for Africa (Collier and Gunning, 1999). Despite these large investments in public services, these inflated public sectors have failed immensely in effective public service delivery leading to the poor development of infrastructure and legal systems in Africa (Collier and Gunning, 1999). Even worse, since the ruling elites tended to live in urban areas, rural agricultural producers have a long history of being overtaxed (Collier and Gunning, 1999).

2.1.6 Why has Stagnation Persisted?

After listing these challenging characteristics of Africa’s development, African leaders and foreign donors are still faced with the difficult challenge of identifying which of these characteristics are symptoms and which are causes of Africa’s economic stagnation. All of the possible explanations for slowed growth above self-reinforce or reinforce each other. Many scholars find that the explanation for Africa’s economic decline lies in the relationships between these factors, or combinations of factors, which create systems of stagnation. The combined weakness of several factors further weaken each other, making progress impossible, even when one or more of these constraints of these systems are released.

In particular, many see the geographic and political development challenges of Africa lead to endogenous systems which stagnate growth (Collier and Gunning, 1999).

A study by Guillaumont et al finds that “primary” instability is very influential to growth rates. “Primary” instability refers to structural factors such as sociopolitical problems and climatic shocks which are typically much more prevalent in African nations compared to other developing countries (Guillaumont et al, 1999). Low growth is highly associated with low schooling, political instability, under-developed financial systems, high government deficits, low infrastructure, and ethnic fractionalization (Easterly and Levine, 1995). In addition, the success of domestic policies depend greatly on neighboring African country policy choices and performance (Easterly and Levine, 1995)¹. Collier, on the other hand, defines the causes for Africa’s development stagnation as a series of “traps” such as the corruption trap, the conflict trap, the primary commodity trap, and the fractionalized society trap. These problems which are much more present and severe than in other developing countries make aid much more ineffective. He argues more aid is unlikely to help Africa’s development at all given these traps (Collier, 2006). However, the reality is these issues of stagnation in terms of advancements in education, governance, conflict, industry diversification, and public health make Africa an exceptional case for foreign aid. This exceptionality will continue to supports arguments for various types of aid, as well as for the increase and decrease of aid for the continent as a whole.

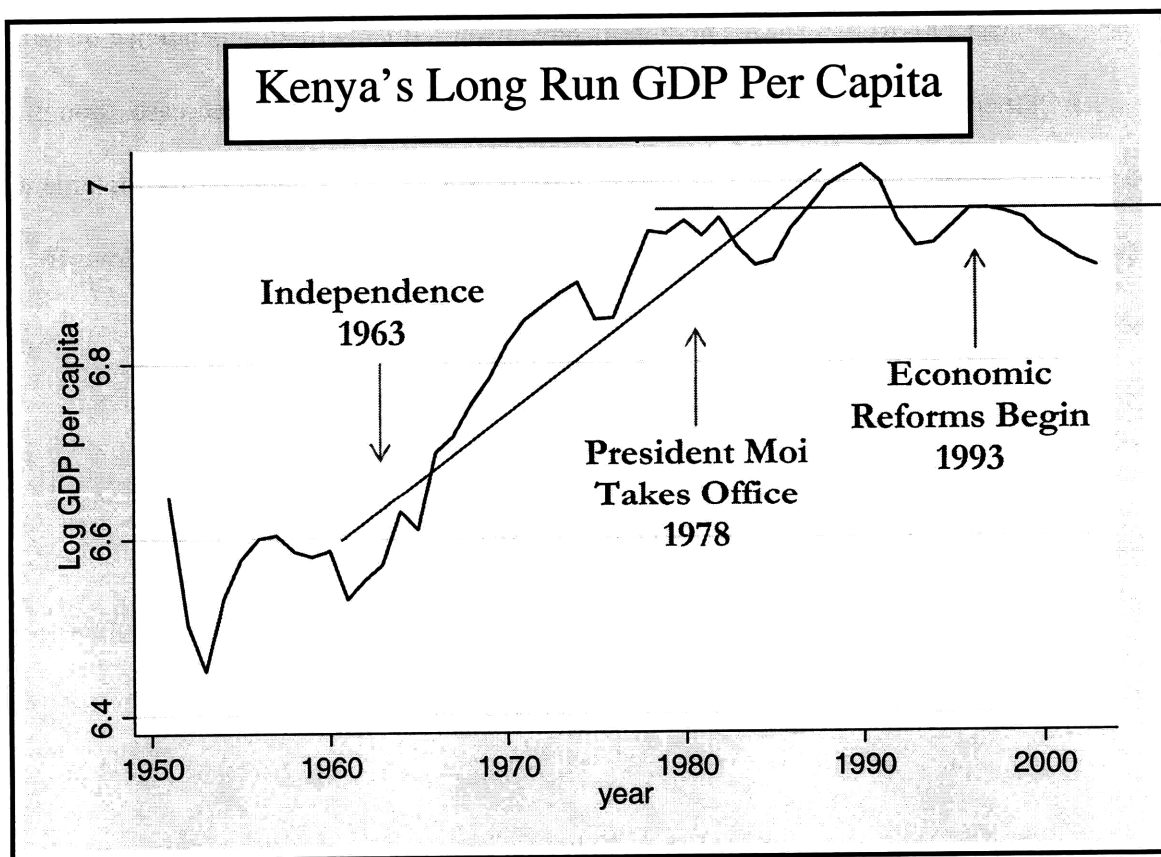
2.2 Kenya’s Aid History and Challenges in Development

Kenya experiences many development challenges despite its position as an important economic center in Sub-Saharan Africa. High levels of crime, rampant

¹ Easterly and Levine found that if policy change was implemented regionally by a set of countries as opposed to one country independently, the resulting improvement in growth would be 2.2 times as large.

unemployment and a 50% poverty rate are just some of the major barriers to growth Kenya. Corruption, ethnic conflict, and overall political instability have drastically hurt national investment and subsequently GDP per capita growth (CIA Fact Book, 2008). Kenya was one of the most developed African economies at the time of independence in 1963, with high levels of growth leading into the 1970's. Unfortunately after President Moi took office in 1978 Kenya experienced a decades of stagnation (Figure 2). Despite these challenges, GDP has improved showing impressive growth since 2003 (Economics Intelligence Unit, 2008).

Figure 2

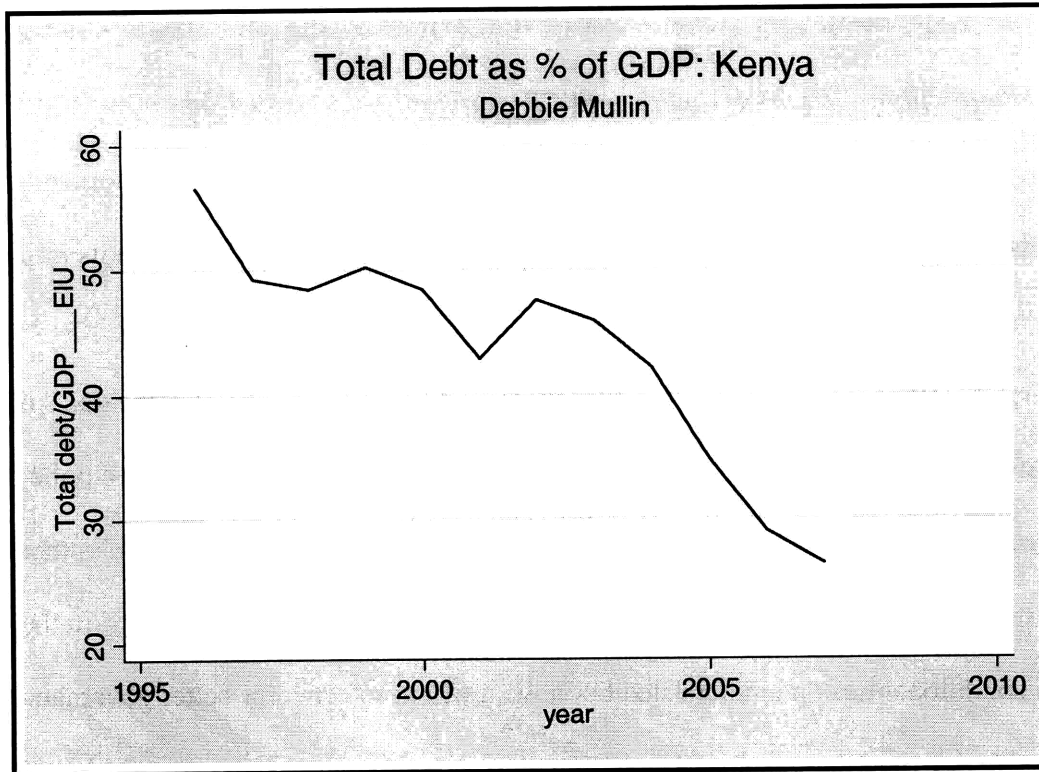


Source: World Development Indicators (2005)

Historically, Kenya has been one of Sub-Saharan Africa's largest recipients of aid. Beginning in 1970 through 1999 an average of 9% of GDP came from donor funds. During this period, however, aid was not constant ranging from 1.4% to 19.6% of GDP. More importantly, donor funds averaged 80% of development spending during this period. The majority of aid has been predominantly from bilateral sources, with Europe and Japan the largest contributors (Njeru, 2003). Prior to China's recent gains in developmental success and donor presence in Africa, common multilateral sources of aid to Africa include the EU, the Paris club, and the African Development Bank. These sources of aid, in addition to bilateral sources such as the United States, Canada, and Japan, coordinated their efforts to promote governance reform in Kenya (Woods, 2005).

Since 1990, Kenya and its neighbors have been reducing their dependence on aid as seen in their decreasing proportion of GDP being donor funds. This decrease, though, occurred alongside many aid freezes by Western donors. Kenya's inability to implement anticorruption targets set by international donors caused great instability in aid flows to the country during the 1990's (Chege, 2008).

Figure 3



After a series of aid freezes during the 1990's donor funding tapered off into the 21st century. In 1991 as aid levels peaked in Kenya, the Consultative Group, a group of Western donors who coordinate aid to leverage reforms in recipient countries, were unsatisfied with Kenya's compliance with political and economic reforms. Though Kenya attempted to comply with the Consultative Groups' demands, they failed in reaching their prescribed benchmarks with corruption reform and another aid freeze ensued in 1997. Both of these aid freezes caused a drastic increase in domestic borrowing and decreases in public spending. Development expenditures decreased 24% in 1997 following the aid freeze. When the IMF withheld aid again in 2000 for similar failures in compliance with conditionalities, more cuts in public spending and public projects ensued (Njeru, 2003).

Chapter 3: Chinese vs. Western Aid

3.1 Evolution in Aid: Capital, Equity, and Conditionality

In the past forty years aid has experienced great evolution in both its normative goals as well as its theories on most how to most effectively achieve them. In its initial forms, aid was focused on infrastructure finance in the 1960's with the aim of accelerating economic growth in less advanced economies. In the 1970's, the goals of aid shifted towards equity and poverty. In the 1980's the need for better macro policy and structural adjustment in developing countries became most crucial to development theorists, and aid dollars were now followed by many conditionalities. Finally, in the 1990s conditionalities on aid persisted but now aimed at reforms for better governance, less corruption, and democracy. These elements were thought to most effectively help create greater and more equitable growth².

At the end of the Second World War, the Marshall Plan began a new commitment by developed nations to support quicker progress for less developed economies. Through aid donor countries aimed to help struggling European nations rebuild after the destruction of World War II. As aid was disbursed, donors began to reflect on its effectiveness and impact on recipient government behavior, subsequently creating the great variations in policy and implementation seen in the aid industry today (Brautigam and Knack, 2004). The goals, methods, and overall ideology of aid have evolved greatly

² This section discusses the evolution of what this thesis terms "Western aid." The term "Western aid" will refer to foreign aid disbursed by the North America, Europe, and Japan. This terminology, though quite simplified, is useful in that the trends discussed in this section were characteristic of almost all donors since the 1960's which were predominantly from the "West" and directed to the global south. Up until now, aid was almost exclusively a "Western" phenomenon and characterized by the West's position of economic progress and cultural context.

since the Marshall plan's inception in 1947. Today, Africa has experienced a greater aid per capita amount than any other region (Collier and Gunning, 1999).

In the 1960's, aid focused on getting sufficient financing for capital and infrastructure development. The general consensus was that slow capital accumulation and a lack of financing for investment, particularly in industrial production, were the main constraints on economic growth in developing nations. Therefore, donors concentrated their dollars and efforts on physical inputs for industrialization. This included large projects such as power plants, dams, and road development. These agreements were usually predicated on the use of aid money to buy imports or services from donor country firms for use in project construction (Tendler, 1975).

In the 1970's as these large-scale donor contracted projects produced unimpressive results, issues of equity became more central to the agenda of the donor community. Proponents of this refocusing of aid argued it needed to be directed to poorer nations most in need as opposed to those relevant to a donor's political or economic interest. Political interests often create distortions in aid allocation to countries with the most important foreign policy considerations as opposed to those most in need. This "distortion" is based on the theoretical assumption that aid is meant to reduce poverty and improve equality in income distribution, not simply service foreign policy interests. This misallocation of aid was very significant in aid disbursement trends prior to the 1970's. In fact, prior to the mid 1970's, poverty and inequality were negatively correlated with the receipt of aid. The changing focus onto poverty and income distribution was fully introduced when World Bank president McNamara announced the need to focus the Bank's resources on this mission. A deliberate shift was then made in

aid towards more impoverished countries after McNamara's speech in 1973 (Easterly, 2007).

In the 1980's, the donor community again shifted focus, this time to government reform. This shift in the 1980's was driven by the increasing awareness that successful aid implementation was being impeded more from policy failure than from lack of finance for investment (Dollar and Svensson, 2000). The importance of government policy to promote and influence macroeconomic stability as well as business investment and development was central to developmental theory. In the 1980's, countries were now required to follow prescribed government forms in order to receive loans from the World Bank and the IMF. These reforms, also known as "structural adjustment," were agreed upon and eventually coordinated by all Western donors. Therefore, all heavily indebted countries, many of which were in Africa, had to follow these policies of economic liberalization in order to gain access to any major funding source. This set of structural reforms was also termed "conditionalities" of aid, meaning they could only receive aid on the condition of these policy reforms being met. The dominant view of development at the time was if government policies were more conducive to efficiency and flexibility, individual development projects would be more likely to succeed (Easterly, 2007).

Africa was one of the first regions to receive structural adjustment loans but failed to produce growth. When controlling for recipient institutional and political factors thought to influence aid effectiveness, Dollar and Svensson found that any element under the World Bank's control was ineffective at influencing aid outcomes (Dollar and Svensson, 2000). They found that policy-based lending is only effective when the recipient country is able to decide on their own reforms (Dollar and Svensson, 2000). Others studies also

find structural adjustment to have zero effect on growth, even when accounting for adverse selection in structural adjustment loans (Easterly, 2007). Many believe conditionality is “imposed on unwilling recipients” during aid negotiations. Even more so, the very nature of conditionalities inherently diminishes the decision making power and national management of a recipient government (Kanbur, 2000).

By the 1990's it was still common for Western donors to impose conditionalities on aid despite these findings. These conditionalities instead began to move away from economic reforms and more toward good governance. Following the structural adjustment policies implemented in the 1980's, studies found a high correlation between institutional quality and the ability of aid to engender economic growth (Easterly, 2007). Recipient governments were now being pressured to provide accountability, better control of corruption, and more democratic practices to gain access to foreign funds. If in the 1980's aid focused on government policy, the 1990's saw a shift toward government and institutional quality. Another recent evolution of aid is the increasing focus on national security interests influencing aid disbursement. In the 1990's this shift towards security imperatives was very apparent, especially for the United States, who funneled aid to the Middle East and other oil rich countries and away from those most impoverished and arguably most in need. This was not just seen in the United States and bilateral aid, but in many multilateral agencies as well (Woods, 2005).

Another recent interesting trend is investing in roads has recently come “back into fashion.” This is despite the large investments in infrastructure made in Africa throughout the 1950's and 1960's that did not produce sustainable results (Kanbur, 2000). The African Development bank is trying to focus its resources more towards

infrastructure and other technical industry development in Africa. The World Bank is also pledging to return to investing and financing infrastructure development (Orr and Kennedy, 2008).

Over the past forty years of shifting aid policies, strategies, and priorities, what have donors learned? There seems to be little evidence that aid institutions have learned much from past mistakes. Although there is more aid being directed to countries with lower per capita income and a decline in the tying of aid, there does not seem to be evidence of increased donor coordination.

3.2 Ongoing Debates on Foreign Aid: Conflicting donor interests.

Throughout this evolution of aid, many problems have persisted in its implementation and effectiveness. Donor interests commonly override interests of recipient countries, as seen with the tying of aid, lack of coordination and specialization of donors, as well as the funneling of aid to serve foreign policy interests. Though these problems are well documented, prescriptions to mitigate them have been mostly ignored by western donors. Scholars have suggested problems with public savings, over-spending in the public sector and even gone so far as to allege that aid hurts (Alesina and Dollar, 2000). In the context of Sino-African relations however, principle-agent problems, debt dependency and conflicting donor interests are the main issues. These problems have led development specialists to actually call for *less* aid, citing aid dependency and debt as a huge component of Africa's failure to develop (Kanbur, 2000). These criticisms, though incredibly important, will not be evaluated in this thesis.

Instead, this thesis will concentrate on the flaws and challenges of aid effectiveness and how the differences in Chinese aid from Western aid affect Kenya.

There are many other aspects to the donor-recipient relationship that scholars and policy-makers believe shape the priorities of aid today. First, there is the inherent principle agent problem produced by the donor-recipient relationship. The principle agent occurs when a lead actor gives authority to another actor to pursue a certain objective, causing many incentive problems which lead to risky inefficiencies (Gill and Reilly, 2007). With foreign aid in Africa, the donor is an actor responsible for choosing the level of aid distribution based on their own preferences. These preferences may be their own foreign policy interests, norms of development, or really any misinformed priorities. The donor therefore will prescribe aid to maximize its own goals which are not necessarily the same as the recipient country (Kanbur, 2000). Having a foreign body make funding decisions for public goods and programs for another country makes it extremely difficult for preferences and incentives to align between the donor and the recipient (Gill and Reilly, 2007).

Given other donor interests present in aid decisions, how do these donor goals undermine the effectiveness of aid? One example is the tendency of donors to want to “plant a flag everywhere” meaning invest in as many sectors in as many countries as possible. One of the largest criticisms of aid is that it is too widely dispersed and uncoordinated, making it much more difficult for donors to learn from their mistakes and provide comprehensive funding. Working in so many countries and so many industries also creates high costs for both donor and recipient countries. Donor countries need to learn to navigate in another culture and overall developmental context – these costs, if

avoided, can make aid projects extremely ineffective. Furthermore, since governments and communities are dealing with so many countries and donor sources, they too have to incur great expenses and time to meet all donor requirements (Easterly, 2007).

Coordinating for geographic specialization could solve this problem of large costs hurting the effectiveness of both donors and recipients of aid. The donor community, however, has mostly ignored calls for more coordination and geographic specialization. Fractionalization among donors, meaning each donor working in increasingly more sectors and countries, has only worsened. This increased fractionalization is often attributed to how “trendy” development policy is today, evidenced by the fact that as soon as a certain sector, country, or methodology becomes popular, each organization will move resources there (Easterly and Pfutze, 2008).

Another aspect of donor practices severely scrutinized is the tying of aid. The tying of aid refers to the practice of donors requiring recipient countries to use foreign services and inputs usually from the donor country. Donors argue that this can help aid effectiveness because of the donor’s ability to more easily approve subcontractors and that often the donor’s domestic industry is more advanced and experienced. Critics of tying aid, however, point out that these policies usually require recipient countries to spend funds on inappropriate inputs (Easterly, 2007). Furthermore, if the recipient country is required to purchase from the donor country, they are more likely to be overcharged. It can also be a strategy more aimed at promoting donor exports than success of the development project itself (Easterly and Pfutze, 2008). This was particularly true for US aid policies in the 1960’s and 1970’s which almost always only funded US imported services and goods for development projects. This created an

inefficient preference for US imports which were often more expensive than local goods and services. This also created incentives for projects to be over-sized in order to fuel US industries (Tendler, 1975).

Another aspect of donor practices related to the tying of aid is technical assistance. Naturally, the differential in skills between donor and recipient country workforces make technical assistance programs tied in aid packages very appealing. In theory, technical assistance offers large skill transfers, improvement of a recipient country's human capital and therefore their ability to develop. Technical assistance in practice, however, does not offer these attractive results. In fact, technical assistance is looked down upon because it is usually tied to hiring foreign consultants from donor countries. Technical assistance therefore comes with all the drawbacks of most aid tying practices. Furthermore, foreign consultants who are hired to conduct these programs usually have little local knowledge and are ineffective in transferring knowledge and skills (Easterly, 2007). In fact, technical assistance programs usually reflect the interests of the donor country, such as what technical skills they have an interest in developing within their own domestic industry or the recipient country (Easterly and Pfutze, 2008). Despite these criticisms, however, the US and Japan are still increasing their share in technical assistance to developing countries. The UK and France, on the other hand, have had a slight decrease in technical assistance (Easterly, 2007).

There are other important political dynamics to donor decisions which can arguably undermine aid effectiveness and recipient country goals and sovereignty. Two very significant factors in donor decisions are colonial history and political alliances. France, for example, gives most heavily to its former colonies with which it still maintains

political alliances. The United States is one of the most notorious for disbursing aid based on political interests, concentrating heavily on the Middle East. In fact, in 2000 the United States targeted one third of its total aid to Egypt and Israel. Today, the top five African aid recipients for US aid are all oil producing countries: Equatorial Guinea, Gabon, Angola, Chad, and Nigeria (Frynas and Paulo, 2006). In fact, oil interests in Africa have become central to many developed countries' foreign policy as well as aid disbursement in the region. Africa is expected to almost double its oil production by 2025. Many countries beyond just the United States and China are interested in gaining access to this growing source of energy. Though the Persian Gulf states supply most of the world's oil, these sources are already producing close to their maximum capacity compared to African oil producers (Frynas and Paulo, 2006).

3.3 Overview: Chinese Aid in Africa

Chinese aid is a key factor in China's acquisition of natural resources and their aggressive development of foreign relations in Africa. This aid is disbursed with "no strings attached" give African countries a much needed an alternative to Western conditionalities. China also claims its effectiveness as a donor is enhanced by its "South to South" relationship with African countries which is manifested through training programs and mentorship. While Africa has experienced improvements in terms of trade as well as great physical improvements since China's increased involvement in the region, China also brings competition for domestic industry. China offers cheaper and cost-effective construction that both increases infrastructure development while crowding out market shares for local companies.

China's economic momentum is starved for natural resources. This impressive growth is increasingly dependent on imported energy sources. By 2005, Africa was already supplying 25% of China's oil imports, and this proportion is only increasing (Frynas and Paulo, 2006). China's dependency on African oil has created great interest in the region to maintain access to its growing oil supplies. Consequently, China has created a comprehensive long-term development strategy involving aid, finance, and diplomacy in Africa for natural resources (Taylor, 2006). These donations from China to Africa are almost never explicitly in exchange for natural resources, though the evidence supporting this reality is overwhelming. China is very up front about its pursuit of a "mutually-beneficial" relationship between China and Africa. They do not limit their intentions for aid to strictly altruistic motives and agree they are receiving benefits from Africa in return. These donations towards African development also give China a strong advantage in gaining Africa's political support as well as access to their international markets.

In 2006, African leaders met in Beijing to discuss the future of Afro-China relations. Some of the commitments that emerged from this meeting included doubling aid to Africa by 2009 to US\$1 billion; introducing a US\$5 billion fund encouraging Chinese investment in Africa; increasing preferential loans to Africa to US\$3 billion; and canceling around US\$1.4 billion in already existing debt to China (Prah, 2007). In 2007, the annual African Development Bank's annual board meeting was also convened in Shanghai, China. This is the first time the meeting had ever been held outside of Africa, showing all parties' dedication to deepening Chinese relations with African development (China ExIm Annual Report, 2007). China's ever expanding Africa policy, inclusive of

large infrastructure projects, subsidized finance, and enhanced diplomacy gives China a prominent role in Africa's development.

One of the most controversial features of China's relations with Africa is their policy of "non-interference." As previously explained, Western donors usually coordinate and leverage aid to influence other aspects of African nations such as economic policy or governance standards. China, however, adamantly refuses to instate any of these types of conditionalities such as decreased corruption, fiscal liberalization, or any other prescribed developmental policies. The only condition China has to its aid recipients is to recognize not Taiwan as a sovereign state (Sautman, 2005-2006).

There are three prevailing explanations for China's non-interference in African governance. Firstly, it is a response to historical Western interference, which has been very unpopular. Secondly, imposing any political reforms onto African nations would only highlight the hypocrisy of China's own political situation. China itself receives much scrutiny from Western powers because of its authoritarian and non-transparent government practices. Thirdly, China followed its own unique development path leading to its present-day success. China believes African countries should be allowed to choose their own developmental policy, not be forced to follow policy decisions tied to Chinese aid (Onjala, 2008).

This policy, also known as China's practice of "no strings attached" to aid and investment, offers African countries a substitute for Western aid. The impacts of this and other differences between Chinese and Western aid, however, are still heavily debated. First we must ask, what are the structural differences between Chinese aid and Western aid? How do these differences affect the success of aid, especially when looking at

Africa's long term comprehensive development? More specifically, how do findings from fieldwork in Nairobi, Kenya either support or refute these differences in aid structure and outcomes?

3.4 Debate on Chinese Aid in Africa

Literature on Chinese aid in Africa focuses predominantly on developing a theoretical categorization of Chinese aid as either “good” or “bad” by attacking or defending China's presence in Africa. These arguments usually debate the effects of China's aforementioned “no strings attached” policies in Africa. Proponents of Chinese involvement in Africa argue China's role as a competing aid source creates more effective aid practices by all donors. Previously, Western donors coordinated their aid efforts to impose conditionalities such as the prescription of specific aid projects and practices. African countries were required to follow government reforms such as economic liberalization and attention to human rights violations. Western sources could withhold aid unless their demands on the recipient government reform were met. This at times made African countries choose inappropriate policies and have little say in their own self-governance. With China as an alternative to Western aid, African countries can now receive aid without the “strings-attached” by Western donors. Supporters of Chinese aid say this competition between donors can help foreign aid be more responsive to recipient country needs such as allowing host countries to pick their own reforms. Many African governments finally feel they have a choice with who they can turn to for aid and finance (Mohan and Power, 2008).

Many Western sources say China's "no-strings" attached policies undermine Western donor efforts in government reform, therefore supporting bad government (Kaplinsky et al, 2006). Though cases such as Sudan and Darfur are the most infamous examples of this, Kenya has also recurrently failed to follow guidelines and goals set by Western donors in corruption and governance reform. In the 1990's there were several aid freezes as a result of Western aid coordination, yet in 2006, even though Kenya failed to adhere to many goals for corruption, China's aid flows into Kenya soared and other foreign sources persisted as well (McCormick, 2008). Another large criticism of Chinese aid is its support for corrupt and poor governance, which proponents of Chinese aid claim is empirically false. Thus far, there has been no evidence that Chinese aid has increased government corruption in Africa since aid and investment increased in the region in 2000 (Sautman, 2005-2006). However, it is important to note that corruption has neither decreased since large amounts of Chinese aid entered Africa.

Another distinguishable feature of Chinese aid from Western aid is the label of "south to south" cooperation in Afro-China relations. China's experience as a developing country and aid recipient make it a veteran of many of the same developmental challenges Africa faces today. China argues this relationship inherently makes their aid and investment relationship with Africa more of a partnership, decreasing the usual distance between donor and recipient relations (Mohan and Power, 2008). Moreover, China's economic accomplishments are particularly useful for Africa to learn from. In this view, China's Africa policy creates opportunity for mentorship from a transitioning country as well as a mutual partnership on even ground.

This mentorship is manifested in training and educational opportunities held in and financed by China for African students and government officials. China has valuable educational resources to offer Africa and its experience as a recent transitional economy gives it the unique position to serve as an effective mentor for African nations who face similar developmental challenges China has overcome. These educational opportunities include seminars, trainings and even educational degrees for African students and government officials. Trainings are all held in China and completely funded by both the Chinese government and Chinese companies working in Africa (Zhang, 2008). Many of the trainings, however, are criticized as being only diplomatic trips and events to earn political advantages for Chinese interests (Mohan and Power, 2008).

Moreover, many argue that in general Chinese interests take precedent over any “mentorship” role China may have for Africa’s development. Whether it is through educational trainings or choice of infrastructure projects, Africa’s developmental interests will never be prioritized despite China’s experience and knowledge of what would be most effective for an African nation’s developmental path. Though China’s experience may make it more knowledgeable on how African nations can more effectively develop, if China’s own development interests conflict with this, China will always prioritize their own interests (Sautman 2005-2006). Their ability to mentor African countries will always be marginalized by China’s own development agenda. This makes it very hard to know whether China’s differences in aid policy and implementation from Western sources are due to its self-interested purposes or from its unique experience as a successful transitioning economy.

Increases in trade with China have improved Africa's terms of trade. Africa has experienced higher levels of exports, greater public revenue, and overall higher growth rates (Goldstein et al, 2006). Yet is this a sustainable improvement and engine for growth? How do these improvements affect different populations within Africa, such as workers? In fact, many of the strongest critiques of Chinese involvement in African development are from trade unions and national chambers of commerce (Mohan, 2008). It is still unclear whether this backlash is unfounded and based on xenophobic fears or based on real disadvantages and harm caused by Chinese involvement in Africa.

Chinese aid and investments in Africa create great opportunities for Chinese companies to gain a valuable presence in Africa, particularly in infrastructure development. Chinese companies therefore compete with local businesses, risking the crowding out of Kenyan businesses. Furthermore, Chinese companies have also imposed their business practices on African workers, which include much lower labor standards. In addition to their poor labor practices in Africa, critics argue China is a poor role model as a donor because of their poor labor practices at home (Breslin and Taylor, 2008). What costs then, such as labor rights, are associated with China's rapidly spreading presence and influence in Africa?

Supporters of Chinese aid in Africa are also quick to point out the incredible physical results which have rapidly developed in Africa. Aid and loans to Africa are often tied to Chinese firms which are automatically awarded projects in African infrastructure development. Chinese firms have subsequently proliferated in Africa, and attributed greatly to rapid increases in African infrastructure. Chinese firms, in general, are lauded for their ability to cut costs, providing construction and infrastructure services

for an estimated 25-50% less than their competitors (Kaplinsky et al, 2006). Projects are completed quickly, and avoid slow bureaucratic processes done by Western donors. With Western donors attention set on government reform and poverty reduction, Chinese aid offers much more immediate and tangible results.

3.5 Criticism of Chinese Aid

China is frequently attacked for its natural resource interests being tied to aid disbursement in Africa, giving concern to Africa's long-term natural resource management. Furthermore, its interests in Chinese industry development are prioritized by the tying of aid and the flooding of competition brought by Chinese firms to Africa. An important distinction in the debate of Western vs. Chinese aid is to differentiate between a critique of Chinese aid and of foreign aid in general. For example, people argue China's aid strategy is purely based on interests in natural resources even though this kind of pattern of aid disbursement had been seen with other prominent donors such as the United States, Japan, and France (McCormick, 2008). Instead, this thesis attempts to focus on aspects of Chinese involvement in Africa which differs from other donors. This thesis will focus primarily around criticisms and arguments which are unique to Chinese aid.

Skeptics of Chinese aid heavily criticize the structure of infrastructure-for-resources deals like those found in Kenya. Firstly, it has all of the negative affects of tied aid and lack of transparency. Many feel African governments are taken advantage of because of their dire need for infrastructure funds, and have no power in negotiations for contracts with China. This makes African governments unable maximize benefits within

these deals for themselves. African nations are giving up long-term development opportunities to manage their natural resources in order to gain infrastructure packages from China today (Taylor, 2006). Though as mentioned earlier, this is quite common place with other sources of aid, particularly from the United States. Though it may not be directly for resources, the United States does concentrate its aid in resource rich countries as well and receives many political advantages for it. This attack on China, then, is actually really an attack of most current donor practices, not just China. Though the negative long-term effects of aid for resource deals with China may be true, they are not completely unique to Chinese aid.

Finally, it is important to remember aid is not the only way China is currently affecting Africa. The context of China's general role in the global economy must be considered in the analysis of Afro-Chinese relations and Chinese aid. China's involvement in the international economy, and indirectly the economies of African nations, further complicates Chinese aid's effectiveness towards a comprehensive development strategy for African countries. Trade has been consistently increasing between the two regions. Still, the benefits of this increased trade and whether China serves as a complement or a competitor in trade and production is still under debate (McCormick, 2008). These considerations of Chinese aid all operate over the backdrop of trade and industry competition between China and its African partners. Questions over China's *net* impact on Kenya in terms of its indirect impacts from global competition in manufacturing and trade are not a trivial element to China's aid. China's business practices may undermine efforts for comprehensive development strategies by African countries (Kaplinsky et al, 2006).

3.6 History of Kenyan-Chinese Relations

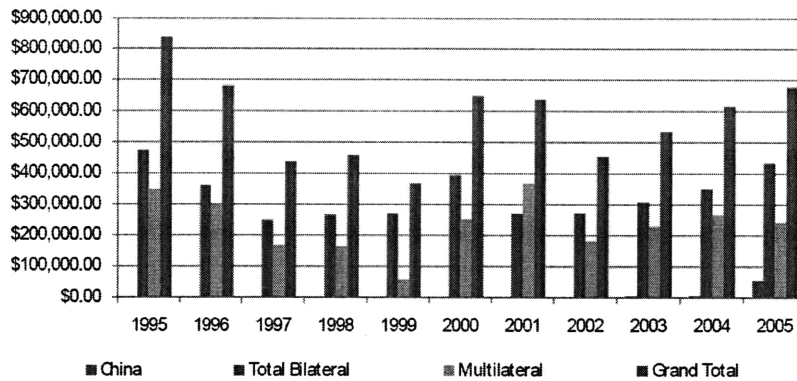
Chinese aid most frequently comes in the form of tariff exemptions, academic and professional training, debt relief, technical assistance, as well as grants and loans for infrastructure (McCormick, 2008). It is important to note that Kenya has been a beneficiary of all these aid types from China, but this thesis will focus on the grants and loans for road infrastructure. In Kenya, the majority of grants from China have gone towards road development, particularly since relations deepened after 2000 (Mwinzi, 2008). China's high-profile aid packages for infrastructure development are central to their security of African natural resources. China's recent involvement in developing stronger bi-lateral relations with Kenya has led to an increase in trade, the implementation of "non-interference" aid packages, China's acquisition of oil exploration rights in Kenya, as well as many advantages for China's regional African headquarters in Kenya.

Sino-Kenyan relations have evolved greatly since they began in 1963 when a newly independent Kenya chose diplomatic relations with China over Taiwan. Proposals for Chinese aid to Kenya, including industry development and skill trainings, began as early as 1965, yet the Kenyan government was never able to fully implement these partnerships. Kenya and China maintained diplomatic relations but were ineffective in achieving their goals of economic cooperation. In 1980, Kenya's President Moi visited China to secure funding assistance for a sports stadium, marking China's first large-scale subsidized investment in Kenya (Chege, 2008).

Trade has also increased between the two countries. Exports of raw materials from Kenya have risen while manufactured good exports have increased from both countries (McCormick, 2008). This has been supported by a special fund set up by the Chinese government to promote Kenyan exports to China. It encourages Kenyan products such as coffee, seeds, and tea all exported in raw forms (Onjala, 2008). Scholars have noted emerging markets, including China, have taken on aggressive strategies like these to help promote their exports and global industry. Africa has become an important destination for Chinese exports (Orr and Kennedy, 2008). Although both nations have benefited from trade, Chinese exports to Kenya have increased at a much faster pace than Kenyan exports over the past 15 years (McCormick, 2008).

As previously discussed, Kenya has a history of deep dependence on aid for development expenditures. Kenyan failures with political and economic reforms and subsequent Western aid freezes have made Chinese aid particularly attractive to Kenya. In 2002, Chinese aid and financing made up less than 2% of all foreign aid and loans in Kenya, but by 2005 it had grown to 10%. China's aid to Kenya, as shown below, was relatively insignificant until 2005 (Figure 4). Though this generally creates more options for Kenya, the need for aid still places Kenya in a position with little power to impose its own development strategy onto China's aid practices.

Figure 4



Source: (Onjala, 2008)

China's efforts in Kenya for a "mutually beneficial" relationship may award China with some very large potential rewards. China has acquired over half of Kenya's oil exploration rights, as well as substantial rights over their supply of titanium. Oil, however, has yet to be found in Kenya. If it is found, China would have extensive access compared to any other player, which includes many foreign interests and maybe even Kenya itself. If oil is found in Kenya, the benefits of the transportation improvements Kenya receives may pale in comparison to the potential wealth from a well-managed natural resource like oil. The long-term costs and benefits to this loose arrangement of aid for oil exploration rights are still hard to assess. Additionally, China is securing another political ally in its agenda with Taiwan, which Kenya has firmly supported. Finally, Kenya's relatively war-free status in Sub-Saharan Africa makes it an attractive headquarters for Chinese relations in Africa. Access to Kenya as regional headquarters for China is an important factor for China's secure presence in other oil-rich African nations in the region (Onjala, 2008).

3.8 China's Developmental History: The Importance of Road Development:

It is important to note the context of China's own development strategy and accomplishments are in analyzing their decisions with aid investments in Africa. Since 1978, China's national GDP has grown an average of almost 10% which has also been accompanied by a drastic decrease in poverty (Fan and Chan-Kang, 2005). In addition to advancements in human capital and policy reform, China's road improvements are seen as one of the most significant factors towards China's successful and rapid growth since the 1980's (Fan and Chan-Kang, 2005). In the late 1980's and 1990's China rapidly integrated its economy into the world market (Kanbur and Zhang, 2005). During this period, China lowered many of its tariff and trade restrictions and received high levels of foreign direct investment (Kanbur and Zhang, 2005).

Road development has been one of the highest priorities for China since 1985. The completion of high quality freeways and highways have since been constructed throughout the country at a remarkably rapid pace (Fan and Chan-Kang, 2005). It is argued that China's emphasis on high quality roads, however, supplants the development of lower quality roads which create more benefits for the rural and urban poor of China (Fan and Chan-Kang, 2005). China's reform during this period had several stages which included state involved agricultural, industrial, and educational policy reform – not simply roads (Fan and Chan-Kang, 2005). China has also had great failures throughout in this developmental path, such as the Great Famine of the 1950's as well as great suffering brought by the Cultural Revolution and its collapse. China's development has also been characterized by stark inequality between China's coastal areas and inland areas as well as between rural and urban areas. Coastal and urban areas have experienced

a disproportionate amount of the benefits from China's economic growth and progress (Kanbur and Zhang, 2005).

Furthermore, China's development is not just unique and renowned for what it invested in, but how it invested. Chinese development is characterized by a completely self-directed strategy. Chinese development was not based on recommendations from a panel of World Bank specialists or donors, but by its own government implementing its own unconventional development plan. It was heavily state-led and purposefully gradual in its reforms (Kanbur and Zhang, 2005). The context of China's development strategy provides explanation as well as highlight elements of hypocrisy in its aid decisions for African development. This leads us to the question of how does China's development strategy influence their decisions as an aid donor? Does China's development strategy and history make them an asset as a mentor for African countries?

Chapter 4: Chinese Aid in Kenya: Myths and Reality

4.1 China's policy of non-interference and "South to South" relationship

4.1.1 Undermining Western Coordination and Conditionalities

Chinese aid in Kenya does follow China's general policy of "non-interference." Chinese aid is an attractive alternative to Western aid for Kenya and appears to have helped lower the conditionalities demanded of the Kenyan government from Western sources of funding. When looking at how inclusive Chinese aid is to Kenyan interests and participation, however, it appears as if today Kenyan officials do not view Western aid as an alternative to Chinese aid's instantaneous and less bureaucratic advantages.

One of the most debated features of Chinese aid is its "no strings attached" policy, thought to undermine Western donor efforts to enforce reforms onto recipient countries. Representatives from the Chinese embassy in Kenya were quick to defend their position of non-interference, arguing that each country has the right to govern itself without outside sources telling them what to do. When asked whether they had any fears about Kenya's political or social stability they said that each country needs a different developmental path, and it wasn't China's place to dictate that path. Despite Kenya's history of political corruption and instability, which could compromise China's large investments, the Chinese decline to instate any conditionalities or influence onto Kenya's general political situation (Shen, 2008).

With the option of receiving Chinese aid with "no strings attached," how is the Kenyan government responding to Western conditionalities? Generally, the existence of this alternative form of funding has decreased Western abilities to leverage reforms from

recipient countries. In Kenya, government officials at the Ministry of Roads actually said these conditionalities from Western aid sources were “no longer an issue” when receiving aid (Mwinzi, 2008). Today, Western donors impose few if any conditionalities on the Kenyan government. One of the only remaining requirements of Western sources is that the Kenyan government provides a percentage of a project’s funds, which even Kenyan officials said is good for the Kenyan government. Another conditionality imposed by World Bank and OPEC loans are that countries in poor-standing with these international donors (a short and basically irrelevant list) be excluded selected to implement projects (Mwinzi, 2008). Though there were aid freezes in Kenya in the 1990’s for its failure to comply with IMF reforms, today this is not much of a pressing issue in analyzing Chinese and Western aid. In fact, as stated previously, despite Kenya’s poor performance with corruption measures in 2006, Western aid continued to increase to the country.

Chinese funding for Kenya is increasing while the number of empirical studies critical of donor conditionalities continues to rise, making it hard to know exactly what has caused the change in Western donor behavior. Most critics of Chinese aid fervently argue that the weakening of Western ability to impose conditionalities stems from Chinese aid policy. Regardless of the reason, it is clear the Kenyan government today does not consider these conditionalities a significant factor when choosing between Chinese and Western aid. Kenya no longer faces Western chosen conditionalities and is not vulnerable to detrimental coordinated aid freezes. Even if what critics of Chinese say is true about undermining Western conditionality in countries, it has helped Western donors be more responsive to relieving recipients of conditionalities.

4.1.2 Chinese aid implementation – really “non-interference”?

Literature comparing Chinese and Western aid predominantly focuses on policy differences with little attention to their variation in aid implementation. In Kenya, both Chinese construction companies and the Ministry of Roads described great differences in how these two sources implement grants. For example, when international donors besides China fund a road development project, it usually goes through open tender, meaning the project is publicly advertised and all construction firms are free to bid. This process, running from initial negotiations for the aid package to the moment a contractor begins road construction, can take several years. This is because the open tender process is incredibly time consuming and involves several rounds of donor approval throughout the process. The lowest bid usually wins, though the Kenyan government is allowed to use its discretion as to who is really qualified and capable of completing the project. Kenyan officials described this process as extremely bureaucratic, slow, and demanding on government resources (Zhang, 2008).

In contrast, the process of Chinese funded grant projects in Kenya is almost instantaneous. Currently, China is funding two projects in Kenya with grant funds (grants, as opposed to loans, require no repayment from Kenya to China), one of which is a high profile road leading from the United Nations headquarters to the Nairobi International Airport. This road project, like others funded by Chinese grants, was structured very differently from those given by other international donors such as the OPEC or the African Development Bank. With Chinese aid, the Kenyan government first gives the Chinese government a list of roads that need to be built, at which point Kenya’s influence in the road development process virtually ceases. China makes

themselves solely responsible for all aspects of the project thereafter – design, materials, contracting, construction, etc. The Kenyan government does not have access to any of China’s decision making processes for these components, such as the selection of a construction company, road design, etc. At most, the Ministry of Roads will send one Kenyan government engineer to China or to the worksite to help coordinate other public agencies with the Chinese contractor (Mwinzi, 2008). This Chinese approach to aid presents a number of problems for Kenya.

Kenyan officials expressed anxiety over the possibility of the Chinese contractor not having adequate knowledge of Kenyan weather or working conditions, causing China to select an improper road design or business plans. Yet those at the Ministry of Roads said that since funding comes in the form of a grant, “they don’t complain too much” (Mwinzi, 2008). In addition to the possibility of incompatible construction choices, this process also eliminates any opportunity for skill transfer from Chinese construction companies to Kenyans with the exception of Kenyans hired by the chosen contractor, who are almost never offered skilled positions (Mwinzi, 2008) (Zhang, 2008). The structure of Chinese aid implementation is unable to accommodate the development initiative for skill transfer, therefore undermining the aid project’s ability to build Kenya’s human capital.

Another large concern with the structure of Chinese aid and firms in Kenya is communication. There are great difficulties of coordination between Chinese actors and the various levels and jurisdictions of the Kenyan government. This can lead to miscommunications and inefficient policies and projects if China does not understand or is unable to communicate with all parts of Kenya’s government. This is particularly

problematic because of the sheer distance between Chinese decision-making authorities in Beijing and actual project locations in Africa (Gill and Reilly, 2007). Countries able to finance their own infrastructure do not experience many of these extra costs faced by the Kenyan government. International relationships entail various transaction costs of working with governments, companies, and workers from other countries. These transaction costs, the additional costs outside materials and labor that stem from bureaucratic practices or lack of information, can prevent Kenya from adequately providing public goods by pushing.

Many argue Chinese aid as a “substitute” for Western aid and finance theoretically creates competition with Western aid, making all aid sources more responsive to recipient country preferences and interests. This theory of Chinese aid as a “substitute” as shown through the reality of Chinese aid implementation, does not appear to hold in practice. Chinese aid, in fact, appears to be more unresponsive than Western aid to Kenyan interests. Though Kenyan officials admit they are anxious over the lack of transparency and Kenyan participation in the Chinese aid-funded projects, it does not affect Chinese aid practices. With China offering infrastructure almost instantaneously, Kenyan officials think little of the slower paced Western aid as an attractive “substitute,” preventing Kenya from gaining any leverage from this theoretical competition in aid.

4.1.3 Training Programs

China distinguishes itself from other donors by offering lavish training programs held in China for government engineers and managers from Kenya. These training programs are meant to illustrate their dedication and support for Kenya’s comprehensive

development. Chinese officials were quick to say their “south-to-south” relationship with Kenya is a unique and important resource for Kenya’s and Africa’s development. They argue their experience as a transitioning economy gives them a better perspective on what Kenya needs to do to invigorate real development. This experience will inherently be manifested in all of China’s relationships throughout the road construction and training process (Shen, 2008).

Kenya’s Ministry of Roads had many of their senior engineers and managers travel to China to take advantage of trainings and academic degrees fully funded by the Chinese government. These exchanges which usually last from one to six months, are meant to offer transfers of human capital in road construction from China to Kenya. China even funds African students to spend two-years learning Chinese in order to participate in more technical degrees such as business management or civil engineering (Mwinzi, 2008). The Chinese government funds approximately one-hundred Kenyan students a year to pursue these degrees in China. China also finances about five-hundred Kenyans, mostly government officials, to travel to China for trainings similar to those described by the Ministry of Roads in Nairobi (Onjala, 2008). Unfortunately those who were pursuing degrees in China were unavailable for interviews. This analysis on Chinese training programs is based on interviews with officials who traveled to China for only one to six month trainings.

Chinese companies are also heavily involved in offering similar trainings to the government officials with which they work. Like the Chinese government, companies also claim their experience as a company from a transitioning economy provides them with valuable knowledge to teach Kenyan workers and government employees. CRBC,

like other Chinese construction firms working in Kenya, has actually independently administered training programs for Kenyan officials in China. These include very similar trips as those given by the Chinese government, including workshops and sight-seeing tours for high-ranking Kenyan engineers and diplomats. This “marketing-scheme” is reported to be very useful in building relationships with the Kenyan government (Zhang 2008).

These relationships illustrate the long-term presence and strategy sought by Chinese firms which necessitate a greater diplomatic and financial role than a typical construction firm. This has proved particularly successful for companies like CRBC. For example, through its strong relationships with Kenya’s government, CRBC has earned itself special consideration for construction projects most foreign companies would not. CRBC is allowed to bid for “domestic only” contracts by the Kenyan government. These relationships help cultivate special advantages for Chinese firms in the Kenyan construction market.

Although the political benefits of these trainings are clear, their efficacy at building skills is harder to measure. There are no evaluations and no system that makes them accountable to Kenyans who participate. As noted in chapter three, many argue that these trainings are in fact just diplomatic luxury trips that serve to woo more than inform and train African officials. The Kenyan engineers interviewed who participated in one to six month trainings in China supported this claim. They said that there was little to nothing that they learned which was “new.” The material, in fact, was “mostly review” (Kiiru, 2008). Officials seemed to not acquire any special skills or relevant experience unique to Chinese training programs. Their written reports to the Ministry on these

trainings are accounts of mainly cultural visits and sight-seeing tours where they are able to see China's large-scale infrastructural accomplishments (Kiiru, 2008). In the end, these training programs are a greater help to China's image and relationship with Kenya than to Kenya's human capital stock.

Skill transfer is thought to also occur within construction projects themselves. Experienced Chinese nationals working alongside Kenyan officials and employees could lead to the valuable transfer of skills. Chinese companies, however, almost exclusively hire Chinese nationals for all skilled labor positions in Kenyan road construction projects. Still, this is true for all foreign firms who work in Kenya, which will be discussed in further detail in this chapter. Chinese construction projects, however, also bring in a much higher proportion of overall employment from China than other foreign firms working in Kenya. Regardless of the proportion of foreigners in a project, Kenyan workers filled the same types of positions with either type of construction company. In spite of China's "mentorship" qualifications, officials at Kenya's Ministry of Roads said they felt that they "learned the same" from both Chinese and other foreign companies. If anything, some engineers said that cultural differences were larger when working with Chinese firms, making communication more difficult than when working with Western firms and engineers (Kiiru, 2008). This lack of skill transfer within Chinese firm construction projects in Kenya illustrates the absence of China's ability or interest in building Kenya's human capital. Training programs suffer from the same problems as technical trainings from Western donors by serving donor interests and industries (in this case education for China) more than effective skill transfers.

4.1.4 Roads as a Bi-National Public Good

China's interest in Kenya as a regional African headquarters and resource for potential natural resources makes Kenyan roads essential to the full exploitation of these benefits. This, in turn, makes Kenyan roads a bi-national public good for China and Kenya. Considering China's power as the donor for these projects, whose interest are prioritized in public spending decisions for Kenya? For many developing countries, limitations on public finance, including low taxation capacities, are central to their inability to adequately provide national public goods. Countries are unable to raise funds due to their citizens' inability to pay and lack of trust in government, which can undermine any kind of revenue generating scheme. Many developing nations, like Kenya, have had to turn to sources outside their country for the provision of public goods. When considering the efficiency and benefits of public good provision in the developed world, much analysis is based on the relationship between the tax payer and their access to the public good. How, then, do you analyze the efficiency and benefits of public goods financed and influenced by foreign donor funds? With China becoming a more and more prominent actor in Kenya and Africa's infrastructure development, how do their strategies affect the provision and finance of public goods in Kenya?

The need for more and better road development, maintenance, and financing has been a large impediment to Kenya's development (Global Competitiveness Report, 2008-2008). Problems of insufficient tax revenue, corruption, and an inexperienced domestic construction industry are just some of the challenges Kenya faces in the implementation of road development projects. Concurrently, China's interest in Kenya as a potential source of natural resources has led to an increasingly deep relationship between the two

nations founded on large investments in Kenya's road infrastructure, good diplomatic exchanges, and a very open interest from China for Kenya's natural resources and location as a regional headquarters.

This has caused public finance for road development in Kenya to evolve greatly from a conventional role of Kenya's government as the sole financier and provider of its domestic roads. As globalization advances, international interests become more and more affected by other foreign decisions on public goods. This idea of "global" public goods, such as clean air, has become central to many foreign policy debates (Kual and Conceicao, 2006). These international interests extend beyond environmental concerns, particularly with energy resources and economic impacts. These international interests towards Kenya's public goods are of particular concern when public finance is from foreign sources.

Today, China has a vested interest in Kenya's road infrastructure quality. High profile Chinese grants and loans have also led Kenya to give up significant oil exploration and titanium supply rights to China. These rights create a new set of interests in Kenyan infrastructure because China's access to Kenya's potential natural resources is dependent on Kenya's public infrastructure, particularly roads. Kenyan road infrastructure, therefore, can be thought of as not just a public good for Kenya, but for China as well. China has large incentives to direct aid investments to Kenyan road infrastructure to not only gain political advantages to obtain oil rights, but to improve access to these natural resources if they are found.

Furthermore, the nature of roads as a bi-national good illustrates the questionable veracity of China's non-interference stance with regards to Kenya's public spending.

Tying aid may be nothing new, but what is unique to China is how Chinese companies have great control over Kenya's access to finance, which will be discussed further in this chapter. The influence of China, and now Chinese construction firms, as the point of access to easy finance may influence the amount and the direction of public debt and spending in Kenya. China brings much-needed funds, but it may also direct funding strictly to road construction despite Kenya's other needs. Roads are not the only area in which Kenya is in desperate need. They have problems with economic diversification, crime, and corruption, to name a few. It is unclear whether China's impact here have strictly helped with road financing and funding in Kenya, or whether it has caused over-investment in roads as opposed to other public goods more needed in Kenya.

The nature of infrastructure financing in the developing world is evolving. The view of Kenya's infrastructure as a bi-national public good for Kenya and China is a phenomenon that is growing throughout infrastructure financing around the world. China's involvement in financing public roads in Kenya is an illustration of how globalization reshapes the boundaries and effects of public goods. Power dynamics between China and Kenya, based on differences in resources and developmental experiences, enable China to prioritize its own national interests in public good provision in Kenya.

4.2 Chinese Financing in Africa

4.2.1 China's "Go Out" Policy - Subsidized Loans and Debt Relief

One central though less discussed difference to Chinese and Western aid is the Chinese government's "Go Out" policy. This policy is meant to promote China's

investment and industry development abroad, particularly in Africa, and is implemented through its banking sector. This policy gives large advantages to Chinese firms abroad such as subsidized loans for foreign governments. These loans have become a prominent form of Chinese finance in Kenya. Through China's "Go Out" policy, Chinese firms use their networks to cut costs and secure jobs. This system, however, gives an exorbitant amount of power in Kenya's road infrastructure development. This, in addition to the non-transparency nature of these loan agreements, diminishes Kenya's influence and interests in debt financing decision.

The Chinese Export Import Bank (China ExIm) is responsible for assisting "Chinese companies with comparative advantages in their offshore contract project and outbound investment endeavor." More specifically, the bank defines its business scope to include "loans for offshore contract project and outbound investment." Additionally, China ExIm's resources have rapidly increased. From 2006 to 2007 total loan disbursement increased by 49% to RMB 196 billion (China ExIm Annual Report, 2007). China ExIm's mission and growing resources coupled with China's "Go Out" Africa policy have created an immense resource for Kenyan infrastructure development. Through this initiative, Chinese construction firms with operations in Africa are able to receive benefits such as credits for feasibility studies, bank loan guarantees, etc. The policy also helped create Sinosure, a Chinese government-backed organization which offers export credit insurance to Chinese companies working in Africa (Gill and Reilly, 2007).

The Chinese ExIm's biggest pull is extremely low interest rates loans. These "Go Out" rates are usually 3% lower than typical commercial loans and subsidize all of China's investments in Africa (China ExIm Annual Report, 2007). In fact, 40% of

China's work in Africa is funded by China ExIm. China's "Go Out" policy has been extremely effective in promoting Chinese companies in Africa. Chinese companies listed the support from China's "Go Out" policy for working in Africa as the second most important factor when choosing to pursue operations in Africa (Gill and Reilly, 2007).

The prevalence of Chinese subsidized finance and debt relief in Africa is currently outpacing and replacing high profile grant projects (Mohan and Power, 2008). With Kenya only having two Chinese grant-funded projects, this type of financing and subsequent debt alleviation is Kenya's primary vehicle for aid and support from China. Furthermore, many of these loans have already been relieved from African governments (China ExIm Annual Report, 2007). China has cancelled more debt in Africa than all Western donors combined (Chan-Fishel and Lawson, 2007). This, in effect, retroactively makes China ExIm more of a donor than an investor. Many Westerners would argue that this kind of frequent, and therefore expected, debt cancellation could lead to poor governance and spending by African recipients. Nonetheless, this makes China ExIm responsible for the majority of China's aid and finance to Africa.

It is unclear though how responsibly this financial resource is being used. China ExIm does not have the same recording practices as Western organizations who supply similar financing. This can potentially hide important information that undermines global efforts for more transparency and protection against exchanges of large infrastructure projects for oil rights, which could very well be the case in Kenya (Moss and Rose, 2006). This, however, is no different than the United States who received criticism for tied aid. When criticized for their practices of tying aid, the United States responded by simply discontinuing their reporting on aid tying after 1996 (Easterly, 2007).

4.2.2 The Role of Chinese firms in Kenya's Access to Chinese finance

As stated before Kenya also faces many bureaucratic costs associated with getting foreign financing for infrastructure projects. They must apply for grants and loans from the African Development Bank (ADB) as well as other foreign donors which can be a lengthy and costly process. This is also true for loans from China ExIm. The application process for a country like Kenya to receive a loan from the China ExIm is also time-consuming. The process can take several years and still does not guarantee a loan, therefore potentially wasting the government resources consumed by the lengthy application process required of a developing country like Kenya. There alternative option for the Kenyan government is to gain access to China ExIm financing through Chinese companies.

Established firms in Kenya have now created strong relationships with the Kenyan government. These relationships offer great space for cooperation and trust, giving companies like CRBC more authority when advocating for the Kenya government to channels of Chinese financing. In order to increase their presence in the Kenyan construction industry without sacrificing quality, established firms have used their relationships with the Kenyan government and Chinese financial resources to offer an alternative method of financing road infrastructure projects. Chinese companies working in Kenya use their networks with both the Kenyan government as well as China ExIm to bypass this application process. Chinese firms are able to take a proactive role in acquiring Chinese financing for Kenyan road construction projects.

4.2.3 Chinese Construction Firms Cutting Transaction Costs in Financing for Kenya

CRBC, for example, described in detail how they secured a loan for the Kenyan government through China ExIm. Though Kenya is technically the borrower, CRBC is able to utilize their connection to China ExIm and the Kenyan government to secure a virtually instantaneous loan for the Kenyan government. The Kenyan government is now able to avoid all the typical transaction costs associated with the time and work which would have been incurred by China ExIm's typical application process. Nevertheless, this leads to one of the most crucial aspects of the system: by eliminating these costs for Kenya, CRBC is automatically awarded the project. Without the help of CRBC's connection to China ExIm, the project would not have been possible. Though this method of public finance increases the number of completed road projects in Kenya, it also has some potential downfalls.

There are also many criticisms of China ExIm's financial practices. For example, loans from China ExIm never go through the host country's government, it always goes directly to the Chinese company in order to protect against the corruption and instability in the recipient country's government management (Orr and Kennedy, 2008). Though this helps protect China's investment, it only further tightens China's control onto Kenya's spending. This is just one more way China ExIm financing cuts Kenya out of decision making and implementation of their loans.

4.2.4 Introduction of Chinese firms - Dominating the Kenyan construction market

Along with Chinese aid and finance comes the proliferation of Chinese construction firms in Kenya, which presents its own challenges for Kenyan industry and workers. Chinese construction firms have been working in Kenyan road development for nearly twenty years, and this contribution is only increasing. Previously, Western companies dominated Kenya's modest construction industry. As recently as 2002, Chinese grants and financing made up only 8.3% of physical infrastructure spending. By 2005, this proportion had grown to 20% (Onjala, 2008). Though there are currently only two construction projects funded by Chinese grant money, half of Kenya's current road construction projects are being completed by Chinese companies. More interestingly, Chinese companies have built or are currently building four out of six of Kenya's most expensive projects in the last three years (Figure 5 and 6). These four projects alone account for over 20% of spending on road development since 2005. Chinese firms receive all of the largest Kenyan road projects, evidenced by an estimated average cost of Chinese contracted road projects almost three times the national average. (Figure 2). Kenyan officials stated that the newest projects, which are not included in the data analyzed, actually have a higher proportion of Chinese contractors and financing (Mwinzi, 2008). Though road quality and costs are highly advertised, the influence of these companies relationship with Kenyan workers is still ambiguous.

Figure 5:

RANKING IN EXPENSES FOR ALL ROAD PROJECTS 2005-2007	Chinese Company?	Company Name	Expected Cost (Kenyan Shillings)
1	Yes	China Wu Yi	\$3,484,554,918
2	No	Maltauro-Monteadriano	\$3,780,519,355
3	Yes	Sinohydro	\$4,236,198,772
4	No	Sogea Satom	\$4,604,867,491
5	Yes	China Wu Yi	\$4,875,409,271
6	Yes	COVEC	\$6,208,685,235

Figure 6:

TYPE OF ROAD PROJECT 2005-2008	Average Cost
Completed by Chinese Firms	\$4,123,104,090
Completed by Non-Chinese Firms	\$1,316,128,165

4.2.5 Chinese Firms: Cutting Construction Costs

Today as road development rapidly expands, Chinese are adamant that their increased presence in the Kenyan construction industry is due to their superior performance in Kenya. Roads built by Chinese companies are lauded by Chinese companies, Kenyan officials, and Kenyan residents to be the same quality as Western companies, completed in a shorter amount of time, and at a lower cost. Kenyan officials specifically said even though Chinese contractors charged less, there were no differences between their roads and roads produced by Western competitors. These findings on cutting costs have been seen in other countries, such as Mozambique and Tanzania. Chinese firms working on road construction projects cut costs by using cheaper equipment, government subsidies, cheaper supplies (usually imported from China), and lower labor standards for their

Chinese expatriate staff. Chinese expatriate workers for projects in Mozambique and Tanzania were said to be given poorer living conditions than local workers (Kaplinsky et al, 2006). How do Chinese construction firms cut costs in Kenya to undercut all Western firms?

China Road and Bridge Company (CRBC) disclosed some ways they cut costs to outbid their Western companies. The most important factor is lower cost of skilled Chinese labor compared to other foreign companies, usually European, which has much higher wages for their foreign staff in Kenya. This also allowed for more Chinese employees to be hired for tasks such as worker monitoring and evaluation – another method of important cost cutting. These Chinese workers are able to help monitor theft and the productivity of workers, therefore ensuring progress and efficiency (Zhang, 2008).

Furthermore, Chinese companies, only allow workers one weekend a month. Western companies, on the other hand, give workers every weekend off. This helps CRBC meet important seasonal deadlines and decreases the duration of the project in general. Interestingly, CRBC also argued this improves the momentum of the project. This is because every day your work most recently completed will be “fresh in your mind the next day.” They argue that after a weekend off, workers need to review information and often redo some work in order to return to the place where they ended. It also helps with motivation because your accomplishments are achieved more quickly and always on your mind. CRBC said only having one weekend off a month mitigates these problems and helps ensure timely completion.

There were many other methods CRBC listed for cutting costs in Kenyan infrastructure construction which will be analyzed in more detail in the following chapter.

Chapter 5 Impacts: Quick Aid and the Proliferation of Chinese firms

5.1 Impacts on China

China by far benefits the most from its bilateral relations with Kenya. Firstly, these aid packages help China secure impressive oil exploration rights as well as rights to titanium reserves within Kenya. This has been a central and successful driver of Kenya-China relations. The amount of rights China has acquired in Kenya has outraged other Western oil companies, particularly in Spain which also has vested interest in oil exploration in Kenya (Onjala, 2008). China has also created important relationships with the Kenyan government which may lead to advantages with using Kenya as a regional headquarters for work in other less politically stable oil-rich African nations.

Additionally, tied aid to and access of finance through Chinese Firms has helped give Chinese firms valuable experience in construction in Kenya and the global construction in general. China's mature construction industry has acquired a great share of the market for road construction in Kenya. As stated before, they have received four out of six of the only projects worth more than 3 billion Kenyan Shillings and comprising 20% of total spending on roads in Kenya from 2005-2008. This gives Chinese companies valuable construction experience not only in Kenya, but as global competitors. China's rapid development has allowed it to cultivate a mature domestic construction industry, and China's "Go Out" policy helps these companies advance in global markets by gaining valuable international experience in countries like Kenya.

For this, China must incur the costs of the aid and training packages, subsidized finance, funding of diplomatic relations, as well as any tension or backlash from Western

powers and donors. China's Africa and "Go Out" policies have also cost them a great deal in coordination of these diplomacy efforts. There is a question of how regulated and coordinated these aid efforts are, and if overspending may occur. For example, recently China had to reduce the aid grant amount for the large scale road project in Kenya connecting the Nairobi International Airport to the United Nations Headquarters. The amount was reduced by almost 60% from 5.3 billion Kenyan Shillings to just 2.2 billion Shillings. It turned out the loan had been greater than was even legally allowed by Chinese policy. Monitoring such a large and disperse aid policy with little transparency, even within the Chinese government, can create great costs to China's African relations.

Ultimately, China is receiving great benefits from its "mutually beneficial" relationship with Kenya. China has successfully acquired natural resource rights, a stable regional headquarters for nearby oil-rich nations, valuable experience for China's construction industry, and an expanding destination for Chinese exports. Chinese aid appears to be only increasing at a much greater rate in Kenya today, giving reason to suspect China has larger plans for the region beyond these initial gains. This leads us to the next question of how this relationship has impacted Kenya thus far, and what do these current impacts suggest for the future of Kenya's development from Chinese aid and finance?

5.2 Impacts on Kenya

5.2.1 Overall increase in roads and road construction

Kenya has experienced immense and rapid benefits in physical infrastructure from its relationship with China. The power of Chinese companies and China ExIm, however,

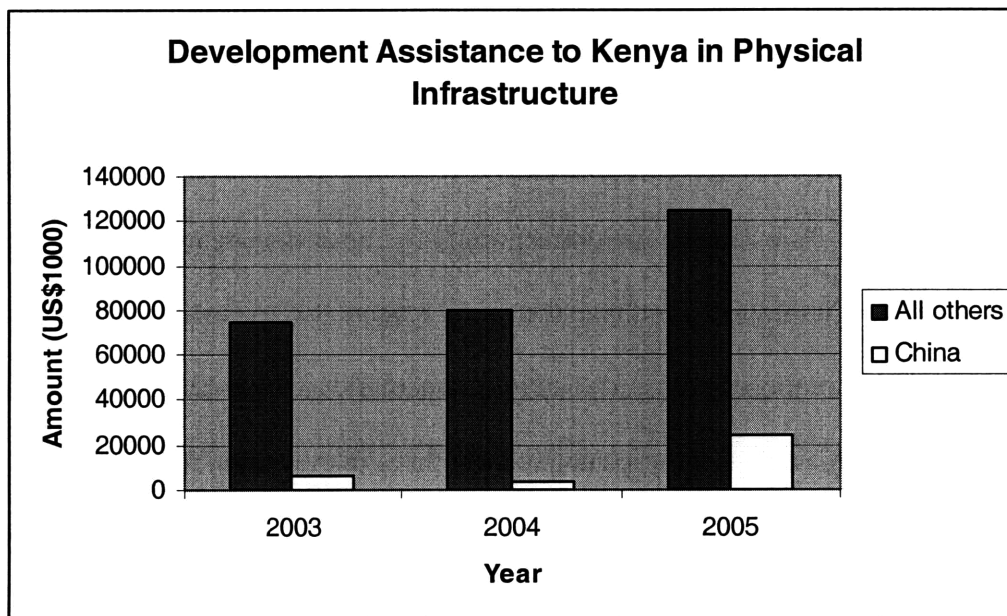
leads to concerns for borrowing or over investing in roads. Concerns for human capital development in Kenya also arise from Chinese firms reserving skilled labor positions in road development projects for Chinese nationals. This, however, is no different than the practice of other foreign firms and is often attributed to the availability of local skilled labor. Chinese firms advantages in access to finance and being more cost effective crowd out domestic competition. Chinese business practices and decreases in costs, however, may also jeopardize worker rights in Kenya.

Infrastructure development in Africa made possible by Chinese companies, investment, and finance helps facilitate better trade and positively impacts overall economic growth and even more infrastructure investment (Orr and Kennedy, 2008). Recent empirical findings in Kenya support the theory that China's aggressive role in infrastructure development may lead others to invest in physical infrastructure as well (see Figure 3). Though a great deal of the increases in road infrastructure funding and financing has come from China, amounts from other sources such as government revenue and other donors have increased as well (Mwinzi, 2008).

The number of road projects in Kenya increased dramatically since 2000. Chinese aid and finance has helped increase the much needed infrastructure improvements in road development in Kenya. China's aid provides some of the largest improvements in Kenya's roads have seen in decades. The efficiency of Chinese construction companies enables Kenya to have more quality roads for less money. Chinese construction firms and their long-term interest in working in Kenya coupled with China's "Go Out" policy have offered great amounts of subsidized loans for Kenyan road construction. These factors give great contributions to the increase the overall production of roads in Kenya.

This is also supported by looking at overall spending and funding patterns for roads since China increased its presence in infrastructure finance and construction in Kenya. As we can see, Chinese as well as other sources of funding for physical infrastructure increased from 2003-2005.

Figure 7



Source: (Onjala, 2008).

5.2.2 Influence and Power of Chinese Firms in Road Construction Decision Making

The ability of Chinese construction firms to eliminate the costly and time consuming application process gives a great amount of authority to the Chinese construction firms. CRBC, for example, explained when they secure financing for the Kenyan government, they are not only awarded the project, they themselves get to choose the project. This can be a project which involves a class or type of road which is beneficial to CRBC's business development more than Kenya's strategic development. Moreover, CRBC said

they were able to pick the project completely on their own, without consult of the Kenyan government (Zhang, 2008). Therefore a Chinese company, or perhaps the China Import Export Bank, is able to prioritize which roads need to be completed in Kenya. It appears that all Chinese actors interests are taken into account over Kenyan.

One concern is potential over-borrowing or over-investing in road infrastructure. Dynamic, experienced Chinese construction firms utilize their established relationships with the Kenyan government as well as China ExIm to serve their own interests in creating more road projects in Kenya. These projects, however, do create debt for the Kenyan government. The Kenyan government might jump at the chance for this debt-financing even though they may not have the future revenue to cover it. Additionally, Chinese aid has predominantly gone to road infrastructure development. This tied aid has given an advantage for many Chinese construction firms in the region for building networks and experience in the region. This could mean these firms have a distinct advantage in gaining finance for their own projects for Kenya through China ExIm, causing a disproportionate of Kenya's borrowing from China ExIm to be for infrastructure development. Nonetheless, power of Chinese firms in finance is just another dimension of the China-Kenya dynamic which illustrates the power dynamic which potentially marginalizes Kenya's interests in decisions for road construction.

5.2.3 Impacts onto Kenyan employment

Large infrastructure projects create large impacts onto employment. How have Chinese aid, finance, and firms affected Kenyan employment? Chinese contractors are experienced, and there are Kenyans who have made careers out of working with Chinese

construction companies. The CRBC, for example, say they have over twenty long-term Kenyan employees. As expressed previously, Kenyan engineers employed by Kenya's Ministry of Roads who have worked with Chinese contractors say that they learn as much from Chinese firms as other foreign firms. Since the involvement of Chinese construction companies largely increases the number of road construction projects in Kenya, their involvement ultimately increases the overall job opportunities for Kenyans in road construction as well.

Even if Kenyan jobs in construction have increased, what kind of jobs are Kenyans filling in these projects? Chinese firms, after all, have great differences in employment structure in Kenyan projects than their Kenyan and Western competitors. Foreign companies, Chinese and Western, across the board hire foreigners for high level positions in these construction projects. Even Kenyan firms tend to hire foreign skilled labor to manage their projects (Zhang, 2008) (Mwinzi, 2008). The hiring of Chinese high level employees for Kenyan construction projects, however, is much more drastic than with other foreign firms. For a road construction project employing roughly 400-500 people, a Chinese firm will hire between 40-90 Chinese employees, while other foreign firms will hire between 15-20 (Zhang, 2008). This proportion of Chinese nationals in Kenyan construction projects, on the other hand, is much lower than the typical project by a Chinese firm in Africa. On average, 50% of the labor in projects by Chinese companies in Africa are Chinese nationals who are mostly management and technical staff (Orr and Kennedy, 2008). This may be due to Kenya having a relatively skilled and educated workforce compared to other Sub Saharan countries (Economic Intelligence Unit, 2008). Nevertheless, Chinese firms still hired three to six times as many foreign employees

compared to their Western counterparts. In Kenya, Chinese firms and Western firms appear to hire the same number of skilled Kenyan workers, and Chinese firms tend to hire slightly less unskilled Kenyans for construction projects.

Chinese contractors attributed this difference compared to Western companies in employment of foreign labor to the differences in salary demands of Chinese professionals with European and American professionals. Since Chinese demand less compensation, more qualified Chinese professionals can be hired, while other companies would have to hire locally. Though the business model in the short term is more effective, this may have consequences for the level of skill transfer to Kenya's road construction industry. The reliance on Chinese skilled workers comes at the cost of developing local talent. The cost of skilled Chinese labor, conversely, is on the rise and will soon not offer the same marked advantage over Western firms. This brings up another question of what will happen once Chinese labor becomes more expensive (Orr and Kennedy, 2008).

Both Chinese contractors and government officials attributed their reliance on foreign skilled labor to the history of road construction projects, or lack thereof, in Kenya. With several aid freezes occurring during the 1990's, long-term plans for road construction projects were the first to go. Since no new road construction projects generated employment for these engineers, particularly between 2001-2005, most Kenyan engineers who were trained in Nairobi had to leave the country to find employment (Zhang 2008) (Mwinzi, 2008). Now with over 20 road construction projects underway in Kenya, foreign companies and Kenyan officials are quick to argue that there are simply not enough trained Kenyan engineers and managers to cover these projects.

Chinese contractors also mentioned their frustration with working with Kenyan engineers, saying they were well educated and trained but their lack of experience was very tiring and could greatly slow down projects. Chinese managers cited Kenyan engineers having to do everything by the “textbook” methods, meaning whatever is taught to them in a classroom as opposed to on the job, which often slows down the construction process. For example, one CRBC engineer gave the example of inefficiencies with the compaction process caused by Kenyan engineers. For a road to be adequately “compacted” it must be at least 90% compact. The CRBC engineers knew from their experience that road traffic alone adds over 5% more compaction after the construction is finished. Yet Kenyan engineers will refuse to end construction until that 90% is reached (Zhang, 2008), causing great delays in project completion. This differential in experience creates a very important power dynamic that is often ignored. A subtle but important detail of this story of inexperience in Kenyan engineers is how the CRBC engineer discussed their work-relationships with Kenyan engineers in a tone implying the CRBC engineer’s role as a baby-sitter (Zhang, 2008). This inequality in experience is seen again and again in the overall dynamic of negotiations, decision-making, and overall power-relations between any two parties in Kenya vs. China.

Another argument for why Chinese companies prefer to hire Chinese may be in interest of general Chinese business culture. Chinese public officials and businesses move incredibly quickly, resulting in quick and rapid results. Though many Kenyan public officials complain about the lack of participation they have in Chinese funded road projects, they speak with admiration and gratitude for China’s capacity for quick decision-making, with an almost instantaneous funding and implementation process. A

grant from any other donor would require a long tendering and approval process, which could easily take years to begin construction. This speed, however, does come at the expense of transparency. Chinese business and politics are infamous for their lack of transparency with decisions around design, worker treatment, etc. Having more Chinese employees in a construction project may help keep this momentum for quick results, hence explaining Chinese companies' preferences for a larger proportion of Chinese employees.

5.2.4 Impacts on Kenyan Worker Rights

Worker rights are also being compromised by Chinese companies, and worker unions, whose general effectiveness is arguable, are even more crippled by Chinese power and business practices. This is illustrated in the case of worker strikes in road construction as well as in other industries China has been moving into in Kenya. Though this power relationship is not unique to Chinese firms, China's overall disregard for worker rights is (Breslin and Taylor, 2008). The power and influence of Chinese companies because of their experience and resources creates serious disadvantages for Kenyan workers.

Chinese road construction companies have been cited for not understanding African customs, laws, and institutions when working in Africa (Gill and Reilly, 2007). In fact, Ministry of Roads officials and Chinese construction firms both frequently said communication between Chinese and Kenya workers is relatively more difficult than with other foreign firms. Both parties said this often is attributed to language differences since all other foreign companies are fluent in English. Chinese companies are infamous

for putting in supervisors who have little to no English skills (Zhang 2008) (Kiiru, 2008). Chinese firms don't even deliver supervisors and managers fluent in English for projects in Kenya where most locals speak English. How is a project affected by this lack of English skills by Chinese nationals? In many cases, it is the workers who suffer. CRBC illustrated this when describing how they deal with disputes between a Kenyan worker and Chinese supervisor usually automatically leads to the Kenyan worker's termination, even though they admit the disputes are often caused by the Chinese manager's lack of English skills (Zhang, 2008).

The need for quick results also hurts the conditions for workers in more ways than just the lack of high positions for Kenyans. One large challenge for Chinese contractors in Kenya is dealing with unionized workers. Chinese contractors do not support unions, and are also willing to pay whatever bribes they have to in order to keep projects moving. From speaking with CRBC, it was very obvious that their willingness to work with unions in Kenya was very low. For their project to build Mombasa road, a very high profile road connecting the country's capital Nairobi to the port city Mombasa, there were large issues with worker rights and with union efficacy.

Two years into the project right before Christmas in 2007, Kenyan workers went on strike. A CRBC manager said a Chinese engineer had gotten "physical with a worker," causing the Kenyan workers to strike the very next day. It is important to note, however, that the workers had struck on two other occasions, each time ending with union leaders extorting "bribes" from Chinese companies. CRBC admitted that they would be willing to pay bribes in order to keep a project moving. Yet in the case of the strike in December 2007, the Unions were unwilling to take bribes. Union leaders stayed by the site to

intimidate workers who wanted to return to work. Three days after the strike began, CRBC decided to fire all workers who were involved in the strike. Two days later workers returned to CRBC to get their jobs back. Any demands they had in response to the earlier physical confrontation were not met, and instead CRBC made them all sign new contracts that limited their rights to strike again (Zhang, 2008).

This example of Mombasa road's construction illustrates the dynamic between Kenyan unions and Chinese construction firms. It is hard to say whether other foreign firms or even Kenyan construction firms act differently than CRBC does. Issues with local worker conditions in Chinese run business in Kenya, however, are present throughout Africa. Kenya's export processing zones (EPZs) have attracted investment from China in manufacturing production. Worker conditions in these plants have already caused protests by Kenyan employees (Onjala, 2008). President Hu Jintao in 2007 announced China's dedication to having better enforcement of corporate responsibility on the local level in projects in Africa. This, however, relies on enforcement by low-ranking African offices that have little power over large Chinese corporations (Gill and Reilly, 2007). The strength shown by CRBC in dealing with workers and unions clearly shows the strong power imbalance that would leave even a well-intentioned union powerless.

5.2.5 Impacts of Chinese Tying of Aid, Finance and the Proliferation of Chinese Firms

Contrary to findings with Western aid, the tying of aid in Kenya has actually caused the price of road construction to go down. The power of the Chinese government and Chinese firms in aid and finance decisions, however, may potentially still cause the inflation of road project size. This dynamic of prices going down and project size going

up combined with the recent entry of new and less experienced Chinese construction firms may compromise road quality and worker rights of current projects.

China's impressive contributions to Kenya's weak infrastructure can create an image of a great developmental gain when focusing strictly on lack of infrastructure as Kenya's developmental constraint. Has China's aid helped Kenya's comprehensive development? If the definition of "success" for Chinese aid is the production of quality roads, the answer would be unequivocally yes. Conversely, this single-minded pursuit of only the product of capital and infrastructure ignores the more dynamic dimensions of development. The implications of the tying of aid to Chinese construction companies onto Kenya's domestic construction industry also needs to be assessed.

Firstly the nature of Chinese aid being tied to Chinese contractors eliminates the cultivation of a domestic road construction industry for Kenya. This is especially true for road construction projects which are funded by Chinese grant money. Chinese aid practices do not include the Kenyan government or Kenyan construction contractors in any part of the design or construction of the project excludes Kenyan from valuable experiences in road construction. The complete lack of inclusion of Kenyan officials with road design and construction of the project nearly eliminates all possibility for important skill transfers to Kenyans during road development projects. This crowding out of domestic industry is not unique to Kenya. Throughout Africa Chinese construction firms are creating tension because they are causing local African businesses to lose their domestic market shares (Gill and Reilly, 2007).

In addition to aid projects, even those that are financed by China ExIm are tied to the Chinese company which helps the Kenyan government secure the loan. There is an

active Kenyan construction industry, which have completed a significant amount of Kenya's smaller road construction projects. These companies are not able to compete with experienced, subsidized, and well-connected Chinese construction firms.

5.2.6 Driving prices up?

In addition to reducing opportunities for developing Kenya's domestic road construction industry, there are also other problems with the tying of aid. Interestingly, the effects Chinese aid tying does mirror those of Western aid tying. As discussed in chapter 2, the tying of aid actually caused the Western-funded projects to be overpriced and oversized for the United States funded projects in the 1960's (Tendler, 1975). Conversely, in Kenya, the opposite seem to be true for China's affect onto road construction pricing. The introduction and subsequent proliferation of Chinese firms in Kenya have caused the prices of road construction projects to decrease. While China appears to have affectively not caused the driving up of construction prices by the tying of aid, they may still be influencing the size of construction projects in Kenya. Although Western prices for equivalent road projects would be higher, Chinese projects are also three times the average cost of a Kenyan road project (Figure 5 and 6). It may be very possible that China is influencing the Kenyan government to oversize projects to build more experience for Chinese companies on larger road projects.

When looking at the Kenyan construction market, it is easy to see that Chinese companies have come to dominate the industry. Chinese pricing schemes have caused other foreign competitors to exit infrastructure development markets throughout Africa (Orr and Kennedy, 2008). As previously discussed, instead of helping to foster a

domestic industry in Kenya, an increasing number of Chinese firms are spilling over into Kenya from China's quickly maturing construction industry, consequently driving down prices for Kenyan construction projects.

Chinese construction firms currently working in Kenya can be divided into two categories: "experienced" and "new-entrant" firms. Experienced firms are Chinese construction companies who have acquired over twenty years of experience working in Kenya. Previously, experienced Chinese firms were always selected for projects funded by Chinese aid, incurred a great deal of transaction costs learning about the Kenyan business environment, and built a long-term strategy of working in the region. The two main experienced firms are CRBC and China Yi, both with large offices located in Nairobi.

Since CRBC and China Yi's entrance to the Kenyan construction market, the Chinese road construction industry back east quickly matured through large scale and rapid expansion of roadways all over China. The experienced Chinese firms meanwhile began winning more and more road construction projects in Kenya outside of those funded by China. These experienced firms beat out domestic and Western firms by delivering equivalent roads for lower prices. Today, China's mature construction market has brought in several competitors in addition to these experienced firms which are now contracted with over half of Kenya's current road construction projects.

5.2.7 Chinese firms in Kenya – cutting costs

Learning to Kenya's construction environment is costly for Chinese firms. CRBC described great difficulties for Chinese companies to learn how to effectively work in

Kenya, particularly in road construction. CRBC's incomplete information of Kenya's construction business environment created great costs for learning how to effectively work in Kenya. For example, extreme levels of poverty and theft as well as the existence of worker unions in Kenya create a very different environment than that of CRBC's experience in China. CRBC described this as a high amount of "tuition," or the extra costs they faced from unexpected aspects of business in Kenyan construction when they first entered the market. This experience has been incurred by veteran Chinese firms in Kenya who are therefore today more cost effective.

These costs include knowledge of how to budget in extra Chinese workers to monitor Kenyan workers and watch over equipment and materials. CRBC said it can be very time consuming to understand whether work disputes were over miscommunication or "problems with [Kenyan] workers." For example, CRBC said it had created a "black list" of Kenyan workers who have caused "trouble" on their projects in the past. Those, for example, who were involved in leading the strike for Mombasa road built by CRBC would be put on this "black list." These black-listed Kenyan workers would be banned from all future projects. CRBC even said "established" Chinese firms like them and China Yi shared their lists (Zhang, 2008).

Therefore, these Chinese companies who have already "paid tuition" in Kenya have an advantage in being able to efficiently implement road construction projects in Kenya. Yet these new entrant firms who are undercutting them for open-bidding projects funded by the Kenyan government and other foreign donors have decreased established firms' market share of Kenyan road construction. CRBC argues these "tuition" costs are not being taken into account by new Chinese companies entering Kenya's road construction

market (Zhang, 2008). These new entrant firms may not have long-term vision work in Kenya, and are willing to go blindly into new projects without knowing real costs. When larger costs are encountered, it is possible these new, and possibly temporary, Chinese firms will resort to lower quality roads or poorer worker conditions to accommodate their lower price.

5.2.8 Linkages

Finally, Chinese aid investments should be evaluated not only by the sectors and they are directly funding, but what effects these investments have on neighboring industries. The element of one industry creating support, or a linkage, to other components of production or other relevant industries is considered central to a country's development (Hirschman, 1967). For example, a growing domestic road construction industry in Kenya could create linkages to the production of construction equipment. The support and cultivation of a domestic road construction industry could help with backward linkages in demand for road construction equipment, and therefore support demand for a domestic industry of construction equipment in Kenya. A domestic road construction industry could also create linkages in the demand for more accounting and financial services.

Chinese aid for Kenyan projects should in theory create these linkages for other neighboring industries. Large infrastructure projects require the consumption of large amounts of inputs, employment generation, and even skilled labor experience and transfer of skills. In actuality, Chinese aid has been criticized for creating more linkages to Chinese firms than to local industry (Mohan and Power, 2008). Besides the immediate

consumption of raw materials and the short-term employment of unskilled labor, there seem to be little lasting effects or linkages created by Chinese contractors in Kenya.

5.2.9 Impact onto Kenya's Natural Resource Markets

Kenya has made considerable compromises to the worth of its oil exploration rights because of its diplomatic relations with China. In fact, in 2006, Kenya tried to give the China National Offshore Oil Company (CNOOC) exclusive rights to over half of available oil exploration in Kenya without completing any competitive bidding processes. Outside oil interests including Spanish and Swedish oil companies say the amount and process of rights given from Kenya to China in oil exploration is normally be illegal today. Even more surprisingly, the Swedish company Lundin International complained the deal they had offered for oil exploration rights had been superior to the deal forged with CNOOC (Chege, 2007). This speaks to how the strong relationships created between China and Kenya by aid and financing has created a power for China to force Kenya into disadvantageous deals in natural resource rights. Furthermore, China's acquisition of so many oil exploration rights might end up hurting Kenya more in the long run despite the great investments made in road infrastructure. Natural resources or new found wealth will go into the wrong hands and/or be exploited leaving the country worse off than it was before (Orr and Kennedy, 2008).

5.2.10 Lack of Transparency and Accountability: Risks of China Pulling Out

While China's non-transparent, non-bureaucratic and instantaneous style of aid leads to quick results in Kenya, it can also hurt Kenya in the long run. With the lack of accountability created in these quick and non-transparent deals, China can just as easily move in as move out. This can be seen in China's recent withdrawal of funds for roads leading to the Nairobi International Airport. When China decided to decrease funds by over 50% in 2008, it was the Kenyan government who felt all the pressure from the changed agreement. They were not able to hold the Chinese government to any part of the agreement, and in fact the Chinese firm who had been contracted the project, Shengli Construction, was the one to impose new agreements and restriction onto the Kenyan government (Sambu, 2008). This illustrates how these contracts are written in terms that give China full power and flexibility, with little accountability to the Kenyan government who are unable enforce these non-transparent China to these agreements. If China creates additional costs from their lack of coordination and excessive lending such as the case of Nairobi's new airport road, it is Kenya that must incur these costs.

Chapter 6: Conclusion

6.1 Summary

After all the faults and failures of western aid, China's new aid policy arrived to Africa with much hope and trepidation. Western aid's own interests created unresponsive policies for aid that bore little results for Africa's development. In particular, Western conditionalities meant to incentivize needed reforms failed to help African nations develop. This set the precedent for China's less bureaucratic aid with "no strings attached" which was subsequently well received by African nations. Critics attacked China's policy of "non-interference" in African governance for undermining the important lessons learned by Western donors meant to improve African policies. Moreover, China declared itself a mentor to African nations while securing valuable benefits in natural resources. As the international community debated China's aid tactics, its influence spread rapidly throughout the continent. China has used this influence to secure access to natural resources, consumer markets for Chinese exports and crucial political allies against the acknowledgement of Taiwan as a sovereign state.

Analyzing Chinese aid to road construction in Kenya we find that Chinese aid serves as a great opportunity for Kenya, but presents many new challenges and drawbacks compared to Western aid. In Kenya, China does serve as an alternative to Western Aid conditionalities. China's stance of non-interference seems to have caused Western donors to be more responsive to Kenyan needs. This policy of non-interference, however, doesn't create the kind of independence in governance and decision-making that China claims. Issues of non-transparent aid package deals impair Kenya's ability to make

construction decisions. The lack of Kenyan inclusion in Chinese aid decisions illustrates how to Kenya, Chinese aid has little competition. The instantaneous nature of Chinese aid that cuts out much of the typical bureaucratic costs is extremely attractive to a nation like Kenya. However, the non-transparent nature of these projects excludes Kenya's voice in decisions for its own infrastructure development. Furthermore, China-Kenya relations do not illustrate the characteristics promised in a "South to South" relationship. Trainings are ineffective and mostly used to improve government relations.

China's "Go Out" policy for the promotion of Chinese business abroad has created opportunities for increased construction finance for the Kenyan government as well as many advantages for Chinese firms. The lack of transparency in China ExIm practices with these construction firms also hurts the ability of Kenyan officials to have space where Kenyan interests are accounted for. Furthermore, this strategy redirects decision making power in Kenya's road infrastructure development to Chinese firms working in this region. One question still unanswered by this thesis is how this increased power in Chinese firms affects Kenya's road development? Does this cause over-investment in roads, inflate the size of road projects, or create an inappropriate preference for large high quality roads? For instance, in China's road development there was a large bias for extensive high quality road systems like freeways, even though more low quality roads would have given much greater benefits to lower-income and rural populations (Fan and Chan-Kang, 2005). Answers to these questions are incredibly important for assessing how China's "Go Out" policy affects African development.

China's aid in Kenya has ultimately led to a higher number of road construction projects, a higher proportion of contracts going to Chinese firms, and a higher number of

Chinese firms entering the Kenyan construction market. Chinese companies do not hire local skilled labor and directly compete with local industry. Kenyan industry is crowded out by the many advantages held by Chinese construction firms. This affects not only Kenya's construction industry but important opportunities for the development of neighboring industries such as finance, construction equipment manufacturing, etc. as well. The tying of aid and proliferation of Chinese firms in Kenya has caused the price of road construction projects to go down. Chinese influence, however, may also be driving up project size. These factors, in addition to the introduction of new and less experienced Chinese construction firms in Kenya, compromise the quality of Kenya's worker rights and road development.

The evolution of Kenya-China relations and China's role in road construction and financing has brought benefits to both China and Kenya, but disproportionately to China. The bottom line is China is still the donor and Kenya remains the recipient. China is still more experienced in road construction and more connected to financial resources than Kenya. The power dynamic fueled by these disparities in experience and resources is manifested in all decision making processes and even every day business and political interactions between Chinese and Kenyan Constituencies. While Kenya is making gains, it is also compromising its potential natural resources as well as important opportunities to build domestic industry. How can Kenya foster a better long-term development plan using Chinese aid and resources?

6.2 Recommendations

It is clear there is a large amount of hypocrisy of many of the criticisms Western donors have towards China's aid diplomacy in Kenya and Africa. This is particularly true for China's aid-for-resources deals like those in Kenya, which is essentially a variation of one of the many uses of aid donors like the United States practice in oil rich countries. This response by the western donor community is not from discontent with potential aid effectiveness in the region, but from potential political power and presence in the region. From this debate over Chinese aid in Kenya one thing is clear: donors, both Chinese and Western, have vested interests in Kenya. Kenya's potential natural resources, power as a political ally, advantage as a relatively war-free area for regional headquarters, and its consumer market make it extremely relevant to the foreign policy agenda of many developed countries. This position of power Kenya holds should be leveraged to demand more from all donors.

Kenya, perhaps from its background clouded with of debt dependency and coordinated aid, has been a passive player with donor decisions. Though Western donors seem to be slightly more responsive to Kenya's needs for more stable aid flows and funding for infrastructure, Chinese donors seem to have little response to Kenya's input, interests, and needs. By acknowledging their assets as a regional headquarters and potential energy resource provider, Kenya can leverage their power to improve Chinese aid effectiveness. Looking at some of the failures of Chinese aid in contributing to a comprehensive development strategy for Kenya, here are some suggested recommendations Kenya could assert based on China's vested interest in the country and region.

6.2.1 Improvements on Trainings: Evaluations, Apprenticeships, and Investments in Domestic Education

Currently, trainings for Kenyan officials create valuable relationships for China. Without evaluations or accountability, long-term benefits of skill transfer, however, are never received by Kenyans. This can be considered a way for China to secure its interests without offering real benefits to Kenya. This forfeits a valuable opportunity for the development of skills for domestic industries such as construction or engineering. Kenya should ask for more effective trainings through evaluations, investments in Kenya's education system, as well as more hands on opportunities for Kenyan engineers and officials to gain knowledge from Chinese aid and firms.

Firstly, Kenya is a prime location for the development of skilled labor in Sub-Saharan Africa. Kenyan is far more educated than most of its neighbors having made large investments in its primary and secondary education. This is reflected in the lower employment ratio of Chinese nationals in Kenya as compared to other African countries. Only 10-20% of employment in Chinese construction projects in Kenya is filled by Chinese nationals. This number is much lower than the typical 50% of Chinese national employment in projects in Africa. Kenya's current advantage in baseline education makes acquisition of skilled human capital resources most promising to Kenya's development.

Secondly, having less seminar-style trainings and more hands-on experience in trainings would be most beneficial to Kenyans. Overwhelmingly, construction companies and government official always acknowledge the meaningful advantage of

Chinese engineers over Kenyan engineers to be experience, not education. Supplanting trainings for actual experience for skilled labor in road construction does not suffice. With experience being main barrier for Kenyan workers for skilled labor positions, particularly in management, asking China to deliver this style of training would be much more advantageous for Kenyan workers.

Finally, implementing evaluations for Chinese trainings will make these trainings overall more effective in skill transfer. This will create accountability for these trainings to give valuable knowledge to Kenyan officials and workers instead of just dedicating aid to bilateral relations. Money should be spent evaluating these trainings and worker experiences with Chinese firms in order to help guarantee the fostering of a real “mentorship” between Chinese firms and Kenyan engineers and workers. Evaluations, then again, are costly and if administered by China may have a conflict of interest. This recommendation would be least prioritized of the three training recommendations for Kenya to ask of China.

6.2.2 Increase Transparency: Ensure More Accountability with Chinese Aid and Loans

China’s lack of transparency in aid decisions deprives Kenyan officials and international stakeholders important information about how Chinese aid is being conducted in Kenya. Firstly, it makes coordination very difficult for stakeholders in Kenya, even within Chinese actors themselves. The reduction of funding for Nairobi’s new airport road is a perfect example of this. Unlike western donors, China had no formal or transparent agreement that held it accountable to its funding promises to Kenya. Now Kenya must find a way to finance the rest of the roads funding, which may end up

creating extra costs in the end. Kenya needs to ask China to offer more accountable methods of financing in order to create more stability for their developmental path.

Lack of transparency can also mask hidden interests or deals that affect Kenyans as well as other stakeholders in Kenya's development. Though this may compromise some deals or methods China currently uses to obtain Kenyan assets and advantages, it will help create more certainty and stability in the nation.

6.2.3 Increase Kenyan Participation:

China's lack of transparency in aid decisions also deprives Kenyan officials and international stakeholders important opportunities for participation in decision-making processes for Chinese aid being implemented in Kenya. This is also true with the tying of aid to Chinese firms which do not include Kenyan officials in their decisions. This sacrifices many important opportunities for Kenyans to participate in decisions which affect their built environment. This should also include more participation in project selection for China ExIm financed projects. This not only gives Kenya more of a say in what is being constructed in Kenya, but also decisions taking what is *most* worth taking on more debt.

This recommendation for Kenya to leverage its power to modify Chinese aid policy and implementation is based on Africa's growing relevancy in energy supplies. This thesis, however, can not measure the reality of how easily China will take flight from Kenya and the region. Due to its vested interest in the region, however, it appears unlikely. These recommendations are meant bring voice to Kenyans without taking away most of the advantages China has gained. China still holds most of its advantages from

its “go out” policy with an array of subsidies. They will still cultivate the important relationships which have helped them secure many advantages in Kenyan business and foreign relations. China still will be the most cost-effective group of construction firms, and they will still have an ever-growing Kenyan market for Chinese exports.

These recommendations represent more easy and attainable goals for revising Chinese aid in Kenya to help maximize Kenya’s benefits *without* compromising China’s current gains. The fact that they have not been implemented shows Kenya’s current lack of any negotiation power or assertive role in China-Kenya relations. Hopefully in the long-term Kenya’s assets will become more valuable as they move closer to their development goals. Even more importantly, optimistically we expect they will become better versed in leveraging their assets for more beneficial international relations as well, making them able to negotiate not only for revisions in aid like those above, but for conditions which may even decrease the power and benefits of their donors as well. This would include things such as more fair agreements for natural resource exploration or more limitations on Chinese companies entering Kenya.

The key component of these recommendations is to begin the process of enhancing the role of Kenya’s government, firms, and workers in Chinese aid decision-making and implementation. Through more effective participation in donor decisions Kenya, who carries local knowledge of the nation’s developmental needs, can be more invested in Chinese aid. In addition, more effective methods to transfer skills will help ensure a more comprehensive development strategy for Kenya which can develop its domestic industries. Finally, as more lessons are learned about aid effectiveness and Kenya’s individual development needs, donors will be forced to learn be more responsive

to these issues. As an economic center and leader in Sub Saharan Africa, Kenya's serves not only its own developmental interests but serves as an important resource and role model for its neighbors. Kenya's effective management of competing aid resources is paramount to Kenya's and the region's advancement.

6.3 How does Chinese Aid Compare?

While we have well outlined the differences both good and bad between Chinese and Western aid, we have yet to answer the question of whether Chinese Aid is better than Western aid. The answer, frustratingly, appears to be mixed. Chinese aid, undeniably, has already influenced the built environment of many African nations like Kenya. These investments were in much need, and China has shown through its own development history the importance of large-scale road development for successful growth. China has managed to cut out much of the costly bureaucratic processes implemented by Western donors which have led to immediate benefits of Chinese aid. Yet these advantages come at a cost – including less transparency, less involvement of Kenyan officials, etc. Part of the answer perhaps is that Chinese development is better for Kenyan road development, but maybe not really better for Kenyan development as a whole.

Are there lessons to be learned from these differences in aid structure and impacts for African governments and aid donors? While Chinese aid has grown to a substantial presence, it is still not as influential or as large as amounts from the United States and other Western powers. China's domestic accomplishments in infrastructure development are considered very influential in its successful economic progress. While China's development strategy as a whole has many more components outside of road

development, this does not necessarily mean China is required to support every single one of these elements in Kenya. Western donors have been criticized for their lack of specialization and coordination by trying to “plant a flag” in every country, sector, and developmental trend. Maybe the answer to China’s effectiveness in aid isn’t that it should diversify its investments, or that Western sources should provide more infrastructure support, but that these donor sources should simply coordinate and specialize more. China has shown a distinct advantage in infrastructure construction in Kenya, perhaps their aid specialization in road development can be part of a broader and more effective aid strategy for African development.

Central to the debate Chinese aid in Africa are its impacts on Western conditionalities with aid. Chinese aid appears to have lowered these conditionalities in Kenya, and while African nations embrace this evolution, Western powers stand outraged. One question outside the scope of this thesis is whether the progressive lowering of conditionalities of all western donors, in effect, increase or decrease the effectiveness of aid? Western conditionalities have so far failed in Africa, so why do Western powers stay so firmly with them? While this thesis outlines many of the differences of Western and Chinese aid, it is still too early to say whether these changes in conditionalities enhance or impair Kenya’s ability to effectively absorb aid.

This thesis discusses the direct and indirect impacts of Chinese aid to Kenya. The distinction between Chinese aid and Chinese investment, however, is much more ambiguous in Kenya than I had assumed at the beginning of my research. China ExIm offers a great deal of subsidized finance for Chinese firms to develop their work abroad, particularly in Africa. Chinese firms acquire this financing for the Kenyan government,

and often China ExIm relieves the Kenyan government of their debt, making them in a sense a retroactive donor to Kenya. It is clear that Chinese aid grants are going to road construction projects in Kenya, and road construction projects are also being funded by subsidized loans from China ExIm. What is still not clear, however, is what else is China ExIm investing in? How are these loans dispersed, to what sectors, and what kind of participation does the Kenyan government have in these loans? With 90% of Chinese foreign direct investment (FDI) in Kenya going to manufacturing and services (Onjala, 2008), this must be also having a substantial impact on Kenya's industrial development. Further research on Chinese FDI, the structure of China ExIm loans, and the involvement of Kenyan firms and government in these investments would generate a much broader and more complete understanding of China's influence on Kenya.

The case study of Chinese aid to Kenya in road development is used to illustrate myths and realities of the differences in Chinese aid from Western aid. One final important question in conclusion of this thesis is whether this case study and its findings are specific only to Kenya, or whether it illustrates general Chinese aid practices in Africa. There is ample complexity and variation among African nations as well as China's strategic interest in each country. Are there cases of African nations who have effectively integrated their voice into decisions for Chinese aid compared to the case of Kenya? Does China diversify its aid investments depending on their strategic interests in the country? Do Chinese companies have such a prominent role in the decision making and implementing processes of Chinese aid in other African nations?

These are all important questions to better understand the global impacts of Chinese aid. More research about the implementation of Chinese aid throughout Africa can lead

to lessons learned for more effective management of aid by all African nations.

Furthermore, informing African nations about the specifics of Chinese aid and finance implementation across the continent may help prepare them better for coordination among African nations themselves. If African nations were to coordinate, this could serve to leverage their natural resources, consumer markets, and political alliances to demand an increase in their presence in aid decision-making and overall more effective aid practices from all donors.

Regardless of the agreed upon differences of Chinese aid vs. Western aid, how to alter these aid practices, or how to improve the role of African nations in aid, this thesis serves to illustrate the importance of looking at variations in aid implementation. The case study of Chinese aid in Kenya serves to highlight the importance of researching aid implementation and its indirect effects as opposed to just the broad and abstract policy of Chinese vs. Western aid. There is still a great deal of research necessary for better understanding the true differences between Chinese and Western aid and its implications for African development.

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