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Kenya-China Trade Relations: A Nexus of "Trade not Aid" Investment Opportunities for Sustainable Development

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Abstract

Kenya –China trade and investment are at a record high with China's entry point being heavy infrastructural investments in Kenya. China now controls 66 per cent of Kenya's bilateral debt. Given the rapid penetration of Chinese manufactured exports to the East African market, prospects for Kenya's industrialization could be in jeopardy. The flooding of counterfeit products from China into the Kenyan local market reduces the entry of genuine products, making fair competition impossible. Considering that "Trade, not aid is regarded as an important aspect of development strategy promoted by some nations. But in the context of Kenya's commitments to "trade not aid" strategy there is flimsy research done in current body of knowledge to give direction. This paper focuses on Kenya –China trade investments to unveil knowledge on a nexus of "Trade not Aid" phenomenon and its effectiveness to economic growth. The paper utilizes secondary database and content analysis approach for drawing inference. The study findings indicate that Kenya –China relations in trade and investment is not only a great opportunity to harness trade and aid benefits but also poses a cut-throat competition to Kenya's manufacturing sub-sector considering that trade between China and Kenya is in favor of China. Further, the influx of low quality products into Kenyan markets from China have direct negative effect on Kenya's labour market. The research concludes that "Trade not Aid" is a critical policy strategy that Kenya as a country should embrace and populate as a best opportunity to strengthen and increase trade and investment with China.

Keywords: International Trade, aid, investment opportunities, economic growth

1. Introduction

China's trade investments worldwide has grownand experienceddramatic economic growth enabling the country to target the global market for her products and services. China has also established very visible trade and investment ties with the African continent[2]. According to Onjala (2010)[3]China's economic and political involvement in Africa is arguably the most momentous development on the continent today. Although Africa and China have been trading with each other for centuries, the level and intensity of their trade relationship have increased dramatically since the year 2000. The total merchandise trade between China and Africa has increased from $9 billion in 2000 to $166 billion in 2012, making China Africa's largest trade partner (UN Comtrade, 2014)[4]. In terms of foreign direct investment (FDI), Chinese FDI flows to Africa has increased from $200 million in 2000 to $2.9 billion in 2011, turning China into the largest developing country investor in Africa (UNCTAD, 2013[5]; MOFCOM)[6].

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[2]Howard P. Lehman (2013) Trade not aid behind Japan's policy to Africa. Economics, Politics and Public Policy in East Asia and the Pacific Forum http://www.eastasiaforum.org/2013/07/27/trade-not-aid-behind-japans-policy-to-afri.Accessed 16th March 2018

[3] Joseph Onjala (2010).The Impact of China-Africa Trade Relations: The Case of Kenya. Policy Brief AERC Collaborative Research China Africa Project Issue N0. 5 November 2010.

[4] UN Comtrade (2014) United Nations Commodity Trade Statistics Database, SITC Rev. 3, comtrade.un.org.

[5] UNCTAD (2013) World Investment Report 2013. New York and Geneva: United Nations.

[6] MOFCOM (Various years, b) Statistical Bulletin of China's Outward Foreign Direct Investment. Beijing: Ministry of Commerce of People's Republic of China.

Additionally, Chinese aid initiatives in Africa in the form of economic or technical cooperation have also increased remarkably in the last decade. According to China's National Bureau of Statistics (NBS), the turnover on economic cooperation projects in Africa reached $29 billion in 2011 compared to $1.2 billion in 2000.[7] The NBS statistics also indicate that in the first half of 2017, China-African trade value reached US$85.3 billion, up 19% year-on-year. The non-financial direct investment from Chinese enterprises in Africa reached US$1.6 billion, up 22% year-on-year.While analysing Kenya and China trade investments trends, China now controls 66 per cent of Kenya's bilateral debt which stood at Sh722.6 billion as at June 2017. China tightened its grip on Kenya's economy, extending about Sh165 billion in loans in 2017, latest data shows. This has seen China stretch its lead as the country's largest bilateral lender, with its debt stock increasing by 52.8 per cent to Sh478.6 billion in 2017, from Sh313.1 billion in 2016. This statistics for China rivals multinational institutions such as the World Bank and United Nations, whose combined debt stock stood at Sh526.6 billion in 2017[8]. According to early projections provided by Kenya Investment Authority in April 2017, the FDI influx could have reached as high as USD 2.5 billion in 2016[9]. This study notes that these figures highly contrast data provided by United Nations Conference on Trade and Development (UNCTAD's) World Investment Report 2017 which indicates that the FDI influx to Kenya was at USD 394 million in 2016 and had never crossed the billion bar[10]. In 2016, global flows of foreign direct investment fell by about 2 per cent, to reach at $1.75 trillion amid weak economic growth and significant policy risks, as perceived by multinational enterprises (MNEs). According to UNTCAD Global flows were expected to increase to almost $1.8 trillion in 2017, continuing to $1.85 trillion in 2018 – still below the 2007 peak.

In a move seen to endear itself to African countries, China has laid out its strategy in an official paper that seeks to guide its cooperation with African countries. Publicized by the Ministry of Foreign Affairs of the People's Republic of China (2005), it is known as China's African Policy and it lays down the following principles and objectives; sincerity, friendship and equality; mutual benefit, reprocity and common prosperity; mutual support and close coordination; learning from each other and seeking common development.If this is true reflection of China's committements, then Kenya will harness the oppotunities.

Some of theinvestments areas where China hastargeted Kenya and flourished includethe transport sector and construction indutry. The study indicates that Chinese companies have invested heavily on railway and road networks in Kenya. Some of the show cases include road highways namely: Nairobi-Thika Highway, Airport road in Nairobi, Kipsigak - Serem - Shamakhokho in Rift Valley, Kima-Emusustwi Road and Gambogi-Serem road in Western Kenya. These heavy investments are a clear sign of Chinese commitments to expand trade and investment in Kenya. Bristow (2010)[11] in his article entitled "China favours trade not aid to meet development goals" indicates that "Trade not aid" policy strategy appears to be how China sees itself helping the world's poorest countries meet the Millennium development Agenda.Supporting this preposition Prof. Barry Sautman, of the Hong Kong University of Science and Technology in his paper points out, that all world leaders extol the virtues of trade, however "Many people make the argument that the billions of dollars of aid that have flowed into poor nations have been wasted[12].

It is against this backdrop that the study examinesKenya-China trade investments to unveil knowledge to inform policy and contribute to content and theory development. The specific objectives of the study are: establish the extent to which "Trade Not Aid" policy strategy affect economic growth of developing countries engaged in international trade; and, assessthe implications of "Trade not Aid" phenomenon with special reference toKenya-China trade relations and investment trends in last five years. The paper is organized as follows: The first section is

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[7] Matthias Busse (2014) China's Impact on Africa – The Role of Trade and FDI. http://www.etsg.org/ETSG2014/Papers/319.pdf Accessed 26th February 2018.

[8] Dominic Omondi (2018). China now controls 66 per cent of Kenya's bilateral debt. Accessed on 3rd May, 2018 https://www.standardmedia.co.ke/business/article/2001279079/kenya-s-debt-to-china-balloons-to-sh478-6billion.

[9]Kenya Investment Authority Report April 2017Economic Developments and Prospects in Kenya - African Economic Outlook.

[10]World Investment Report 2017. World Investment and the Digital Economy. Key Messages and Overview. United Nations publication, Sales No. E.17.II.D.3.

[11] By Michael Bristow (2010)**China favours trade not aid to meet development goals.BBC News, Beijing. http://www.bbc.com/news/world-asia-pacific-11326384.Accessed 16th March 2018**

[12] By Michael Bristow (2010) **China favours trade not aid to meet development goals.BBC News, Beijing. http://www.bbc.com/news/world-asia-pacific-11326384.Accessed 16th March 2018**

introduction. The second section captures the focus on the methodology and data base. The third section provides a narrative of the theoretical framework.The fourth and fifth section of the article provide a discussion of findings and finally, section six is the conclusion and recommendationsto inform policy and practice.

2. Methodology and Data base

The research study relies on secondary database sources and little information gathered from primary data sources. Secondary source of data that aided this research include desk research from various sources among which involved literature review comprising of an initial desk review of all written material on the subject and data from the Ministry of Trade in Kenya ; The Chinese Embassy ; WITS Data (Online) ; and, various publications including the Economic Survey and Statistical Abstract for various years from Kenya National Bureau of Statistics (KNBS),Statistical Bulletin of China's Outward Foreign Direct Investment, United Nations Commodity Trade Statistics Database, Kenya Investment Authority reports and any other information relevant to this research. The other data sources which enriched the study include various reportsof development partners such as World Bank, UNTCAD, WTOand the National Trade Policy documents from China and Kenya among other relevant sources. The research utilizes content analysis approach and the findings are descriptively presented in the paper.

3. Theoretical framework

This is section is a presentation of theories relating to international trade and investments. The theories are critical for enhancement of understanding of the motivations that cause a firm to invest abroad rather than export or outsource production. In this article the theories are categorized into two namely: the microeconomic and macroeconomic theories. The microeconomic theories focus on firm specific characteristics that influence the decision making of firms, for instance, market imperfections theories. Macroeconomic theories seek to analyze country characteristics that explain FDI flows within and across countries. Both micro and macro-economic theories have been presented diagrammatically in theoretical framework in figure 1.

It is of interest also to notethat microeconomic theories comprises of market imperfection theories and market power cycle theories. Hymer (1976)[13] developed the market imperfections theories which aim at explaining behaviour of firms in non-perfect competitive environments, that is, oligopolistic or monopolistic environment. Market power theories focus on structural imperfections i.e. deviations from purely market determined prices brought about by the existence of monopolistic or oligopolistic market characteristics. The market imperfections theory explains how firms constantly seek market opportunities and their decision to invest overseas as a strategy to capitalize on certain capabilities not shared by competitors in foreign countries. Nevertheless, market imperfections theory does not explain why foreign production is considered the most desirable means of harnessing the firm's advantage. According to Porter (1985)[14] international production theory suggests that the propensity of a firm to initiate foreign production will depend on the specific attractions of its home country compared with resource implications and advantages of locating in another country. This theory makes itexplicit that not only do resource differentials and the advantages of the firm play a part in determining overseas investment activities, but foreign government actions may significantly influence the piecemeal attractiveness and entry conditions for firms[15]

On the side of macroeconomic theories, you will find in our discussion three theories which include: internalization, dependency and product cycle theories. The internalization theory of Buckley and Casson (1976)[16]provides an explanation of the growth of the multinational enterprise (MNE) and gives insights into the reasons for foreign direct investment (FDI). The theory supports the idea that there is a tendency in the economic system to generate sophisticated information and to transfer this information internationally in the form of FDI.

[13] Hymer, S. (1976). The International Operations of National Firms: A Study of Direct Foreign Investment, Cambridge MA, MIT Press.

[14] Porter, M.E. (1985), Competitive Advantage: Creating and Sustaining Superior Performance, Free Press, New York, NY.,

[15] Buckley, P.J. (1988), "The limits of explanation: testing the internalization theory of the multinational", Journal of International Business Studies, Vol. 19 pp.181-9

[16] Buckley, P.J. (1988). The limits of explanation: testing the internalization theory of the multinational, Journal o f International Business Studies, Vol. 19 pp. 181 -93.

Meanwhile, production cycle theory developed by Vernon in 1966[17] on product life-cycle hypothesis postulate that firms engage in FDI at a particular stage in the life-cycle of products that they initially produced as innovations. Vernon believes that there are four stages of production cycle: innovation, growth, maturity and decline[18]. Eclectic theory attempts to answer the question of why the firm would want to produce in foreign location instead of exporting or entering into a licensing arrangement with a local firm (Lim 2001:10)[19].

The research study is pegged on dependency theory. The dependency theory explains underdevelopment in poor countries of the world. Dependency theory was developed in the late 1950s under the guidance of the Director of the United Nations Economic Commission for Latin America, Raul Prebisch. Prebisch and his colleagues were troubled by the fact that economic growth in the advanced industrialized countries did not necessarily lead to growth in the poorer countries. Indeed, their studies suggested that economic activity in the richer countries often led to serious economic problems in the poorer countries. Such a possibility was not predicted by neoclassical theory, which had assumed that economic growth was beneficial to all (Pareto optimal) even if the benefits were not always equally shared.

Some studies indicate how the Marxists theorists viewed the persistent poverty as a consequence of capitalist exploitation. And a new body of thought, called the *world systems approach*, argued that poverty was a direct consequence of the evolution of the international political economy into a fairly rigid division of labor which favored the rich and penalized the poor[20]. It is against this context that dependence theory is anchored onthe research study with a premise that economic growth in the advanced industrialized countries does not necessarily lead to growth in the poorer countries. Thus, "Trade not Aid" policy strategy need to be embraced by the developing countries while engaging in international trade and investment .This is because it's an opportunity for poor countries of the world to benefit from effectiveness of trade as opposed to aid for the growth of their economies.

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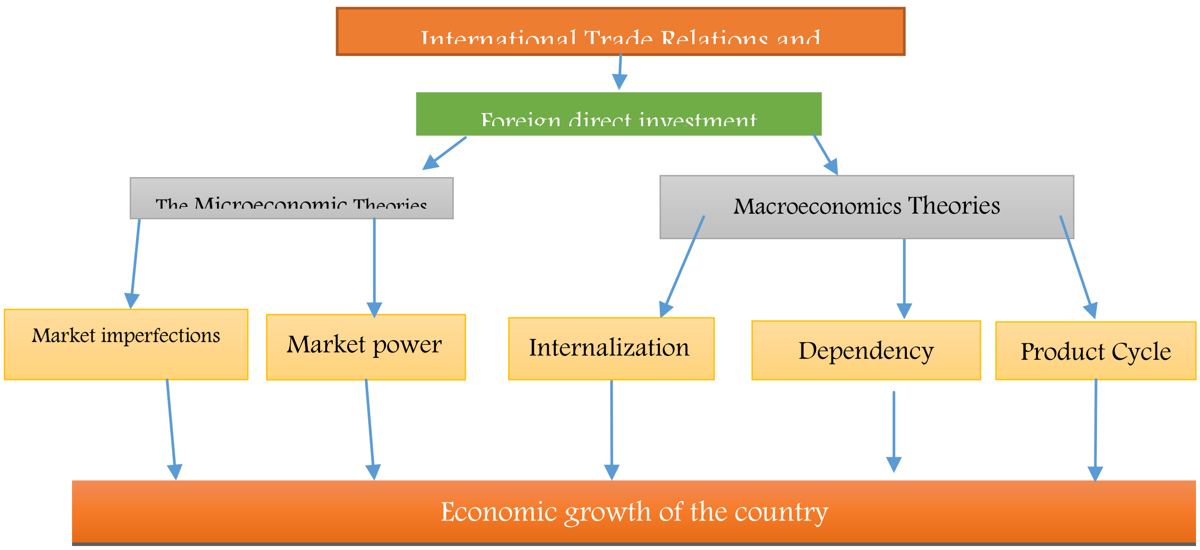
[17] Vernon, R. (1966). "International Investment and International Trade in the Product Cycle", Quarterly Journal of Economics 80: 190-207.

[18] VintilaDenisia (2010). Foreign Direct Investment Theories: An Overview of the Main FDI Theories. European Journal of Interdisciplinary Studies, Issue 3, December 2010 pp 55-56.

[19] Essays, UK. (November 2013). Foreign Direct Investment Theories and Motives Economics Essay. Retrieved from https://www.uniassignment.com/essay-samples/economics/foreign-direct-investment-theories-and-motives-economics-essay.php?cref=1 accessed on 7th March 2018

[20] **Vincent Ferraro, (2008) "Dependency Theory: An Introduction," in *the Development Economics Reader*, ed. Giorgio Secondi (London: Routledge, 2008), pp. 58-64.**

Fig 1: Theoretical framework



4. Trade not Aid" Phenomenon as a Nexus for Economic Growth andSustainable Development

"Trade not Aid" is an economic idea which advocates that the best way to promote economic development is through promoting free trade and not providing direct foreign aid. Over the years tradeand foreign direct investment have played a key role in stimulating Kenya's Economic growth.In the recent time Kenya has achieved a modest economic growth of a GDP rate of 5.8 in 2016 compared with 4.6 in 2012. According to Njiraini Muchira (2018)[21]Kenya's prospects for better economic growth appearsindistinct as they are bound to be over-shadowed by creditsqueeze, ballooning public debt of Sh4.57 trillion at the end of December 2017and rising oil prices. There is general agreement that the year 2017 was a tough year when the country's GDP plummeted to 4.5 per from 5.8 per cent in 2016, due to severe drought and a prolonged electioneering period.According to World Bank[22]projection, Kenya will experience a medium-term GDP growth of 5.8% in 2018 and 6.1% in 2019 respectively.Currently,Kenya is experiencing challenges of growth dynamism due to interest rate cap structure that doesn't ultimately serve its economic needs. The Central Bank Rate at 14.45% is pointed out as an impediment to the vibrant economy growth as commercial institutions opt for safe lending options mainly in government securities. In the study analysis of a comparison of BRICS(Brazil, Russia, India, China and South Africa) that comprise of five major emerging national economies; East African Community (EAC) and Sub-Saharan African (SSA) GDP growth rates are provided. The study revelas that the GDP growth rate comparison in the figure indicates that Kenya as a country is competing very well with other countries of the world. Whereas BRICS record GDP growth rate of 4.3 Kenya recorded 4.6 in 2012 respectively. In the year 2016, BRICS recorded GDP growth rate of 4.6 compared to Kenya recording 5.8. Sub-Saharan Africa (SSA)countries registered a modest GDP growth rate of 4.9 in 2012 and a low 1.6 in 2016. According to Amadousy (2016)[23] in his study on entitled "Managing Economic Shocks: African Prospects in the Evolving External Environment" indicates that in the year 2015, Sub-Saharan Africa experienced its slowest economic growth rate since the 1998 global financial crisis. According to the IMF, the Sub-Saharan Africa real GDP growth fell from 5.0 percent in 2014 to 3.75 percent in 2015 and was expected to regain to 4.3 percent in 2016.

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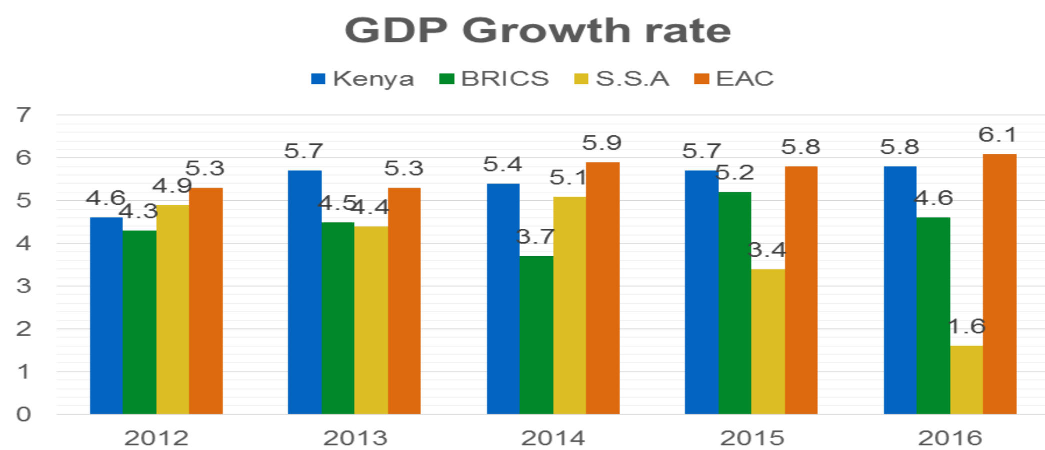
[21]Njiraini Muchira (2018). Kenya faces dim hopes for economic growth in 2018.The east African News. http://www.theeastafrican.co.ke/business/Kenya-dim-economic-growth-in-2018-/2560-4283968-115equi/index.html. Accessed 27th March 2018.
[22] World Bank (2017). Over view of World Bank in Kenya. http://www.worldbank.org/en/country/kenya/overview.Accessed on 26th March 2018.
[23]AmadouSy (2016)Managing Economic Shocks: African Prospects in the Evolving External Environment. Foresight Africa.https://www.brookings.edu/wp-content/uploads/2016/05/foresightafrica2016_ch1.pdfAccessed 9th April, 2018.

The study argues that these changes likelyto create opportunities and so appropriate and timely policy measures could be formulated to make a difference and help Sub-Saharan African economies regain their growth momentum both in the short and long terms.

Fig 2: A Comparison of Gross Domestic Product for 2012 to 2016 for Kenya, BRICS, SSA and EAC.



While examining aid effectiveness in Kenya's economic growthphenomenon, there is a wide-rangingscholarly and diverse viewssuggesting that aidhas long been the development coreagenda.The study notes that there are probably more arguments about aid as an effective strategy for development. The question of whether aid works or not has been approached from different methodological and ideological perspectives. Aid isgenerally considered to have positive impact on economic growth, and therefore vital force inpoverty reduction. Our analysis of cross-country empirical studies on aid effectiveness for growth have shown ambiguousresults. Some studies have confirm a positive relationship (Gulati, 1978; Hansen & Tarp, 2000; Clemens, Radelet, &Bhavnani, 2004; Minoiu& Reddy, 2010), while others have argued that there is no significantimpact of aid on growth (Mosley, Hudson &Horrell, 1987; Boone, 1996; Easterly, Levine, &Roodman, 2003& 2004).

Considering that some conservative groups in rich countries have always opposed aid as they see it as an extension of the welfare state. Developing country scholars dislike aid because it smells of dependency, neocolonialism and reminds them of domestic policy failure. Though foreign aid and capital inflows leave some positive effect on the gross domestic product (GDP), economic growth increases at a slow pace. On the other hand, foreign capital flows have a negative impact on the economy as well. Some studies show that the amount of external debt increases with a rise in foreign capital inflows, which is largely the result of macroeconomic mismanagement, mis-utilisation of assistance and inappropriate policies[24].Further, some studies have points out that the positive impact emerges only with certainprerequisite conditions such as good policies (Burnside & Dollar, 2000; Collier & Dollar, 2001, 2002),climate-related geographical environments (Dalgaard, Hansen, & Tarp, 2004), and only in certain forms orcategories of aid (Sawada, Kohama, &Kono, 2003; Clemens et al., 2004; Minoiu& Reddy, 2010).Although the current mainstream discourse asserts the importance of good policies for development aid topromote growth effectively, the controversy begs further research. More specifically: (i) theimpact of aid has been evaluated at both the micro- and macroeconomic level; (ii)cross-country as well as single-country case studies have been relied on; and (iii) aid effectiveness research includes broad surveys of a qualitative and inter-disciplinarynature as well as quantitative analyses.Literature surveyson the macroeconomic impact of aid covering the period up to the end of the eighties (1980s) tell a much less guine story than microeconomic project evaluations. Reviewers have found it difficult to generalize, and it is regularly argued that the traditional crosscountryempirical work has failed to provide statistically significant insights. Yet, the world is heterogeneous and noisy, and it may well be that many of those countries where aid works the best are, at the same time, among those that need foreign aid the least.

In contrast, countries that are less fortunate in having good policies in place, may need help badly to help bring them on track. They may need different forms of aid, but such real-world dilemmas remain unresolved. Single-cause explanation and mechanistic aid allocation rules are neither robust nor useful guides to policy makers.

[24] By Raja Taimur Hassan (2013) Pakistan needs trade, investment not aid. The Express Tribune, September 9th, 2013.

During globalization and liberalization era, the development debate turned its focus on trade as a more effective way of ensuring growth, economic and social prosperity in the developing countries (DCs). The main reasons behind this shift are the mixed outcomes of aid programmes and the success of the outward-oriented strategy of some Asian DCs (Hansen and Tarp, 2000)[25]. The aim of introducing trade preferences schemes is to encourage similar strategies in the rest of the DCs and to induce more successful trade liberalization process. Hence, a special and differential treatment regime that has been established within the framework of the General Agreement on Tariffs and Trade (GATT) and its successor the World Trade Organization (WTO) in order to promote DCs' exports without exposing their home industries to higher competition.While trade preferences directly aim to increase exports, the main goal of aid is to improve the welfare and overall economic situation in the DCs. One possible way to achieve this is through supporting and expanding the export sector in these countries. As trade liberalization negotiations became more difficult in the late 1990s and early 2000s, given that the non-controversial concessions had already been made, WTO members separated the 'Aid for Trade' (AfT) initiative. The AfT initiative was launched at the December 2005 WTO Ministerial Conference of the Doha Round in Hong Kong. In the next section, we discuss how aid and trade preferences can influence the export performance of recipient countries[26].Compared to development aid, trade preferences aim exclusively at increasing export flows from DCs to industrialized countries. The theoretical background beyond the idea of trade preferences is based on the theory of export-led growth.

It claims that an opening to the world markets supports an effective reallocation of the factors of production towards the sectors and industries exploiting the comparative advantages of a particular country. Stronger competition also boosts the innovation process. For these reasons, it can be expected that countries which are more engaged in international trade experience faster growth and higher welfare (Zedillo et al., 2005[27]; Hoekman and Prowse, 2009)[28]. Trade preferences are supposed to allocate more efficiently the factors of production and in this way to contribute to the expansion of more productive industries. An export diversification strategy shall be also promoted in order to minimize the effects of highly fluctuating world prices for primary products, which expose DCs' income to risks. The gains from trade compared to aid come especially from the dynamic perspective that is from spillovers and dynamic benefits, which are induced through higher integration into the world markets (SuwaEisenmann and Verdier, 2007)[29]

On the other hand, Howard P. Lehman (2013)[30] asserts that trade, in addition to aid, was driving Japan's foreign policy towards the African continent. This declaration was part of the culmination of Tokyo International Conference on African Development (TICAD), held in June 2013, the outcome of which indications that "Trade not aid"was Japan's policy to Africa in promoting economic opportunities of Japanese businesses. Another international forum where "Trade not Aid" strategy received prominence and support include Doha Round of World Trade Talks (2005).The Round was officially launched at the WTO's Fourth Ministerial Conference in Doha, Qatar, in November 2001.Mustapha Nabli (2005)[31] in his article entitled "Trade Not Aid is the key to Development"accentuates the Doha Round of talks was key lessons learnt from the last four decades and therefore trade, not aid, holds the key to successful development. Further, he points out that looking back over the last four decades and focusing on East Asia and China, where trade has been instrumental in surmounting poverty, it is obvious that trade, not aid, is responsible for successful development.

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[25] Hansen, H. and F. Tarp (2000), 'Aid Effectiveness Disputed', Journal of International Development, 12, 3, 375–98.

[26] Katerina Gradeva and Inmaculada Martınez-Zarzoso (2013) Are Trade Preferences more Effective than Aid in Supporting Exports? Evidence from the 'Everything But Arms' Preference Scheme. The World Economy (2016) doi: 10.1111/twec.12289

[27] Zedillo, E., P. Messerlin and J. Nielson (2005), Trade for Development, Achieving the Millennium Development Goals, UN Millennium Project, Task Force on Trade (London: Earthscan)

[28] Hoekman, B. and S. Prowse (2009), 'Economic Policy Responses to Preference Erosion: From Trade as Aid to Aid for Trade', in B. Hoekman, W. Martin and C. A. P. Braga, Trade Preference Erosion. Measurement and Policy Response, (Washington: The World Bank), 425–48.

[29] Suwa-Eisenmann, A. and T. Verdier (2007), 'Aid and Trade', Oxford Review of Economic Policy, 23, 3, 481–507.

[30] Howard P. Lehman (2013)Trade not aid behind Japan's policy to Africa.http://www.eastasiaforum.org/2013/07/27/trade-not-aid-behind-japans-policy-to-afri Accessed on 16th February, 2018.

[31] Mustapha Nabli (2005) Trade Not Aid is the Key to Development. https://yaleglobal.yale.edu/content/trade-not-aid-key-development. Accessed 16th March 2018.

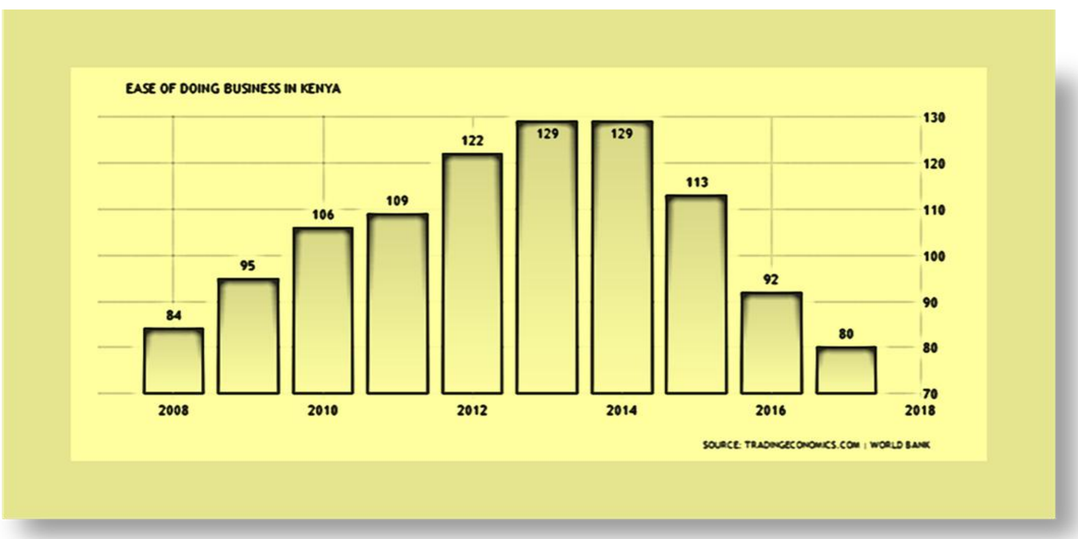
Besides, Mustapha (2005) notes that the potential global gains from full trade liberalization are enormous, in the range of $290 - $460 billion per year by 2015. He asserts that even this may underestimate the true gains since it does not include the substantial, but hard to measure, benefits from services liberalization and trade facilitation. The Doha Round of trade talks thereforewas a significant opportunity for global progress towards internalization this goal.

5. Analysis of trade and investment environment in Kenya

Kenya Government operates a liberal economy which promotes trade and investment.According to Ikiara (2018)[32], Kenya is now a top destination for FDI flows and is ranked third by project numbers among countries in the Middle East and Africa in 2016 – source FDI Intelligence Report.Kenya is alsothe leader within Africa for outward FDI with a record of US$1 billion in 2015 placing it tenth in the East African region compared with U.A.E. (US$21.8 billion), South Africa (US$2.5 billion), Mauritius (US$2.1 billion), and Egypt (US$1.7 billion). Whereas Kenya's FDI inflows per capita are registered at US$13.8, the East Africa average is US$24.4 FDI per capita. Tanzania is almost three times Kenya's FDI per capita at $35.3.Green field FDI projects into Kenya by project numbers increased by 47 percent in 2016, reaching 84 announced projects worth as shown below, source- fDI Markets. The study establishes that Kenya Government has implemented a number of economic reforms relating to trade and investments geared towards boosting easy of doing business in the country. The ease of doing business index ranks countries against each other based on how the regulatory environment is conducive to business operationstronger protections of property rights.

Economies with a high rank (1 to 20) have simpler and more friendly regulations for businesses. Reports by a number of independent business analysts have acknowledged Kenya's competitiveness which include World Bank reports among others.In this connection the study reveals that Kenya is now ranked in position eight (80) among one hundred and ninty (190) economies in ease of doing businesscourtesy of World Bank annual ratings for 2017. According to the World Bank reportEase of Doing Business (EODB) for Kenya has improved over time to position eighty (80) in 2017 from one hundred and twenty nine (129) in 2013[33].

Fig 3: Global Ranking of Ease of Doing Business (EODB) forKenya (2008 to 2017)



Considering that some of the economic reformsKenyan Government has put in place are many and therefore intended to create a level ground for improving competitiveness and productivity for the country in trade and investment. It is important to appreciate some of the these reforms which include but not limited to the following:-; abolishment of price and exchange controls in conformity to free trade and liberalization policy that was mooted by the Bretton Woods Institutions- World Bank and International Monetary Fund. The Government has also

[32]Ikiara, M. Moses (2018) Competitive Round Table at KICC in Kenya on 22nd March 2018.FDI Intelligence Report.
[33] World Bank (2017) Ease of doing Business in Kenya.Tradingeconomics.com World Bank https://tradingeconomics.com/kenya/ease-of-doing-business. Accessed 9th March 2018.

instituted measures to sustain macro-economic stability such as prudent fiscal and monetary policies, improvements in economic governance, and privatization of some public enterprises. These policies continue to promote growth by providing a more secure environment for private sector investment.Other strategic reformsinclude government guarantee of capital repatriation and remittance of dividends and interest to foreign investors. In this package foreign investors are free to convert and repatriate profits. Private enterprises, both foreign and domestic, can now freely establish, acquire, and dispose of business enterprises in accordance to the Companies Act. Besides, the Constitution of Kenya 2010 provides protection against the expropriation of private property. This is only permitted subject to the payment of prompt and fair compensation.

Further, both fiscal and non-fiscal incentives are also available in Kenya. The Kenya Revenue Authority implements the issuance of the fiscal (tax) incentives in collaboration with other regulators and facilitators such as the Capital Market Authority; Export processing zones Authority (EPZ)(for issuance of the EPZ incentives); among others, as provided under the Income Tax Act, Laws of Kenya.Tax incentives are mainly in form of capital deductions. These deductions are made at the point of computing the gains or profits of a person /company for any year of income. For instance, investor in EPZ benefit following incentives: 10 year corporate income tax holiday and a 25% tax rate for a further 10 years thereafter (except for EPZ commercial enterprises); 10 year withholding tax holiday on dividends and other remittances to non-resident parties (except for EPZ commercial license enterprises); Perpetual exemption from VAT and customs import duty on inputs – raw materials, machinery, office equipment, certain petroleum fuel for boilers and generators, building materials, other supplies.Value Added Tax (VAT) exemption also applies on local purchases of goods and services supplied by companies in the Kenyan customs territory or domestic market.

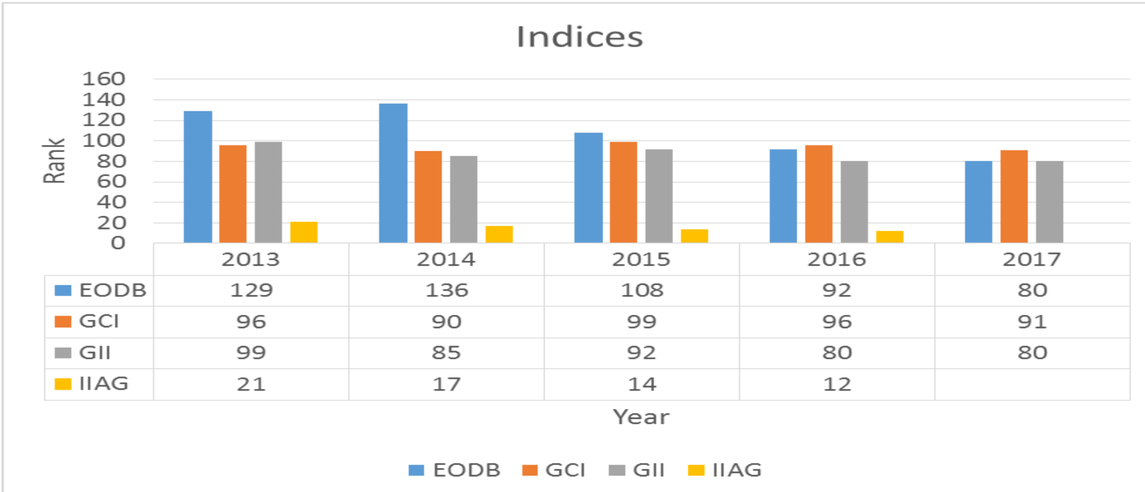
Motor vehicles which do not remain within the zone are not eligible for tax exemption; and perpetual exemption from payment of stamp duty on legal instruments.All the foregoing reforsm have now placed Kenya inbetter position to compete effectively. This is inline with the Global Competitiveness Index (GCI) Report for 2014-15, prepared by the World Economic Forum which ranks Kenya at position 90 out of 144 countries moving up by six places from the 2013/2014 report.In this report Kenya is scored 3.98 points out of 7 on the 2017-2018. Over the years the Competitiveness Index for Kenya has been ranging between 3.79 Points in the year 2007 and 3.98 in 2018. The report basically measures factors and policies put in place by countries, necessary to ensure prosperity of its citizens.

Fig 4: Global Ranking for Kenya Competitive Index for the period 2008 to 2018

The study also indicates that on Global Innovation Index (GII) Kenya's rankings in the GII, had risen from 99th positionin 2013 to 85th in 2014[34]. Likewise in the year 2015 Kenya improved GII position to record position of 92 while in the year 2016 and 2017 recorded position 80 respectively.

[34]BitangeNdemo (2015). Effective Innovation Policies for Development: The Case of Kenya. http://www.wipo.int/edocs/pubdocs/en/wipo_pub_gii_2015-chapter9.pdf Accessed 9th March 2018.

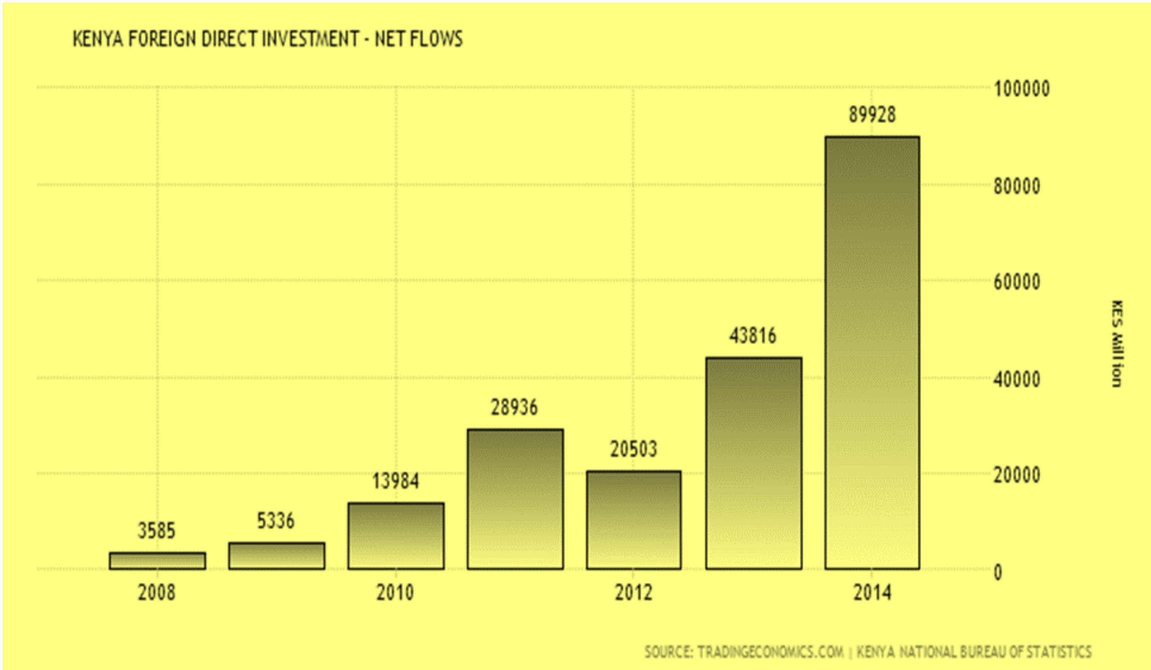
Fig 5: Comparison of Global Ranking Indices for Kenya for 2013 to 2017



Analysis of trends of Foreign Direct Investment (FDI) in Kenya, the study shows that the total investment inflows into the country went up 8 per cent from Sh133 billion in 2014 to stand at Sh143 billion in 2015. Accoring to Kenya National Bureau of Statistics data China surpassed Europe and America to become the biggest source of foreign direct investment to Kenya. This signals increased dominance of the Asian dragon over Kenya's external trade. According to the Foreign Investment Survey published recently by the Kenya National Bureau of Statistics (KNBS)[35], foreign direct flows from the Far East, primarily China, eclipsed that from the European Union.The drop was largely attributed to a 27 per cent decline in the amount of FDI coming from the United Kingdom over the two years, even as the China remained the dominant source, accounting for 40 per cent of investment from the EU.

[35]Kenya Bureau of Statistics (2016) Government Press.

Fig 6: Kenya's Foreign Direct Investment-Net flows for the period 2008 to 2014



The study analysis also reveals that the investment inflow from the UK went down from Sh20.6 billion in 2014 to Sh15 billion in 2015 with France, Sweden, and the Netherlands bringing in Sh11.2 billion, Sh4.6 billion, and Sh2.3 billion respectively, rounding up the top sources of FDI from the EU. The drop in FDI from the EU coincides with the tourism slump occasioned by travel advisories issued by several European and North American countries in the wake of the 2013 Westgate Shopping Mall terrorism attack.

Inflows from the Far East recorded 113 per cent growth, with China leading the pack, bringing in Sh41.8 billion in 2015 up from Sh13.9 billion in 2014. Japan and India recorded Sh10.8 billion and Sh7.9 billion in FDI over the same period respectively. The growth of the Asian tigers' investment stock in Kenya has been at the expense of reduced investment from both the UK and the US. Data from the survey indicates the share of FDI from the US to Kenya went down from 24 per cent to just 8 per cent. Overall, Kenya's foreign liabilities stock currently stands at Sh1.08 trillion with Europe holding the largest share at 34 per cent followed by Asia and the US at 14 per cent each[36].According to United Nations Conference on Trade and Development (UCTAD) WorldInvestmentreport (2018)

[37] Kenya's FDI inflows increased to $672 million, up 71 per cent in the year 2016, due to strong domesticdemand and inflows into information and communication technology (ICT)sectors.This bring us to the conslusion of this section that Kenya as a country needs to do more on easy of doing business in order attract foreign investnments into the country.Kenya's Investment policy choicesshould therefore be coherence, flexible and effective and lean towards Trade not Aid.

6. Conclusion

"Trade not Aid" concept is widely debated globally by scholars with diverse views. The debate and discourse revolves around whether or not trade or aid effectiveness matter and impact on economic growth of the world economies. Critiques of the effect of aid have become more vociferous as the global campaigns to increase aid and therefore have gained momentum.

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[36]FranklineSunday(2017) Now China replaces Britain, US as Kenya's top FDI source; Standard digital Published on Thursady , December 28th 2017.https://www.standardmedia.co.ke/business/article/2001264331/chinas-investments-to-kenya-outdo-us-uk. Accessed 20th March, 2018

[37] United Nations Conference on Trade and Development (UCTAD) (2018)World Investment Report 2018. Investment and New Industrial Policies p. 11.http://unctad.org/en/PublicationsLibrary/wir2018_overview_en.pdf accessed 12th July 2018.

Likewise trade effectiveness campaign has no doubt been amplified with proponents and scholars in various World trade forums which include high level World Economic Forums, Round Table Talk sponsored by the Nations Conference on Trade and Development (UNTCAD).

The findings of the present study reveals that the net Kenya-China trade investments have grown significantly. China tightened its grip on Kenya's economy, extending about Sh165 billion in loans last year, latest data shows. This saw the Asian country stretch its lead as the country's largest bilateral lender, with its debt stock increasing by 52.8 per cent to Sh478.6 billion in 2017, from Sh313.1 billion in 2016. The world's second-largest economy now controls 66 per cent of Kenya's total bilateral debt, which stood at Sh722.6 billion as at June 2017. This rivals multinational institutions such as the World Bank and United Nations, whose combined debt stock stood at Sh526.6 billion last year. China's debt stock is almost certain to increase further this year as construction of the Standard Gauge Railway (SGR) enters its second phase, with Kenya said to have borrowed a further Sh165 billion for the extension of the railway line from Nairobi to Naivasha. Kenya, which spent over Sh440 billion on SGR from Mombasa to Nairobi, is expected to pump a total of Sh1 trillion into the railway by the time it terminates at the border town of Malaba-Kenya.

With the removal trade restrictions to pave way for mobility of factor of production across borders, the Kenyan market is now flooded with influx of low quality products from China feared to create a cut-throat competition to local manufacturers in Kenya and Africa in general. It is believed that the local manufacturers in Kenya are likely to collapse due to China's upper hand in superior technologies. Worryingly, the stock of China's relatively expensive loans is fast catching up with concessionary loans given by multilateral organisations such as the World Bank and IMF. In 2017, Kenya's debt to multilateral institutions increased modestly from Sh798.8 billion in 2016 to Sh844.4 billion. Kenya's external debt is currently at Sh4 trillion, 60 percent of Gross Domestic Product by June 2018 according to Global rating agency Moody's Investors Service which is 13 percentage points above IMF's recommended benchmark for emerging countries.

Whereas Kenya-China trade relations and investment is seen as a huge business opportunity for both countries, the present paper recommends that Kenya needed to embrace more on trade effectiveness policy than Aid effectiveness as a strategy to improve and strengthen Kenya economic growth. China as a development partner must also stick to her promises on role of trade agenda engineering which is part of Sino –Africa multilateral agreement though "growing pains" in Sino-Africa ties, amid allegations by Africans of shoddy construction and a lack of respect for labour and other local laws may in the long run be consequential.This means that Kenya as a country must not only diversify her economic base and harness its potentials through trade and investment, but also learn to enhance productivity and competitiveness for sustainable development.

Biography of the Author

Prof. Siringi Elijah Mirwobais an academic Leader in charge of Development Studies programmes at the Management University of Africa-Nairobi Kenya. He is a social scientist and consultant. He has authored over twenty research publications in both international and national peer reviewed Journals. His research interest include but not limited to Development Economics, Public Policy Analysis, Public Economics and Gender development among others. Contacts: email drsiringi@rediffmail.com; esiringi@mua.ac.ke Mobile telephone +254 724 971 445.