The Impact of Foreign Direct Investments by Chinese Companies in Kenya

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Abstract
Since reforming its economy into a market economy, China has experienced tremendous growth. Its influence is felt worldwide and especially in the developing countries. Kenya is one of the countries that has received assistance and bilateral support from China either through infrastructure projects, construction of hospitals, sports facilities or education. The paper sought to provide information and data on these forms of assistance and also, by way of data analysis, determine if the benefits achieved are mutual or whether China stands to gain alone in the various ventures. Most of the assistance is received through concessional loans approved by the Chinese government and made out to Chinese companies in order to provide foreign direct investment in Kenya. These loans are then repaid by the various government bodies and individual clients engaging the Chinese companies. The paper seeks to determine: “the impact of foreign direct investments by Chinese companies in Kenya” thereby discerning whether the impact is positive or negative. Literature and data used was obtained from the internet, journals, newspapers and organizations involved in promoting investment in Kenya. The study found that FDI by Chinese companies leads to economic growth by through human capital development, employment, and capital supply.

Keywords
China, Kenya, Foreign Direct Investments (FDI), Aid, Trade

I. Introduction
Foreign Direct Investment (FDI) is direct investment into one country by a company in production located in another country either by buying a company in the country or by expanding operations of an existing business in the country. Foreign direct investment is done for many reasons including to take advantage of cheaper wages in the country, special investment privileges such as tax exemptions offered by the country as an incentive to gain tariff-free access to the markets of the country or region (Wikipedia, 2012).

The People’s Republic of China established diplomatic relations with the Republic of Kenya on December 14, 1963. In the initial days, the establishment of relations between the two countries saw a fair development. After 1965, the relations between the two countries were lowered to be at the chargé d’affaires level and towards the beginning of 1970s it gradually returned to normal. In 1978, when President Daniel ArapMoI came to power, the relations between the two countries gained faster development. With frequent mutual visits at high level the friendly co-operation has witnessed outstanding achievements in many fields. By the end of 2002 when a new government was formed under President Mwai Kibaki, he expressed his high regard on account of the relations between Kenya and China and directed further deepening and expansion of the friendly co-operation between the two countries.

Since the establishment of the diplomatic relations, the projects of aid and assistance provided by China to Kenya mainly include: Moi International Sports Centre (Kasarani), methane-generating pit and the expansion project of Eldoret hospital, Confucius Institute at Nairobi University, teaching Chinese and joint research work on vegetables with Egerton University and most recently the Thika – Nairobi Highway, among many projects.

In recent years, the bilateral trade value has increased greatly. The Chinese exports to Kenya mainly include: household electrical appliances, industrial and agricultural tools, textile goods, commodities for daily use, building materials and drugs. The imported goods from Kenya mainly cover: black tea, coffee and leather goods among others. (China-Kenya website)

This research will centre on, or include topics on:

• China’s growth into a market economy,
• The main employment opportunities created by foreign direct investment from Chinese companies.
• The various projects and investments carried out by China in Kenya now and also discuss future projects that may be undertaken by the two countries.
• Eventually the research will attempt to answer the question as to whether investments by Chinese companies, referred to together as China, have a positive or negative impact on the Kenyan economy.

IV. Background

A. China’s Economic Development
In the last 20 years, China has had spectacular economic growth and has come to play an increasingly important role in the world economy. There is hardly any country in the world, at present that does not trade with China. For a long time, the economy of China was a centrally-planned economy, run by a communist government, in which all the companies were owned by the state. In 1978 China started to reform its economy by opening up trade to the outside world and by 1990 six special economic zones were established, including the Shanghai Pudong zone, which was a pioneer in attracting foreign capital. (Hu, 2005) Overall, the Chinese economic reform has been a spectacular economic success which has generated rapid economic growth over two decades and the country has moved from a centrally-planned economy towards a market economy; especially since China became a member of the World Trade Organisation (WTO) in 2001.

According to Hu (2005), before the reform, all the companies were state owned. Infact there were no entrepreneurs. After 20 years of growth, company ownership has undergone unprecedented changes. On the whole, non-state-owned companies can now be more involved in sectors that used to be monopolised by state-owned companies. Except for the sectors of electricity, telecommunications, oil and the defence industry, most of the other sectors are privately held. Development in China and most East Asian countries occurred most successfully because states intervened to consciously promote social transformation and industrialization. The state did this by use of selective protection of their industries from cheap imports from the established overseas industries; they intervened to secure investment in dynamic sectors; discipline of both capital and labour through corrective measures against capital export and workers rights; and the forcible removal of people from land in order to secure labour force for the new industries. These issues are authoritarian measures and do not correspond with
liberal views of development as a process based on consensus, but made China and the East Asian countries industrialize using such measures while Africa is struggling. (Kioko, 2012)

B. China’s Economic and Trade Cooperation With Kenya

In 2006, Kenya and China signed six agreements signalling closer economic and technical cooperation between the two countries during a meeting held at the Great Hall of the People in Beijing between President Kibaki and his host President Hu Jintao. The signed agreements included Economic and Technical Cooperation, agreement on the provision of concessional loans by China to Kenya and the Air Services Agreement which grants Kenya Airways landing rights in several cities in China. Also signed were agreements on Radio Cooperation between the State Administration of Radio, Film and Television of China and the Ministry of Information and Communications of Kenya and a collaborative agreement between General Administration of Quality Supervision Inspection and Quarantine of China and Kenya’s Bureau of Standards.

Kenya and China signed a Trade Agreement in 1964 and revised it in 1978. The Ministry of Trade has begun consultations to review this agreement to take in changes in the international economic arena and the phenomenal growth of the Chinese economy. To actively implement already-signed bilateral cooperation agreements, China encourages its businesses to import Kenyan goods, expand investment in Kenya, participate in its infrastructure construction and energy & resources exploitation and expand cooperation with Kenya in processing industries and agriculture. China will continue offering economic aid within its available resources and strengthen assistance for Kenya’s human resources development. (Onjala, 2008). The government of the People’s Republic of China has set up a special fund to encourage Chinese companies to import some Kenyan products, including coffee beans, rose seeds, black tea and sisal all of which are exported in raw form. Efforts being made at bridging bilateral trade should focus on value addition before export. The Third Economic and Trade Committee meeting between Kenya and China took place on 25th April 2006. The meeting addressed various issues of interest to both countries, including ways of bridging the balance of trade, this remains heavily in favour of China (Onjala, 2008).

C. Future FDI Projects by Chinese Firms in Kenya

Kenyans are justifiably enthusiastic about coal mining in Kitui. According to manufacturers, use of coal will reduce prices of manufactured goods – and therefore those of all goods and services – in Kenya by more than one third. A delegation from Mui Coal Basin in Kitui left for China in March of 2012 as part of the government’s efforts to educate residents on the plan to extract the mineral in the county. The team was in China for a week touring coal mining sites at the invitation of Fenxi Mining Group, the Chinese firm which won the concession to mine coal in Mwingi region. This company won the contract to begin coal extraction in Blocks C and D and was awaiting parliamentary approval at that date before moving to the site. (The Star, March 2012).

In April of 2012, President Mwai Kibaki of Kenya met and held discussions with Mr. Liu Qi a member of the Political Bureau of the Communist Party of China and Secretary of the CPC Beijing Municipal Committee. During the occasion, the President of Kenya urged the Government of the Peoples Republic of China to consider investing in some of the flagship projects earmarked for development under the recently launched LAPSET (Lamu Port and Lamu South Sudan Ethiopia Transport Corridor) project in Lamu that is intended to re-engineer the economies of regional countries such as South Sudan and Ethiopia. The Head of State was grateful to the substantial bilateral support extended to Kenya by the Government of the Peoples Republic of China with cumulative official development assistance totalling to Kshs. 42.21 billion ($510 million) while much of the infrastructural development witnessed in various parts of the country had been attained with assistance from the Chinese Government (KBC News, April 2012).

The Kshs. 1.5 trillion ($18 billion) LAPSET project consisting of a port, a railway line, a road and an oil pipeline linking Kenya, South Sudan and Ethiopia was launched in March of 2012.

V. Rationale and Methodology of Study

A. Rationale

Kenya and China have been trading partners over the years besides engaging in investment activities through projects and provision of services, education and manufacturing industries. One may ask whether this assistance or trade between the two countries is for the mutual benefit of the two countries or is it a one-sided affair with the lion’s share of the benefit going to China.

This study aimed at determining the benefits to Kenya of Chinese companies growing participation in the country’s infrastructure, mining, services, manufacturing and other activities. It is hoped that it will enlighten Kenyans and others of the impact of these activities in Kenya.

B. Methodology

A survey research design was used in this study. Primary data was obtained using questionnaires. The target population was employees of various organizations conversant with FDI issues. Purposive sampling technique was employed in selecting a sample size of 30 persons to whom questionnaires were administered.

VI. Foreign Direct Investments and Emerging Economies

FDI represents a great opportunity for emerging economies, to improve their balance of payments picture through increasing exports. Consequently, further capital can be attracted from abroad, and a circular cause-and-effect relationship results. Firms go overseas in order to extract raw materials, source production; or penetrate markets (Kogut, 1984), and thus host countries need to provide this “bait”. And they are better able to do so with the added revenues from increased exporting activity.

FDI directly affects a country’s exporting activity when the purpose of the FDI is to utilize host country comparative advantages and sell in other national markets (Hymer, 1976; Porter, 1990). Integrating economies are more likely to gain from improving intra-regional market accessibility (which leads to export-oriented FDI) than from tougher external trade policy, and may wish to offer investment incentives to encourage FDI by outside firms (Motta, 2004). In addition, FDI can play a key role in improving the capacity of the host country to respond to the opportunities offered by global economic integration, a goal increasingly recognized as one of the key aims of any development strategy (Financial Market Trends, 1998). Thus, countries become more in tune with global market trends and are able to gear their exporting activity to higher demand sectors. On the flip side, developing countries’ governments are often concerned that too much dependence on inbound foreign investment may lead to an eventual unacceptable erosion of the country’s sovereignty (Dunning, 1998). An emerging economy can, however, improve its relative bargaining power with foreign
multinationals in the conduct of direct investment (Fagre and Wells, 1982) by improving on the array of resources it has to offer. Thus, the benefits to exporting activity from increased FDI far outweigh any potential downsides.

The role of FDI (i.e. the purchase of existing firms or the development of new firms in an economy by foreign investors) in the development of low-income countries is controversial. On one hand, FDI is viewed as a major stimulus to economic growth (see, for example, Walden and Rosenfeld, 1990; Chowdhury and Islam, 1993; Rodan, 1997; Borenszteinet al. 1998; Gries, 2002). These authors argue that foreign investors can provide the capital, technical and marketing know-how needed for growth. On the other hand, however, FDI is seen not to aid but to undermine the very process of development (Razin et al., 1999). They argue that FDI can have adverse effects on employment, income distribution, and national sovereignty and autonomy. FDI can also have adverse balance-of-payments if inputs need to be imported. Foreign reserves can also diminish when profits are repatriated. In Africa, the fear of such adverse effects led to nationalization of foreign-owned corporations in some countries in the early years of independence and the adoption of import substitution policies. However, this development strategy has been reversed, since the 1980s and many countries have now embraced privatization and liberalization as part of structural-adjustment policies (SAPs).

To help understand the circumstances under which FDI may or may not assist in the development process, three types of FDI have been identified. They include extractive, market seeking, and export-oriented. With extractive FDI, it implies new development opportunities for mineral rich countries. However, ensuring that they actually materialize requires adequate legal and institutional framework and to strike an appropriate balance between the interests of the private sector, the national host country government and the local community (UNCTAD, 2007). As far as market related FDI is concerned, market integration has been analyzed in the international trade literature, particularly in the context of regional trade agreements. FDI leads to market integration of the intermediate good. A typical example fitting this argument is with natural resources. The Chinese government has been controlling the exports of rare earth minerals to increase their price in the foreign markets. By doing so, the Chinese government intends to induce high-tech firms using rare earth minerals as their key inputs to produce in China. In fact two Japanese companies, Hitachi Materials and Showa Denko, recently decided to shift the production of high-performance magnets and high performance alloys respectively, to China. They have never produced these goods outside of Japan to prevent technology leakage. This also leads to a technology spillover which could benefit China also (Ishikawa and Horiuchi, 2012). Export oriented FDI involves the creation of export processing enclaves for example the Export Processing Zones in Kenya. They normally promise increased capital, employment and foreign exchange for less developed countries. Eurozone countries and the United States are attractive destinations for export oriented FDI. In the past, Africa attracted FDI as a result of her abundant natural resources and size of domestic markets. However, it has been realized that market-seeking FDI can lead to conflict between private benefits and social benefits, especially if such FDI is protected from competition. It has also been acknowledged that extractive FDI is likely to be accompanied by high social costs in the form of exploitation of economic rent, negative externalities in the form of pollution, and the exacerbation of inequality through dualistic economic structures. Accordingly, most governments in developing countries and Africa in particular, have nowadays been more enthusiastic about attracting export-oriented FDI. It is believed that export-oriented FDIs are unlikely to cause conflict between the private benefits to the investor and the social benefits to the country. The preference for export-oriented FDI has led to intensive competition among developing countries seeking to attract such investment and to a convergence among policy and promotional environments of these countries in pursuit of FDI (Wint and Williams, 2002).

Low-income countries are particularly keen to attract export-oriented FDI since small domestic markets preclude the possibility of attracting market-seeking FDI. However, despite the enthusiasm for export-oriented FDI, low-income developing countries are not attracting significant volumes of FDI. Moreover, the flows of FDI to developing countries are concentrated in a small group of countries with large markets, high-income levels, and rapid economic growth (UNCTAD, 2002). The problem of faltering FDI inflows is especially acute in Africa, in contrast to other regions that have witnessed increase in inflows of FDI. The consequences of this have been catastrophic on social progress of the region. For Africa to achieve and sustain an average GDP growth rate of above 7 per cent p.a., a rate that has been determined to be sufficient to help reduce the share of people in poverty by half by 2015, it would need huge investment injections in various sectors such as agriculture, industry, education, and health. It would require, for instance, incremental investment rates of 29 per cent and 25 per cent p.a. to be added to the current levels of investment in agriculture and industry, respectively, for sub-Saharan African economies to catch up with Malaysia, Indonesia, and Thailand (Economic Commission for Africa, 2001).

With the rapid pace of global financial integration, perhaps most directly observed in the explosive growth of foreign direct investment (FDI) over the last two decades, concerns have been raised in both academic and public communities about the potential negative impact of such environmental changes on the development of domestic enterprises (Alfaro and Charlton, 2006). On the other hand, increasing openness and economic liberalisation across the globe has been credited with facilitating the pace of global financial integration with positive consequences for domestic entrepreneurial activity and high economic growth rates observed specifically in industrial and emerging market economies (Obstfeld and Taylor, 2005).

Recently, Ben Hamida (2006) has analysed FDI spillovers according to their diverse channels. She found that the firm, which is not far behind the technological frontier of the industry, manages to exploit fully the technological opportunities using merely demonstration effects, while the firm in the low technological development group is not able to benefit from foreign affiliates via demonstration effects alone, rather, it gains a lot from worker mobility. The high level of labour cost perceived in foreign affiliates relative to similar domestic firms may result from the large amount they spend on training. Blomström and Kokko (2002) state that foreign service firms often need to invest more in training than manufacturing firms, since many services are not tradable across international borders. This means that service MNCs to a great extent are forced to reproduce home country technologies in their foreign affiliates. Blomström and Kokko (2002) add that training and human capital development are often more important in service industries because training in service sectors is more directly focused on strengthening the skills and know-how of employees, while training in manufacturing sectors is often to facilitate the introduction of new technologies embodied in machinery and equipment. In this way, MNC affiliates in services, which heavily invest in training their employees, may
be particularly valuable sources of new technology embodied in human capital and hence more opportunities for spillover benefits are expected. As suggested by Blomström and Kokko (2002), the labour market is one of the main ways in which new technological knowledge is expected to disseminate to the domestic economy, workers already trained by or worked in foreign affiliates may be potentially available to work in domestic firms or start their own firms in the same industry.

Modernization and dependency theories have also been used to explain the impact of FDI on host countries’ economies. Modernization theories are based on the neoclassical and endogenous growth theories, which suggest that FDI could promote economic growth in developing countries. The modernization perspective is founded upon the principle that economic growth requires capital investment. New growth theories posit that transfer of technology through FDI in developing countries is especially important because most developing countries lack the necessary infrastructure in terms of an educated population, liberalized markets, economic and social stability that are needed for innovation to promote growth (Bengoa and Sanchez-Robles, 2002). Kumar and Pradhan (2002) note that, apart from technology and capital, FDI usually flows as a bundle of resources, including organizational and managerial skills, marketing know-how and market access through the marketing networks of multinational enterprises (MNEs). As a result, FDI plays a twofold function by contributing to capital accumulation and by increasing total factor productivity (Nath, 2005). In contrast, dependency theorists argue that dependence on foreign investment is expected to have a negative effect on growth and the distribution of income. Bornschier and Chase-Dunn (1985) claimed that foreign investment creates an industrial structure in which monopoly is predominant, leading to what they describe as “underutilization of productive forces.” The assumption being that an economy controlled by foreigners would not develop organically, but would rather grow in a disarticulated manner (Amin, 1974). This is because the multiplier effect by which demand in one sector of a country creates demand in another is weak, thereby leading to a stagnant growth in the developing countries.

VII. Results

A. Introduction

This section discusses the interpretation and presentation of the results. The objective of this study was to determine the impact of FDI by Chinese companies in Kenya. A sample of 30 informants drawn from the top level management from various organizations in Kenya conversant with FDI issues was used. Out of the 30 questionnaires sent out, 25 questionnaires, representing 83.33% were received back fully completed making. According to Babbie (2002), a response of over 50% and above is adequate for analysis thus 83.3% is even better.

B. Demographic Analysis

Majority of the respondents were of age bracket between 30-40 years who were 60% while the minority fall under age bracket of 20-30 years, 40-50 years and above 50 years.

The study was also keen in finding out the education level and occupation of the respondents in the field; this investigation would help the researcher to determine the relevance of information obtained in the study. The highest percentage comprised of those who reached Bachelor’s degrees with a percentage of 56%. Those with Bachelor’s degrees were 36% of the respondents.

And those with a PhD were 8%. It therefore shows that majority of the respondents in this organizations had bachelors degree as their highest academic qualification. Furthermore the study established that majority of the respondents were in research and development departments, finance and planning departments. This is an indication of high literacy level and thus the information provided was reliable.

C. FDI familiarity

The study also sought to know what various respondents understand by the term foreign direct investment; majority with precision were able to know what it meant. Moreover 100% of the respondents were aware of Chinese foreign direct investment in Kenya such as; buildings and construction, Kasarani sports centre; Thika highway; real estate; hotels.

Majority of the respondents, that is, 92% were of the opinion that dependence on foreign investments will not have negative effect on growth and the distribution of income in Kenya while only 8% felt otherwise. Majority of the respondents had reason to believe that Kenya being a Third World Country does not have enough resources to meet its development goals (e.g. Vision 2030) and thus the need to attract more foreign investment to complement the local investment. In this regard we expect income of Kenyans to grow through increased investments. Furthermore FDI provides a major source of capital which brings with it up-to-date technology contributing to economic growth. Those who agreed that dependence on foreign investments will have negative effect on growth and the distribution of income in Kenya, indicated that dependence on them will cause distortion in incomes and capital will be withdrawn when there are signs of instability economically or politically and Chinese FDI are mainly skewed in the capital city, Nairobi.

D. Reliability Analysis

Reliability of the questionnaire was evaluated through Cronbach’s Alpha which measures the internal consistency. The Alpha measures internal consistency by establishing if certain items measure the same construct. Nunnally (1978) established the Alpha value threshold at 0.6 which the study benchmarked against. Cronbach Alpha was established for every objective in order to determine if each scale (objective) would produce consistent results should the research be done later on. The table below shows that all the scales were significant, having an Alpha above the prescribed threshold of 0.6. When all scales were combined, the Cronbach’s Alpha became 0.764.

<table>
<thead>
<tr>
<th>Scale</th>
<th>Cronbach Alpha</th>
<th>Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Capital Development</td>
<td>0.813</td>
<td>5</td>
</tr>
<tr>
<td>Employment</td>
<td>0.666</td>
<td>5</td>
</tr>
<tr>
<td>Capital supply</td>
<td>0.813</td>
<td>5</td>
</tr>
<tr>
<td>Average (All Scales)</td>
<td>0.764</td>
<td>15</td>
</tr>
</tbody>
</table>

E. Economic Development Due to FDI

1. Human Capital Development

Respondents’ agreement level with statements on the impact of the various projects carried out in Kenya by Chinese companies on human capital development.
The study sought to find out the respondents’ agreement level with statements on the impact of the various projects carried out in Kenya by Chinese companies on human capital development. According to the findings, the respondents agreed that Chinese companies train domestic workers who later transfer skills and knowledge acquired to local firms as shown by a mean of 4.16. This is in line with Blomström and Kokko (2002) who stated that workers already trained by or worked in foreign affiliates may be potentially available to work in domestic firms or start their own firms in the same industry.

The respondents were undecided that FDI by Chinese companies has led to development of quality human capital through diffusion of new technology and ideas as shown by a mean of 3.04. Blomström and Kokko (2002) add that training and human capital development are often more important in service industries because training in service sectors is more directly focused on strengthening the skills and know-how of employees, while training in manufacturing sectors is often to facilitate the introduction of new technologies embodied in machinery and equipment.

The respondents agreed that FDI by Chinese companies has brought transfer of foreign useful skills as shown by a mean of 3.76. Kumar and Pradhan (2002) indicated that FDI usually flows as a bundle of resources, including organizational and managerial skills, marketing know-how and market access through the marketing networks of multinational enterprises (MNEs).

The respondents were undecided that Chinese firms after entering Kenyan market demonstrate their advanced technology and Kenyans afterward adapt or imitate them as shown by a mean of 3.0. New growth theories posit that transfer of technology through FDI in developing countries is especially important because most developing countries lack the necessary infrastructure in terms of an educated population, liberalized markets, economic and social stability that are needed for innovation to promote growth (Bengoa and Sanchez-Robles, 2002).

The respondents agreed that FDI has brought competition, this increase in competition that occurs as a result of Chinese firms entry forces domestic firms to introduce new technology and/or work harder as shown by a mean of 3.64. The preference for export-oriented FDI has led to intensive competition among developing countries seeking to attract such investment and to a convergence among policy and promotional environments of these countries in pursuit of FDI (Wint and Williams, 2002).

Table 2:

<table>
<thead>
<tr>
<th></th>
<th>strongly disagree</th>
<th>disagree</th>
<th>undecided</th>
<th>agree</th>
<th>strongly agree</th>
<th>mean</th>
<th>std</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chinese companies train domestic workers who later transfer skills and knowledge acquired to local firms</td>
<td>0</td>
<td>4</td>
<td>12</td>
<td>48</td>
<td>36</td>
<td>4.16</td>
<td>0.2</td>
</tr>
<tr>
<td>FDI by Chinese companies has led to development of quality human capital through diffusion of new technology and ideas</td>
<td>12</td>
<td>16</td>
<td>20</td>
<td>40</td>
<td>8</td>
<td>3.04</td>
<td>0.4</td>
</tr>
<tr>
<td>FDI by Chinese companies has brought transfer of foreign useful skills</td>
<td>4</td>
<td>4</td>
<td>24</td>
<td>48</td>
<td>20</td>
<td>3.76</td>
<td>0.6</td>
</tr>
<tr>
<td>Chinese firms after entering Kenyan market demonstrate their advanced technology and Kenyans afterward adapt or imitate them</td>
<td>16</td>
<td>20</td>
<td>28</td>
<td>20</td>
<td>16</td>
<td>3</td>
<td>0.1</td>
</tr>
<tr>
<td>FDI has brought competition, this increase in competition that occurs as a result of Chinese firms entry forces domestic firms to introduce new technology and/or work harder</td>
<td>12</td>
<td>8</td>
<td>12</td>
<td>40</td>
<td>28</td>
<td>3.64</td>
<td>0.2</td>
</tr>
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</table>

Table 3:

<table>
<thead>
<tr>
<th></th>
<th>strongly disagree</th>
<th>disagree</th>
<th>undecided</th>
<th>agree</th>
<th>strongly agree</th>
<th>mean</th>
<th>std</th>
</tr>
</thead>
<tbody>
<tr>
<td>FDI by Chinese companies lead to job creation in Kenya</td>
<td>0</td>
<td>4</td>
<td>8</td>
<td>40</td>
<td>48</td>
<td>4.32</td>
<td>0.3</td>
</tr>
<tr>
<td>Chinese companies are discriminative providers of employment because they mainly employ non professionals and only casual labourers</td>
<td>12</td>
<td>12</td>
<td>48</td>
<td>20</td>
<td>8</td>
<td>3</td>
<td>0.1</td>
</tr>
<tr>
<td>Chinese companies have led to very high competition amongst local firms thus leading to their down fall and thus loss of employment</td>
<td>16</td>
<td>16</td>
<td>52</td>
<td>12</td>
<td>4</td>
<td>2.72</td>
<td>0.4</td>
</tr>
<tr>
<td>Chinese FDI has led to exacerbating inter-regional economic and employment disparities as a result of the uneven distribution of FDI in Kenya</td>
<td>24</td>
<td>20</td>
<td>40</td>
<td>12</td>
<td>4</td>
<td>2.52</td>
<td>0.1</td>
</tr>
<tr>
<td>Employment terms and conditions by Chinese companies are favourable</td>
<td>28</td>
<td>32</td>
<td>20</td>
<td>12</td>
<td>8</td>
<td>2.4</td>
<td>0.2</td>
</tr>
</tbody>
</table>
From the findings, the respondents agreed that FDI by Chinese companies lead to job creation in Kenya as shown by a mean of 4.32. Export oriented FDI involves the creation of export processing enclaves for example the Export Processing Zones in Kenya. They normally promise increased capital, employment and foreign exchange for less developed countries (Ishikawa and Horiiuchi, 2012).

The respondents were undecided that Chinese companies are discriminative providers of employment because they mainly employ non-professionals and only casual labourers as shown by a mean of 3.0. The respondents were undecided that Chinese companies have led to very high competition amongst local firms thus leading to their down fall and thus loss of employment as shown by a mean of 2.72. FDI can lead to conflict between private benefits and social benefits, especially if such FDI is protected from competition (Wint and Williams, 2002).

The respondents were undecided that Chinese FDI has led to capital inflows at substantial rates through FDI will reduce the need for borrowing. This will reduce the debt-service ratio, which can be a real drain on heavily indebted countries, such as Kenya.

The respondents were undecided that China’s FDI crowded out national savings, and a reduction in domestic savings could lead to further increase on the dependency on foreign capital, thus leaving Kenya vulnerable and tied up to any requirements that are skewed towards China.

From the findings illustrated in the table above, the respondents agreed that FDI acts as a means of supply of foreign currency thus stabilizing the exchange rate in Kenya as shown by a mean of 3.88. FDI plays a twofold function by contributing to capital accumulation and by increasing total factor productivity (Nath, 2005).

The respondents were undecided that FDI by Chinese companies is likely to be an engine of Kenya’s economic growth, because FDI inflow may lead to manufactured exports thus improving balance of payments as shown by a mean of 3.16. FDI is viewed as a major stimulus to economic growth (see, for example, Walden and Rosenfeld, 1990; Chowdhury and Islam, 1993; Rodan, 1997; Borenstein et al. 1998; Gries, 2002). These authors argue that FDI can have adverse effects on employment, income distribution, and national sovereignty and autonomy.

The respondents were undecided that China’s FDI crowded out national savings, and a reduction in domestic savings could lead to further increase on the dependency on foreign capital, thus leaving Kenya vulnerable and tied up to any requirements that are skewed towards China as shown by a mean of 2.48. FDI is seen not to aid but to undermine the very process of development (Razin et al., 1999). They argue that FDI can have adverse effects on employment, income distribution, and national sovereignty and autonomy.

The respondents were undecided that Kenya does not actively pursue export-led growth strategy thus it is unable to reap enormous benefits from FDI from China companies.

### Table 4:

<table>
<thead>
<tr>
<th>Statement</th>
<th>strongly disagree</th>
<th>disagree</th>
<th>undecided</th>
<th>agree</th>
<th>strongly agree</th>
<th>mean</th>
<th>std</th>
</tr>
</thead>
<tbody>
<tr>
<td>FDI acts as a means of supply of foreign currency thus stabilizing the exchange rate in Kenya</td>
<td>4</td>
<td>8</td>
<td>12</td>
<td>48</td>
<td>28</td>
<td>3.88</td>
<td>0.4</td>
</tr>
<tr>
<td>FDI by Chinese companies is likely to be an engine of Kenya’s economic growth, because FDI inflow may lead to manufactured exports thus improving balance of payments</td>
<td>20</td>
<td>8</td>
<td>20</td>
<td>40</td>
<td>12</td>
<td>3.16</td>
<td>0.1</td>
</tr>
<tr>
<td>Capital inflows at substantial rates through FDI will reduce the need for borrowing. This will reduce the debt-service ratio, which can be a real drain on heavily indebted countries, such as Kenya.</td>
<td>4</td>
<td>8</td>
<td>20</td>
<td>36</td>
<td>32</td>
<td>3.84</td>
<td>0.3</td>
</tr>
<tr>
<td>China’s FDI crowded out national savings, and a reduction in domestic savings could lead to further increase on the dependency on foreign capital, thus leaving Kenya vulnerable and tied up to any requirements that are skewed towards China</td>
<td>20</td>
<td>40</td>
<td>20</td>
<td>12</td>
<td>8</td>
<td>2.48</td>
<td>0.2</td>
</tr>
<tr>
<td>Kenya does not actively pursue export-led growth strategy thus it is unable to reap enormous benefits from FDI from China companies</td>
<td>12</td>
<td>28</td>
<td>40</td>
<td>12</td>
<td>8</td>
<td>2.76</td>
<td>0.1</td>
</tr>
</tbody>
</table>

The respondents were undecided that China’s FDI crowded out national savings, and a reduction in domestic savings could lead to further increase on the dependency on foreign capital, thus leaving Kenya vulnerable and tied up to any requirements that are skewed towards China as shown by a mean of 2.48. FDI is seen not to aid but to undermine the very process of development (Razin et al., 1999). They argue that FDI can have adverse effects on employment, income distribution, and national sovereignty and autonomy.

The respondents were undecided that Kenya does not actively pursue export-led growth strategy thus it is unable to reap enormous benefits from FDI from China companies as shown by a mean of 2.76. Bornschier and Chase-Dunn (1985) claimed that foreign investment creates an industrial structure in which monopoly is predominant, leading to what they describe as “underutilization of productive forces.”

### 3. Impacts of FDI

The respondents listed various positive impacts of the various projects carried out in Kenya by China companies, such as: Growth of infrastructure; Promotes economic growth; Can also generate an inflow of physical and human capital to the host country; FDI...
as a source of technology spillovers; Creation of employment; Supplements the domestic savings and of a nation by bringing in non-debt-creating foreign capital resources; Expanding and/or diversifying the production capacity of Kenya which, in turn, is expected to enhance trade; Access to new technology and skills enhancement; Increased tax revenues to government. The few negative impacts of FDI that were mainly highlighted were …. All the respondents 100% agreed that FDI by Chinese companies in Kenya has a net positive effect on national economic welfare and highlighted various positive impacts as the main reasons.

4. FDI Policy Formulation
The respondents indicated that Government of Kenya should formulate FDI policies that stimulate and create conducive environment for foreign government to invest in Kenya. They government should also ensure there is no duplication and overlap of investment matters on spearheading and over seeing.

F. Pearson Correlation Analysis
Table 5:

<table>
<thead>
<tr>
<th>Economic development due to FDI</th>
<th>human capital development</th>
<th>employment</th>
<th>capital supply</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic development due to FDI</td>
<td>1.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Human capital development</td>
<td>.536</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>Employment</td>
<td>.752</td>
<td>.118</td>
<td>1.000</td>
</tr>
<tr>
<td>Capital supply</td>
<td>.467</td>
<td>.128</td>
<td>.247</td>
</tr>
</tbody>
</table>

Two predictor variables are said to be correlated if their coefficient of correlations is greater than 0.5. In such a situation one of the variables must be dropped from the analysis. As shown in table above, none of the predictor variables had coefficient of correlation between themselves more than 0.5 hence all of them were included in the model. The matrix also indicated high correlation between the response and predictor variables.

G. Strength of the Model
1. Model Summary

<table>
<thead>
<tr>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Change Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>R Square Change</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>F Change</td>
</tr>
<tr>
<td>.918(a)</td>
<td>.843</td>
<td>.805</td>
<td>.51038</td>
<td>.843</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1.242</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>4</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>36</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>.000</td>
</tr>
</tbody>
</table>

Predictors: (Constant), human capital development, employment, and capital supply
Dependent Variable: Economic development due to FDI

Analysis in table above shows that the coefficient of determination (the percentage variation in the dependent variable being explained by the changes in the independent variables) R2 equals 0.843 that is, human capital development, employment and capital supply explain 84.3 percent of economic development due to FDI leaving only 15.7 percent unexplained. The P-value of 0.000 (Less than 0.05) implies that the model of economic development due to FDI is significant at the 5 percent significance.

H. Regression Analysis
1. Coefficients of Regression Equation

<table>
<thead>
<tr>
<th></th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>.260</td>
<td>.460</td>
<td>.565</td>
<td>.231</td>
</tr>
<tr>
<td>human capital development</td>
<td>X1</td>
<td>.131</td>
<td>.048</td>
<td>.254</td>
</tr>
<tr>
<td>employment</td>
<td>X2</td>
<td>.170</td>
<td>.045</td>
<td>-.300</td>
</tr>
<tr>
<td>capital supply</td>
<td>X3</td>
<td>.051</td>
<td>.023</td>
<td>.113</td>
</tr>
</tbody>
</table>

Dependent Variable: Economic development due to FDI

The established multiple linear regression equation becomes:

\[ Y = 0.260 + 0.131X_1 + 0.170X_2 + 0.051X_3 \]

Where,

Constant = 0.260, shows that if human capital development, employment, and capital supply were all rated as zero, Economic development due to FDI rating would be 0.260
VIII. Conclusion

From the data analysis the researcher concludes FDI by Chinese companies has great effect on human capital development; mainly due to training and transfer of foreign useful skills. The study further concludes that FDI by Chinese companies leads to creation of employment in Kenya. Finally the study concludes that FDI by Chinese companies lead to capital supply which lead to economic development in Kenya.

IX. Recommendation

The researcher recommends that Foreign Direct Investments (FDI) by Chinese companies in Kenya should be encouraged and the right investment environment ought to be provided for them as it results to economic growth through human capital development, employment and capital supply. The researcher recommends in-depth research on this topic of the impact of Foreign Direct Investments (FDI) by Chinese companies in Kenya; since the researcher had limited time and resources thus he didn’t go to detail. More so some issues had mixed results and need further clarification.

References


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