



IMPLICATIONS OF THE CHINA'S BELT AND ROAD INITIATIVE ON KENYA'S INVESTMENT PROJECTS AND DEBT LEVELS

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Abstract

The objective of this paper is to analyse the socioeconomic implications of Chinese Belt and Road Initiative (BRI) which comes in the form of enhanced infrastructure development, loans and foreign direct investment. This has led to China becoming the major lender of Kenya's development finance which is mostly lent in commercial rates hence leading to increased debt stress to Kenya with potential for defaulting in the future. It has also led to a lot of infrastructure development including the Standard Gauge Railway from the port of Mombasa to the City of Nairobi among other infrastructure projects. Chinese presence in Kenya has also increased and they are found not only in the energy, transport and infrastructure, agriculture and manufacturing sector but also in the retail sector with the potential of displacing the small-scale local retail traders. Most Chinese projects have also led to deforestation and environmental degradation, and they also do not have any regard to employment and labour laws leading to unease relations between the Chinese and the locals. It is therefore important for the Kenya government to rethink its strategy with the Chinese government regarding debt restructuring, diversifying its sources of development finance and emphasizing the compliance of international environmental and labour laws.

Keywords: Kenya, China, exports, imports, trade balance, BRI, Infrastructure, Debt, FDI, Socioeconomic

INTRODUCTION

A background history of Kenya/China Relations

After Kenya gained independence in 1963, the new political class was more aligned to the capitalist west. That notwithstanding, the China forged ahead to establish relations with Kenya soon after independence was declared. China established diplomatic relations with Kenya, becoming the fourth country to open an embassy in Nairobi in December 1963 (Sun, 2023). Despite initial challenges, including ideological differences within Kenya's leadership, China and Kenya managed to forge a relationship based on mutual respect and shared goals (Business Daily, 2020).

China's support for Kenya included economic and technical cooperation agreements signed in the early years of independence. This relationship has evolved significantly over the decades, with both countries continuing to deepen their ties through various development projects and diplomatic engagements (Sun, 2023).

The first president at the time was more capitalist leaning, his Vice president, a socialist was more inclined to strengthen Kenya's relations with China and the east in general. The attraction of looking east (look East Policy) was more attractive then as it is now because most Chinese projects were Turnkey, i.e. the Chinese would source finance, build, run and transfer knowledge to the Kenyans after a specified period. This would be of benefit since Kenya would bypass the conditionalities that the west would ordinarily impose.

Kenya's Trade with China

Bilateral trade between Kenya and China has been on the rise since 1996 after President Jiang Zemin visited Africa and thereafter the Forum on China-Africa Cooperation (FOCAC) was established through which China aggressively pushed for bilateral trade. This led to an increase in bilateral trade volume from US\$136 million in the year 2000 to US\$600 million in 2006. Since then, China has become one of Kenya's largest trading partners. Kenya's imports from China have been rising compared to its exports to China as shown in Table 1.

Table 1: Kenya's Imports and Exports from China (2010-2023)

Year	Imports Amount in US\$ (billions)	Exports Amount in US\$ (millions)
2010	1.52	31.7
2013	2.12	48.7
2015	3.27	86.1
2016	3.32	99.2
2017	3.78	96.7

2018	3.66	110
2019	3.59	149
2020	3.39	139
2021	4.03	200
2022	3.84	234
2023	3.28	207

Table 1...

Source: <https://tradingeconomics.com/kenya/exports/china>

Trade Balance

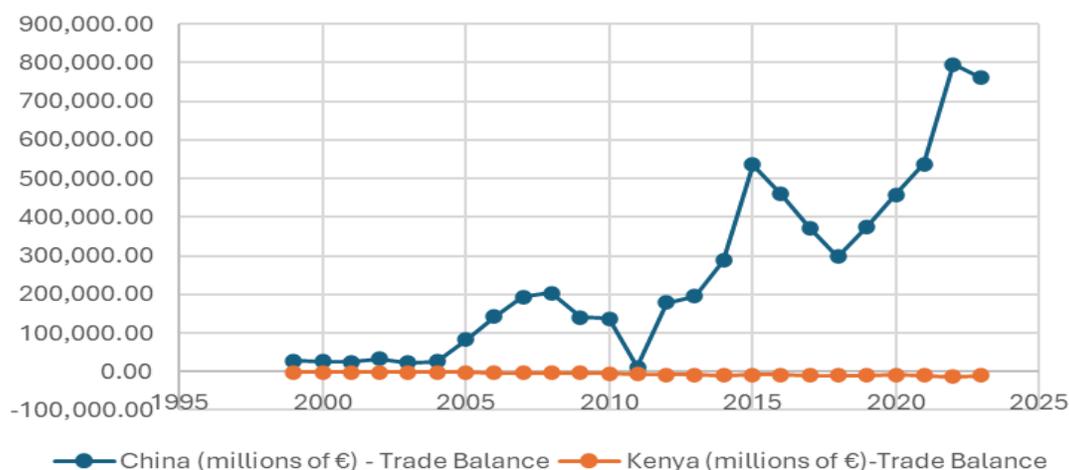
Kenya Exports to China was US\$206.63 Million during 2023, according to the United Nations COMTRADE database on international trade compared to US\$3.28 billion leading to a trade imbalance or trade deficit as shown in Table 2 and in Figure 1.

Table 2: Trade Balance Kenya Vs. China Comparison (€)

Year	China (millions of €)-Surpluses	Kenya (millions of €)-Deficits
1999	27,427.3	-1,018.0
2000	26,103.3	-1,484.4
2001	25,173.1	-1,393.5
2002	32,176.4	-1,193.5
2003	22,514.1	-1,161.7
2004	25,803.5	-1,502.3
2005	81,987.0	-1,950.2
2006	141,380.2	-2,971.7
2007	192,878.5	-3,581.5
2008	202,696.5	-4,165.7
2009	140,299.0	-4,114.2
2010	136,914.1	-5,222.8
2011	11,276.6	-6,484.9
2012	179,256.7	-7,910.0
2013	195,026.7	-7,908.2
2014	288,340.2	-9,244.5
2015	535,288.0	-9,181.5
2016	460,481.5	-7,599.8
2017	371,385.3	-9,683.3
2018	297,160.9	-9,590.6
2019	376,123.8	-10,554.5
2020	458,755.1	-8,230.9
2021	538,268.5	-10,839.8
2022	795,752.7	-13,062.5
2023	761,326.8	-10,541.1

Source: <https://countryeconomy.com/countries/compare/kenya/china?sc=XE87>

Figure 1: Trade Balance between Kenya and China (1999-2023)



In 2021, Kenya exported goods to China worth US\$200 million compared to US\$4.03 billion in imports. This led to a trade deficit for Kenya and a trade surplus for China as shown in Figure 1. This shows that since Kenya and China started trade relations, China has been posting trade surpluses while Kenya has been having trade deficits which have been rising through the years. Otele (2022) found that between 2015 and 2019, Kenya's imported more from China than it exported to that country. Imports from China to Kenya comprised 97% of Kenya's total imports while Kenya exported goods to China worth only 3% of Kenya's total exports. This shows that trade was skewed more towards China's favour. It is important to note that Kenya's imports to China started rising when Kenya started its engagement with China's BRI and more so when it engaged a Chinese company to construct the SGR in 2014 and the Lamu Port South Sudan Ethiopia Transport Corridor (LAPSSET). Most of the imports from China comprise materials used in the construction industry such as electrical equipment and machinery. On the other hand, Kenya's exports to China comprise unprocessed raw materials including agricultural products, soda ash, mineral ore slag among others. This has led to a trade imbalance between Kenya and China with Kenya registering trade deficits in its trade with China.

Intensification of Chinese Presence in Kenya

Since 2020, the Chinese have intensified their presence in Kenya. China argues that its aggressive expansion is taking advantage of a gap that would be best addressed by implementation of the Belt and road initiative (BRI) also known as the One Belt Road or the New Silk road connectivity. This would be a pathway to access natural resources that contribute to the

country's raw materials, whilst building capacity for the locals through their domestic construction companies.

The BRI, launched by China in 2013, is a global infrastructure strategy aimed at investing in over 150 countries and international organizations. It is China's ambitions plan involving a network of ports, roads railways and other infrastructure to connect China to the world (World Bank, 2018). It aims to enhance global trade and stimulate economic growth across Asia and beyond by developing trade routes reminiscent of the ancient Silk Road (McBride, Berman and Chatzky, 2023; Lema, 2023). It includes different types of infrastructure projects, including railways, highways, ports, and energy projects, spanning over 140 countries. The BRI has foreign direct investments that exceed US\$1trillion, and this has significantly expanded China's economic and political influence in Kenya and in Africa as well.

Kenya's Foreign Direct Investment (FDI) Inflows and Origin

China has also become Kenya's number one country of contracted project companies especially in the construction of infrastructure projects such as the Thika superhighway, Nairobi express way, Standard Gauge Railway, dams, energy projects, real estate among others. In 2016, a large share of FDI came from China, allowing Kenya to diversify its sources of FDI and increase investment in manufacturing (Sanghi and Johnson, 2016). According to MERICS, China's Ministry of Foreign Affairs, COMTRADE, SIPRI, AEI China Global Investment Tracker, China had US\$840 million in FDI in Kenya between 2013 and 2021. Table 3 shows annual FDI flows to Kenya and the annual FDI inflows that come from China.

Table 3: Kenya Foreign Direct Investment – 2013-2023 & Annual Flows of FDI from China to Kenya 2013-2023 (US\$)

Year	Kenya Foreign Direct Investment – 2013-2023 Inflows (US\$)	Annual Flows of FDI from China to Kenya 2013-2023 (US\$)
2023	\$1.50B	191.78M
2022	\$0.39B	-322.84m
2021	\$0.46B	348.22m
2020	\$0.43B	629.62m
2019	\$0.47B	10.04m
2018	\$0.77B	232.04m
2017	\$1.35B	410.1m
2016	\$0.47B	29.67m
2015	\$0.62B	281.81m
2014	\$0.82B	278.39m
2013	\$1.12B	230.54m

Source: Macrotrends LLC 2010-2024 & Statista 2024

Table 3 shows that Kenya's FDI inflows have been declining since 2013 but picked up in 2023. However, Chinese FDI inflows to Kenya have been fluctuating and were even in the negative in 2022 which was an election year but picked up again in 2023 when a new government was put in place.

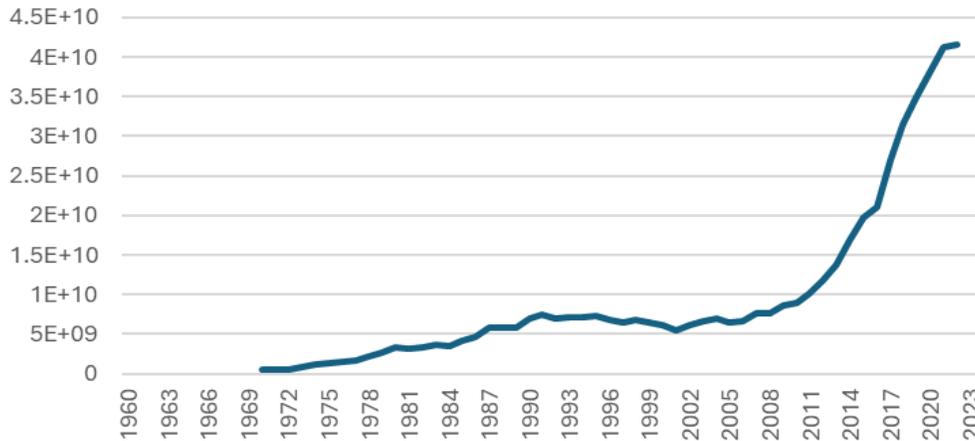
Chinese Funded Infrastructure Projects in Kenya

Between 2005 and 2022, there were 313 Chinese investment projects in Kenya valued at US\$1.55 billion which was way above the United States of America's investments in Kenya, which stood at USD 353 million in 2019. According to Sanghi & Johnson (2016), China offers important financing in sectors such as infrastructure and construction that traditional investors generally ignore. China's loans compete with loans from traditional donors that attach conditions of good governance and transparency. Investment projects financed by Chinese lenders in Kenya include US\$867 million for 26 geothermal wells at Olkaria, US\$229 million for the Karimenu Dam Water Supply Project, US\$156 million for the Nairobi southern bypass highway, and US\$5.1 billion for two phases of the Standard Gauge Railway (SGR) between Mombasa and Nairobi. According to the authors, in 2012 the three km stretch of road between the Kenya Wildlife Services (KWS) gate and junction of Bomas of Kenya/ Ongata Rongai was built by China's WU Yi co at a cost of \$27.1million equivalent to Ksh.2.67billion. A further US\$467million had been borrowed to facilitate the construction of 3 berths in Lamu port, Eldoret Special Economic Zone, (industrial park), Eldoret, and Thwake Multipurpose Dam, Ngosini East in Kitui. Chinese construction companies are also involved in the real estate sector and have been in the limelight in the construction of "affordable housing" touted by the President Ruto

Kenya's Public Debt

Kenya's public debt comprises of external (bilateral, multilateral, commercial) and domestic debt. For a long time, Kenya's external debt was mainly concessional but of late there has been a steady increase in commercial credit especially between the year 2000 and 2006. Between 2006 and 2011, there was a significant decrease in commercial credit, but this did not last for long as borrowing from commercial creditors picked up again in 2014 increasing by 298% between 2013 and 2014 when borrowing from commercial creditors increased from Ksh.50billion to Ksh.1.4 trillion in 2023 (Kenyan National Bureau of Statistics (KNBS), 2024). The data also shows that between 2021 and 2023, Kenya's external debt represented on average, 50% of total public debt. Figure 2 shows Kenya's external debt between 1970 and 2022.

Figure 2: Kenya's External Debt (US\$)-1970-2022
 Kenya KEN External debt stocks, total , current
 US\$-1970-2022



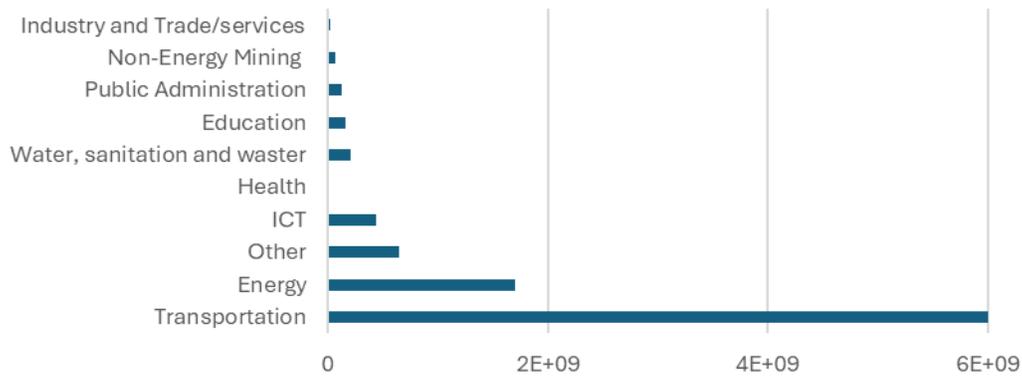
The BRI initiative has also faced criticism for creating debt burdens for participating countries and for its lack of transparency (McBride, Berman and Chatzky, 2023). China has also been the number one of countries providing concessional loans to Kenya and until recently, the number one bilateral lender. Chinese trade and investment growth in Kenya is also reflected rise of China as the main bilateral creditor to Kenya during this period. The data shows that China is the biggest bilateral lender to Kenya with the loans of Ksh.880billions accounting for almost 70% of Kenya's overall bilateral debt. The amount of Chinese loans to Kenya in 2023 was US\$9.6b and the number of loans was 48. In 2022, Kenya's debt to China was US\$6.69 amounting to 19% of total external debt stock. The loans mainly targeted the transportation sector, energy, ICT among others as shown in Table 4 and in Figure 3.

Table 4: Development Finance- Chinese Loans to Kenya-2000-2023 by Sector

Sector	Amount of Loan (US\$)	Number of Loans
Transportation	6.0b	11
Energy	1.7b	16
Other	650 m	5
ICT	434.5m	6
Health	205.4 m	3
Water, sanitation and waster	200.5 m	1
Education	164.2 m	2
Public Administration	125.9 m	2
Non-Energy Mining	65.1 m	1
Industry and Trade/services	16.7 m	1
Total	9.6b	48

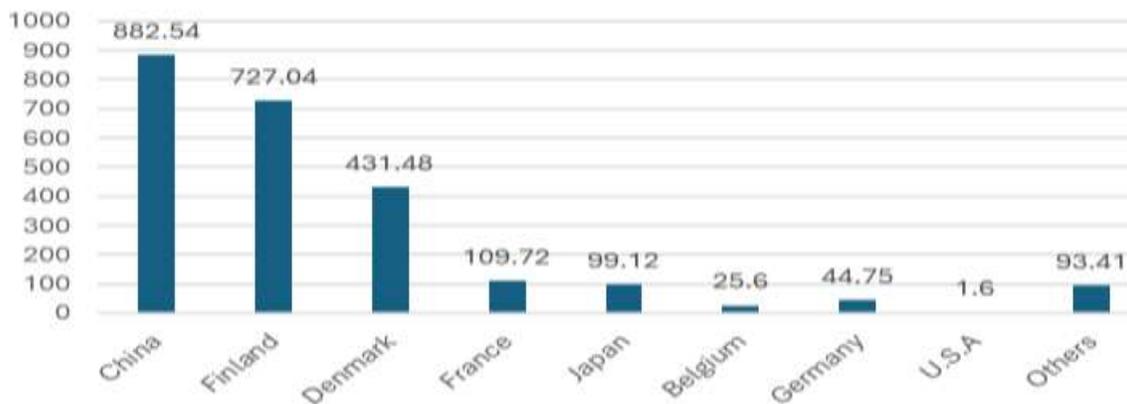
Source: <https://www.bu.edu/gdp/chinese-loans-to-africa-database/>

Figure 3: Chinese Loans to Kenya-2000-2023 by Sector (in USD millions)



In March 2023, Chinese loans to Kenya accounted for about 64% of Kenya’s bilateral external debt and approximately 17% of total external public debt. By June 2023, Chinese loans to Kenya accounted for 70.2% of the total external debt which amounted to Ksh.88.2 billion as shown in Figure 4.

Figure 4: Lending Country and Loan Amount in Ksh. Billion



According to Otele (2022), China’s increased presence meant that Kenya was able to diversify its external sources of development assistance. By late 2018, Chinese loans in Kenya stood at US\$4.75 billion. It is important to note that Kenyan policy makers tend to perceive Chinese development assistance as free from onerous conditions and more so China’s general indifference toward Kenya’s domestic politics. This makes China the favourite compared to Western aid, which is often pegged to good governance.

Socio-economic Implications of Chinese BRI and Debt in Kenya

According to the Centre for Democracy and Socio-economic development (CDS) (2024) Chinese loans usually come from state owned institutions including the Export Import Bank

(EXIM) bank of China as well as the China Development Bank. These banks are connected to the companies carrying out the development projects.

Overreliance on China as the main lender in bilateral external borrowing means that Kenya does not have a diversified basket of lenders from whom it can borrow development funds from.

The fact that a big proportion of Chinese loans to Kenya are commercial with fluctuating interest rates raises and long repayment concerns about default in the future and future economic stability.

The unfavourable trade deficit that has characterised Kenya's trade relations with China could have negative implications for the BRI's future in Kenya.

Chinese traders have also penetrated the small-scale retail sector and in the process squeezing out Kenya's small-scale traders. This is because the Chinese traders are able to import the same products from China at cheap prices and then come to Kenya and sell the items at prices that Kenyan retail traders cannot compete with.

China's involvement in Kenya's mega infrastructure projects has caused security concerns due to local frustrations over limited job opportunities. During the construction of the SGR, there were security issues, including local attacks and terrorist threats. To address this, China set up security services, trained an elite Kenyan police division, and partnered with private security firms and the Kenyan Police Service. The presence of Chinese security firms has increased Kenyan citizens' perception of insecurity and reduced trust in the police. A 2021 Afrobarometer survey showed crime and security were top concerns, with declining trust in the police. China's growing interest in Kenya's security sector has sparked reactions from the West, with the U.S. expressing concerns over potential Chinese military bases in Kenya.

Chinese-funded development has led to social and environmental costs like deforestation, pollution, and displacement of locals. This highlights the need for a strategy balancing economic growth and environmental sustainability. Despite aiding expansion, Chinese loans have caused significant debt issues and Kenya is struggling to repay its debts to China, mainly for the Standard Gauge Railway (SGR). The controversy over the SGR loans has affected Kenya's economic stability.

China is now a preferred development funding partner for many African countries Kenya included. However, rising debt and dependence on Chinese creditors raise concerns about Kenya's sovereignty and its economic stability. China's debt relief policy, seen as less flexible than Western creditors, involves restructuring and negotiations rather than full forgiveness. Nevertheless, China has occasionally offered debt forgiveness and supported the G20's Debt

Service Suspension Initiative (DSSI) during COVID-19, allowing temporary debt payment delays, though complete debt relief was not provided.

China has shown willingness to adjust loan terms to help debtor countries. As Africa faces debt and development challenges, calls for fair, sustainable policies and transparent financial transactions are increasing. Suggestions include equitable debt relief, diverse partnerships beyond China, and better financial management. Strengthening international cooperation and best practices in lending can ensure Kenya's resilient growth. The recent Forum on China-Africa Cooperation (Focac) summit highlighted China's growing influence, with \$50.7 billion in funding for infrastructure and green energy. Despite concerns over debt and environmental impact, Kenya values China's significant financial support.

China's lending has spurred growth and infrastructure development in Kenya but also led to increased debt and economic strain. Kenya's economic future will be shaped by the broader impacts of debt diplomacy and international cooperation.

CONCLUSION & RECOMMENDATIONS

Kenya's rising national debt, especially external debt, presents several challenges. Effective debt management is crucial for sustainable growth and avoiding financial crises. The government should consider debt restructuring, better revenue collection, and fiscal discipline. The reliance on external borrowing, particularly from China, also raises geopolitical concerns and the need for balanced foreign relations. Based on the above, the study makes following recommendations:

1. **Debt Sustainability Strategy:** Kenya should develop a robust medium- to long-term debt sustainability strategy that emphasizes concessional borrowing, careful project selection, and tighter borrowing controls. Loan agreements must prioritize transparency, effective terms, and project feasibility.
2. **Diversification of Development Finance:** Kenya needs to explore a broader mix of bilateral and multilateral lenders. This includes enhancing cooperation with traditional donors (e.g., World Bank, AfDB), South-South cooperation frameworks, and private sector PPPs to reduce overreliance on Chinese commercial credit.
3. **Recalibration of Trade Relations:** Kenya should negotiate for greater access to Chinese markets for its processed agricultural and industrial products. Bilateral agreements should address trade imbalances through tariff concessions, export promotion strategies, and investment in value-added sectors.
4. **Strengthening Institutional and Regulatory Frameworks:** Regulatory oversight over Chinese-funded projects must be strengthened. This includes ensuring compliance with

Kenya's labour, environmental, and procurement laws. The National Environment Management Authority (NEMA) and other watchdog agencies must be empowered to enforce laws and mitigate deforestation, displacement, and pollution caused by BRI-related projects.

5. **Technology and Skills Transfer:** Agreements with Chinese firms should mandate local content policies, skills transfer programs, and long-term capacity building for Kenyan workers and institutions to reduce dependence on foreign technical labour.
6. **Inclusive and Transparent Project Governance:** Ensure that public consultation, stakeholder engagement, and independent assessments become standard in project initiation. This would enhance accountability and reduce the risks of public opposition and mismanagement.
7. **Geopolitical and Strategic Balancing:** Kenya must adopt a non-aligned, pragmatic foreign policy approach that maximizes benefits from China while maintaining strong ties with traditional Western partners and regional blocs. This strategic diversification mitigates risk and enhances Kenya's global bargaining power.

AREAS FOR FURTHER RESEARCH

1. **Comparative Debt Analysis:** Future studies should compare the macroeconomic impacts of Chinese debt versus traditional creditor debt on Kenya's fiscal health, infrastructure quality, and long-term development outcomes.
2. **BRI's Sectoral Impacts:** In-depth case studies on how BRI-funded projects have affected sectors like agriculture, manufacturing, and urban real estate would offer granular insights into the real costs and benefits.
3. **Labour Market Dynamics:** Research on the employment implications of Chinese involvement in Kenyan construction and retail sectors—particularly effects on youth and informal workers—would help inform policy interventions.
4. **Environmental Governance:** An evaluation of the environmental degradation linked to BRI projects and the effectiveness of mitigation mechanisms could support reforms in green infrastructure policy.
5. **Debt Diplomacy and Sovereignty:** There is need for political economy research into the long-term sovereignty implications of debt diplomacy and how African countries can leverage debt negotiations without compromising autonomy.
6. **Public Perception and Social Impact:** Longitudinal surveys assessing local attitudes towards Chinese presence and BRI projects will help policymakers understand societal

acceptance or resistance and adjust communication and engagement strategies accordingly.

7. **Alternative Infrastructure Models:** Kenya should invest in studying alternative infrastructure financing models, including green bonds, blended finance, and regional development funds that could offer more sustainable approaches than reliance on bilateral debt.

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