Impact of China's Monetary Aid on Kenya's Public Debt Stock

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Abstract: **The purpose of the study was to examine the impact of China's Monetary Aid on Public Debt. The key literature reviewed from various sources showed that a number of China's monetary aid in form of concessional loans, grants and interest free loans had great impact on the public debt many Sub-Saharan African countries, Kenya being the classic example under study. Realism theory was used to theoretically analyse the study in the behaviour of China's aid to Kenya as largely self-seeking. The study adopted an exploratory research design. The target population was limited to two Kenyan government ministries, IR scholars and economic experts and the embassy of the Peoples' Republic of China in Kenya, the total population under study was 700. This study applied purposive sampling technique in selecting a sample size of 70 respondents. Documents, questionnaires and interviews were used to collect data. The study found that monetary aid from China as concessional loans, grants and interest free loans have direct positive impact on the Kenya's public debt to a large extent when measuring it through the real GDP growth. The study findings established that China's aid in form of concessional loans do not only come with a tag of 'zero-or-no interest loans but also are attractive for their non-conditionality to the recipient countries hence preferred to those others from OECD-DAC which have constant regulations. The study recommended that the government of Kenya to reduce its external borrowing and embrace savings, external debts require consistence debt servicing unlike debts from domestic borrowing. The study further recommended that Kenya should reconsider its competitive advantage in manufacturing, sisal, tea, leather and coffee exports to the Chinese mainstream economy so as to meet the aspect of fair and balance of trade. An area for further study would be on the Debt-Trap Diplomacy claims associated with China aid policies to Sub-Saharan African countries.**

Key Words: **Public Debt, External Debt, Domestic Debt, Foreign Aid, Concessional Loans, Grants, Gross Domestic Product.**

I. INTRODUCTION

China is an influential and key player in Sub-Saharan Africa's economic growth and creditor. Beijing has increasingly become the source of aid and financial assistance to many Sub-Saharan African regimes, specifically in funding developmental and infrastructural projects in the region with natural resources, these countries double as of geographical strategic significance for China. The Africa Development Bank survey (2011) indicated that, China went ahead of the US as Sub-Saharan Africa's number one trading ally by the end of 2009. Beijing's journey of becoming incumbently an influential player in Sub-Saharan Africa which can be tracked back to the 1970s. (AfDB, 2011). The exercise of aid support has totally been controlled by the industrialised nations of the West such as the US, UK and European Countries subsequently the 1950s through a blend of bilateral and multilateral covenants. With economic aid mainly being, controlled by the IMF, the World Bank and the United Nations (UN) establishments. Under the guidance of the Organization for Economic Cooperation and Development (OECD), growth aid has changed from the '*one-size fits all*' SAPs of the 1980s and early 1990s based on the Washington Consensus, towards a communal sector approach, which identifies the diverse growth pathways can lead to the anticipated result (Babb, 2012; Clift & Tomlinson, 2012).

According to McCormick and Morris (2007), to harvest the gain of these capitals, internationally recognized and evolving industrialized for example Brazil, India, China, UK, the US, and France remain steadfast in contending for power in the continent. China leading in building associations with Sub-Saharan African nations. From the recent years, the influence of China has amplified evidently in Africa. Beijing has been presented as Sub-Saharan Africa's major bilateral partner. Kaplinsky, McCormick and Morris (2007. That according to assessments, there are about 800 companies from PR China in Africa were bankrolling and investing in infrastructure, banking and energy areas. AGOA (2003). The first FOCAC conference was held in the year 2000 with the most current one held in Beijing. The intensification of China, as a supplier of development investment, has been stimulating the OECD domination on development aid, and has led to assertions from Western intellectuals and legislators that China may be performing neo-colonialism, thus taking gain of the African continent's rich natural resources. (Kragelund, 2012).

The Sixth Forum on Sino-Africa Collaboration in 2015, the Chinese President Xi Jinping covenanted a further USD 60 billion subsidizing to the African continent. China has been seen to replace conventional western financiers as the continent's highest creditor, amounting for 14% of the region's total debts. (Corkin,2012). This change was knowledgeable by both an emphasis on infrastructural expansion growth by some Sub-Saharan governments and Chinese readiness to lend to the continent is wanting.

The chief purpose of the study was to examine the Impact of China's Monetary Aid on Kenya's Public Debt Stock by looking at Kenya's prospects for economic growth. (Onjalla, 2018). Kenya is viewed as one of the major receivers of China's growth aid henceforth foremost to an upsurge in bilateral collaboration between the two countries. To ease this increasing bilateral association, Kenya is now home to the largest Chinese embassy in Africa, in footings of extent and the number of workforce (Onjalla, 2008). Kenya has enthusiastically received China's monetary aid since it is watched as a remedy to the unsuccessful aid prescriptions of the early western aid contributors. ((Kragelund, 2012).

Theoretical Framework

The theoretical background pulls from theories stemming from the two schools of thought AS Realism and Liberalism

These two theories are used to explain philosophies and how convenient they are for clarifying states' conduct in the international relations. (Garner, 2013). Liberalism, visions the international relations as fundamentally peaceful and cooperative, as an outcome of interactions. Liberalists vision the international system as manageable over and done with the advent of governments, demonstrated in international monitoring and governing bodies, such as the United Nations. (Moravcsik, 1997). From the Liberal point of view, diversities of players act correspondingly significant tasks in the international system and results in global matters are not solely power being the determinant among states, but additional issues also show a part. In International Relations, Liberalism stresses ethics in universal matters as a system to safeguard collaboration and avert anarchy. (Halper, 2010).

China's association with Sub-Saharan Africa can be best described from a pragmatist viewpoint in Global Affairs, subsequently the realism philosophy that best appropriately elucidates China's radical bearing to Sub-Saharan Africa and since the viewpoint of Global Political Economy (GPE), the philosophy of Economic Autonomy or Nationalism is best appropriate for the enlightenment and thoughtful of the political economy of China's contribution in Africa. (Mwega, 2011). Liberalism as a theory falls short in merit test to be used in the overall analysis of the study. The behaviour of individual States in this case China basically operates on bilateral agreements with Sub-Saharan African countries on matters of aid which misses the advocacy being promoted by liberalism which advocates for multilateral approach by use of multinational institutions such as the UN, for the case of China and Kenya economic cooperation, China applies its bilateral approach without involving any other multinational organizations for offer aid. Hence this makes liberalism insufficient in the application for the study when analysing the tenets of China's approach to Africa.

Foreign aid as kind of concessional loans or as development loans have been China's aid model to Sub-Saharan Africa, the concessional aid is majorly used in support of the production projects which comes with various economic gains. The large-scale infrastructure such as construction, providing large quantity of electrical and mechanical appliances to the aid-recipient Sub-Saharan Africa countries. (Xu and Carey, 2015). China's Ministry for Commerce and Trade controls all foreign aid and grants. It charges zero-or- low-interest for the loans offered. Consequently, China's Eximbank manages all the concessional credits. The government of China charges grants and interest free loans to their foreign aid budget, same as their interest rate subsidy for the concessional loans from China's Eximbank. Realism was the most appropriate theory in evaluating China's aid and policy behaviour towards Kenya's Public Debt Stock for instance, the realist concept of self-regard and extra cynicism to aid one to appreciate why China's foreign strategies being pronounced as "largely self-serving and often insensitive" however, the China- Kenya Policy contests some of the Realists' central patterns, such as the unbending argument that states continuously address military security overhead economic security.

Realist theory is based upon the idea that human nature is inherently bad and selfish, the international system is anarchic, and the state is the most important actor in international affairs. Basing policy decisions on human nature, the state looks to maximize its power and security within its geographic location. Realist theory sees all conflict deriving from power struggle between states, though it is not about fostering wars; rather the opposite. The absence of no central system of collective security like the UN, realism assumes that due to the security dilemma, conflict is inevitable, realism fails to promote cooperative activities among states and international organizations. The criticism on the theory is that there is an absence of trade cooperation between states as the theory promotes the 'global South and North dependency, therefore, realism was the most appropriate theory as it supports strong propositions of the nature of China as being State-centric, where states are the most important actors, egoism, that all states within the international system pursue narrow self-interests and that power politics is the primary concern of all states is power and security, this is the strength that realism tried to mitigate in liberalism theory which drifts away from state-centric approach as pursued by China in Africa, in this study economic power is key.

Foreign Aid

China's definition of "foreign aid" (*duiwai yuanzhu*) is totally different from the "official development assistance" (ODA) definitions. To fully understand the differences is hindered by limited knowledge and transparency on Chinese official aid programs (Bräutigam, 2011). From the onset of 1973, OECD-DAC has systematically been able to define ODA for its 25 member states. DAC-ODA. (Bräutigam, 2011). China's foreign aid identifies three major different forms of external aid such as: grants, interest-free loans and concessional loans. (State Council, 2014). As per the Ministry of Commerce (MOFCOM), the first department-based regulations in the proper management and inspection of foreign aid: (MOFCOM, 2014) "Non reimbursable aid is majorly used for the aid needs of recipient countries in terms of livelihood, poverty reduction, humanitarian assistance, social welfare and public servicers.

The zero-Interest free loans are majorly used for the aid requirements of the aid recipients in areas such as industrial, agricultural sector and public infrastructure. In totality, this accounts to Beijing's "conventional aid program" which agrees more or less with the DAC-ODA regulations and meaning. Given the edge of external aid assistance to economies of developing countries in Sub-Saharan Africa, it is important to understand that its assistance directed into the economic development of developing economies. (Xu and Carey, 2015). Thus, this study analysed the impact or influence of foreign aid on the growth of economies of developing countries in Sub-Saharan Africa. The impacts were analysed using panel-data series for external aid assistance while taking an account for the geographical differences in African, Asia, Caribbean and Latin American, looking at differences in their respective income capabilities. (OECD-DAC, 2018).

The major aim of external assistance is to stimulate the economic development of developing economies and to for supplementing domestic revenue sources of monetary such as savings. Hence, leading to an increase on the number of capital stocks and investments. According to Morrissey (2001) argument that, there are several numbers of mechanisms through which foreign aid can promote the economic development, such as; aid leads to increased investment capacity, leads to physical and human capital growth; aid leads to increased importation of technology, capital goods, foreign assistance which do not have any indirect impact which can reduce saving rates or investment. And this kind of foreign aid is majorly attributed to the technological transferring of data which in turn yields to productivity of capital hence promoting endogenous technical-based changes. (Morrissey, 2001).

Public Debt

According to Makau, (2008), Public Debt can refer to the sum total on a country's debts which be from external debt or domestic debts. These debts usually cover on how the government spends on public spending and how much is financed and borrowed taking the place of domestic tax collection (Makau, 2008). Domestic debt can be termed as one of many avenues of financing the operations of any government. Even when this is not the only form of financing the operations of any government, the latter can also create their financial base to monetize the accrued debts that by doing away with the aspect of paying the accrued interest rates. (Martin, 2009). Consequently, the premise can lead to a reduction in governmental interest expenses and costs and not truly to cancel the government debts and this can create a monetary inflation that occurs at very high rates in form of hyperinflation when applied separately.

The Public debt which can be created from various premises that includes Bonds, Treasury Bills, overdraft from Central Bank also the borrowing from local commercial banks. According to Klein (1996) and Ariyo (2006) they indicated fundamental cases that can lead to the rise public debt such as over- reliance on foreign aid assistance so as to complement the domestic capital formation of a country's economic growth. Therefore, in order to survive best in the long run with the servicing of key essentials, an economy's public debt service capacity must go higher at rates above the financial risk exposure of its own. Last but not least, non-debt assets richly represent finances flow in absence of a compulsory or a fixed obligation on the latter's governmental operations and existence. The degree or magnitude of regularity on the aforementioned assets depends on the foreign investors' perspective on the investment atmosphere in the country receiving aid. (Matiti, 2013).

China's Aid Funded Projects in Kenya

The CBK Report (2015) indicated that, Kenya has so far been at the receiving China's monetary aid in from of concessional loans and grants to spur economic growth of several infrastructure projects such as roads, bridges, underpasses and express way constructions since the onset of 2006. Notably the Standard Gauge Railway (SGR) construction and connection under President Uhuru Kenyatta's regime. President Kibaki's regime saw the signing of a grant worth Kshs. 510 million under the known economic and technical cooperation pact. The Chinese government onwards extended grants and concessional loans to the Kenyan governments under the agreement of economic and technological cooperation which included the Eastern and Northern Bypass Road development projects for KSh 2.16 billion and KSh 8.6 billion respectively. (CBK, 2015). Several other infrastructures such as road connectivity and construction cooperation were signed by President Kibaki in 2006 which included the famous Thika Super-highway, underpasses and flyovers.

The road work constructions comprised of 8-lane motorway and flyovers and the underpass designed to decongest the traffic of Nairobi Central Business District (CBD) (CBK, 2015). Beijing announced China-Africa industrial development cooperation in the year 2015, making Kenya one of the pilot countries in Sub-Saharan Africa and more specifically in East Africa Region. The Chinese President Xi Jinping fronted ten main cooperation plans on development for the years 2016 to 2019. The first three of which covered agricultural modernization, infrastructure and industrialization. This plan for cooperation was on promotion by a several political and financial commitment by China. This initiative demonstrated China's unending interest to invest in Kenya. Though Kenya's goal has also been to have sustainable economic and development growth. For the above reason, Nairobi's overarching vision for 2030 is intended to make Kenya internationally competitive and to lead as a prosperous economy in the region and beyond with high quality of life for its citizens. (CBK, 2015).

Studies have indicated that there are more than 70 large Chinese-affiliated firms doing business in Kenya, the largest among them is the Jiangsu International Economic and Technological Cooperation Company, followed by China's Road and Bridge Construction Corporation, and then China's Export and Import Group. Thus, the overall adverse influence of China's cooperation for trade is quite alarming. In 2018 March, the Washington-based Centre for Global Development identified Kenya as one of the three Sub-Saharan African countries at risk of debt crisis as a result of its Belt and Road program. (WCGD, 2018). China's increased involvement in Kenya has created heated discourse among the economists not only from Kenya but also globally on whether the Belt and the Road initiative will substantially spur visible development growth. Therefore, the debt levels are of most concern and has made many scholars sceptical as the public debt surpasses USD50 billion, rendering Kenya as the 5th highly-indebted country in the Sub-Saharan Africa. (WCGD, 2018).

Statement of the Problem

The African Development Bank data, (2019) indicates that Sub-Saharan Africa's rising public debt has brought about a repeated global discussion about debt sustainability of the Sub-Saharan African countries. (AfDB, 2019). Although Africa's debt crisis is nothing new, studies have indicated that the recent ballooning of public debt of most African countries is visible in the appearance of Beijing as the main creditor to Sub-Saharan African's economic infrastructure development. China's aid has become very attractive to many countries in Sub-Saharan Africa despite having other aid donors from the western countries or the OECD-DAC. The study intended to find out why China's loans are mostly preferred by many Sub-Saharan African countries and whether the non-conditionality attached to the loans have anything to do with the growth in public debt or economic growth. The zero-or-no interest rate loans, non-political involvement by China was also variables to be measured to determine on why China lends so much to Africa yet the ballooning of public debt.

Aim of the Study

To Evaluate the Impact of China's Monetary Aid on Kenya's Public Debt.

Research Question

i. What is the Impact of China's Monetary Aid on Kenya's Public Debt Stock?

Specific Objective

i. To Evaluate the Impact of China's Monetary Aid on Kenya's Public Debt Stock

II. RESEARCH METHODS

The study employed an exploratory research design. This design is used in studies or research problems that are unfamiliar and where there is scanty information to rely upon so as to predict an outcome. An exploratory design is the best convenient and most suitable research strategy for those inquiries that are tackling a topic which there are great stages of vagueness and unawareness with regard to the topic, and if the research problem is not clearly established, that is very petite knowledge presents research on the topic area. (Mugenda O, & Mugenda A, 2003). Therefore, the study examined the impact of China's aid on Kenya's public debt stock index. The Nairobi Metropolitan formed the area of study. The site was selected because it hosts the specific study locations; the MFA (Ministry of Foreign Affairs), the Ministry Industrialization, Trade and Cooperatives (State Department of Industrialization and State Department for Trade- Buy Kenya Policy), IR scholars, Economic experts and China's embassy in Nairobi.

In the process of data collection, the study administered e-questionnaires and hard copy questionnaires. In an exploratory design, a sample size that lies between the ranges of 10-50% a target population is suitable (Mugenda & Mugenda, 2013). According to Mugenda A & Mugenda O (2003), specifies that a sample size of 10% is adequate so long as it permits for consistent data analysis and permits analysis for importance of variances between approximations. Consequently, a sample of 70 respondents which is 10% of 700 was favoured using purposive sampling. (Mugenda A, & Mugenda O, (2003). The returning rate of the issued questionnaires was 64 out of 70. The response rate recorded was 91.4%. A sample determination of 50 per cent response rate responsively adequate to analyse and reporting of the sample size. (Mugenda & Mugenda, 2009). The study intended to find out whether the respondents' age had any impact on determining the impact of aid from China's has on Kenya' public debt. About 63% of the respondents were male while 37% of the respondents were female.

The simple random sampling technique was used in selecting both post-graduate students from the IDIS of the University of Nairobi and post-graduate from IRCSS of Kenyatta University for piloting of the study. This was for the simple reason that the aforementioned were used in strengthening the instruments of data collection before the actual study. Purposive sampling technique was also used in selecting respondents from the mapped study locations. This was for the simple reason that theses respondents had first-hand knowledge and skills required for the study. They contained relevant information for the study. Items in the questionnaire were organised in a logical arrangement bestowing to the themes being deliberated and items that will produce comparable answers being grouped together.

The questionnaires allowed the study obtain more information as the respondents fill in the responses in discretion and confidence that their details or the content of the research instrument will not be breached. The closed-ended queries were used since they were easy to examine as they were in an instant operational form, are effective to administer and they are inexpensive to use in with regard to money and time (Mugenda & Mugenda, 2003). The researcher conducted interviews with 10 key informants who were selected based on their technical and positional abilities in their respective organizations to provide factual and in-depth information on the research topic. The interviews were semi-structured, with the interviewer having a list of key questions as a guide to the discussion in line with objectives of the study. Therefore, the scope that the questionnaires highly contributed to other quantitative data from the primary sources, as the information is fast-hand and original hence passes through the lenses of authenticity, reliability and validity.

The process of analysing data began at the field so as to avoid any loss of important data. The analysis of secondary data was also created in order of the data collected. The collected data was tabularized and categorised according to their shared features. Secondary data were acquired from an assortment and review of unpublished and published materials, academic papers, periodicals, and journals. (Saunders, Lewis & Thornbill, 2009). The qualitative data underwent a critical textual-analysis and proper interpretations to the test for relevance and accuracy for application. Analysed data was further presented in form of a narrative with first-hand quotation from quantitative data by used of regression model and time series model of analysing China's monetary aid on public debt by focusing the study on economic performance indicators such as real GDP.

III. RESULTS AND DISCUSSION

Background of Respondents

High number of respondents to the study were from the Ministry of Foreign Affairs, Ministry of Trade, Industry and Cooperatives, Chinese Embassy, selected IR scholars and economic experts. An equal number of 25 questionnaires were distributed to each ministry and to the selected experts. The returning rate of the issued questionnaires was 64 out of 70. The response rate recorded was 91.4%. 10 key informants' interviews were conducted with officials from the ministry of Foreign Affairs, Ministry of Trade, IR scholars and economic experts. No one-one interviews were carried out with the Chinese officials as planned, they were not forthcoming. Majority of respondents in terms of gender were 40 (63%) were male while 24 (37%) of the respondents were female.

Most of the respondents 30 (21-30) years old. Majority 38 (54.3%) were respondents with work experience of 0-5 years. The majority of the respondents with 47 (72.9%) agreed that the China aid had a very great impact on Kenya debt situation. Only 17 (27.1%) of the respondent thought that China's aid had no relationship or did not have any impact on Kenya's public debt situation. The background of respondents indicates that they covered a variety of characteristics of officials in ministries and expert premise.

China's Monetary Aid on Kenya's Public Debt

The first study objective was to examine the impact of China's monetary aid on Kenya's public debt. The respondents were asked the nature of aid China offers Kenya such as concessional loans, grants and interest free loans, at what amounts and frequency, then the direct or long term impact the aforementioned has on public debt and the effect of long-term borrowing. Majority of the respondents with 72.9% agreed that the China aid had a very great impact on Kenya debt situation. Only 27.1% of the respondent thought that China's aid had no relationship or did not have any impact on Kenya's public debt situation.

The question sought to establish the respondents' views on China's aid on Kenya's Public Debt Stock.

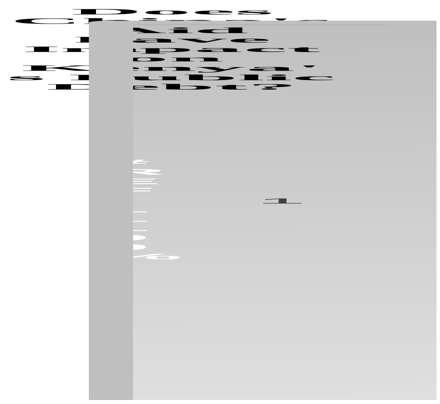

Fig. 1 Response Rate on Impact of China's aid on public debt

Source: Research Data (2021)

Trend analysis of Kenya's Public Debt to Real GDP (1963 – 2015)

Statistics compiled by IMF (2014), places Kenya among the East African countries in the second position as the most indebted country with 53% of public debt against GDP, after Burundi which has 72.3%. In position three is Tanzania while Uganda is fourth with 34% and 27% respectively. Rwanda has the lowest psssssublic debt among the five countries with 22%. IMF (2014) also indicates that in terms of debt service, Burundi is ahead of Kenya with 50% while Kenya has 28.5% debt service (IMF, 2013).

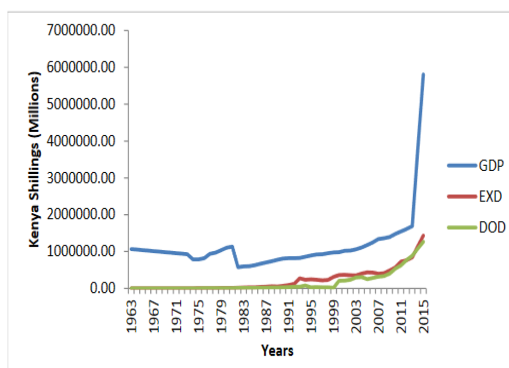

Fig. 2 Kenya's Public Debt in Relation to Real GDP (1963-2015)

Source: World Bank Data (2015)

According to Figure 2 above, public debt has been rising steadily. The external and domestic debts have been rising but under manageable amounts until 1993 when the rise became steadier. The figure indicates that in the period between 1963-1990, domestic debt did not exceed the external debt and this clearly shows that domestic debt crisis was not an issue of concern by then. This was due to good economic performance, as shown by the real GDP, external inflows were large due to cold war and that there also prevailed good economic and political stability in the country. The next decade up to 2000, saw the domestic debt increase at an increasing rate and even forming a larger portion of the public debt burden. Further, an increase of domestic debt was recorded as more moderate at about 3.9% that year. Whereas the real GDP was not steady, the trend in the domestic debt was increasing.

Much increase in domestic debt is noted during the last twelve years period 2001-2012, it is now approaching a trillion. In the earlier years that is 1981 to 1984 real GDP is seen to decrease with the increase in domestic debt after which the economic growth is seen to increase with the increase in domestic debt and thereafter decreases with the increase in domestic debt to its lowest point of actually less than one in year 2000. The economy did so well between years 2003 to 2007 with a significant growth in domestic debt, declined in year 2008, and thereafter picked, still with much growth in the domestic debts. Kenya's public debt trend kept on rising and as of 2010 April, Kenya's public debt stock had stood at Kshs. 1.2 trillion which simply meant that each Kenyan citizens from a census figure of 40 million persons owed both domestic and foreign creditor's Kshs. 29,750 which is higher that many workers' wages in Kenya. (Were, 2011).

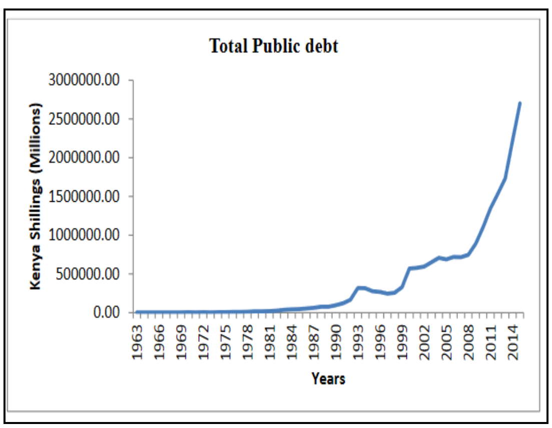

Fig. 3 Kenya's Public Debt in Relation to Real GDP (1963-2015)

Source: World Bank (2015)

The results in Figure 3 above confirm the previous trends in Figure 4 that the public debt has been growing steadily. The external and domestic debts have been rising but under manageable amounts until 1993 when the rise became steadier. The figure indicates that in the period between 1963-1990, domestic debt did not exceed the external debt and this clearly shows that domestic debt crisis was not an issue of concern by then. (World Bank. 2015). This was due to good economic performance, as shown by the real GDP, external inflows were large due to cold war and that there also prevailed good economic and political stability in the country. During this period domestic debt were manageable and stable since the real GDP is good enough to cover the budget estimates. The economy did so well between years 2003 to 2007 with a significant growth in domestic debt, declined in year 2008, and thereafter picked, still with much growth in the domestic debts.

The trend in Kenya's Public Debt kept rising. By April 2010 the debt burden of Kenya had at clocked at Kshs. 1.2 trillion which simply meant that each Kenyan citizens from a census figure of 40 million persons owed both domestic and foreign creditor's Kshs. 29,750 which is higher that many workers' wages in Kenya. (Were, 2011). The public debt has been experiencing increasing trends since 1963. In the period between 1963 and 1990, the trend was gradual but after 1990, the trend was steady. As at June 2013, Kenya was reported to have a debt to real GDP ratio that was higher than the accepted standard of 45 per cent internationally. At the current debt levels Kenya is reeling from high costs of servicing both domestic and foreign debt, a situation that is slowly pushing borrowing to unsustainable levels and is likely to stoke interest rates. The current debt level of 48.9 percent of GDP is unsustainable (National Treasury, 2013). The upward trends in public debts are worrying, and as various studies report conflicting effects of public debts on economic growth.

China's Loans to Kenya (2000-2015)

The result in Figure 4 below shows the loans from China to Kenya in 2000 to 2015. The loans remained relatively constant years prior to 2009. The period between 2009 to 2013 recorded periods of fluctuations, the year 2014 record a spike in loans of more than US$3500 million. In January 2021, the loans stood at whooping figure of US$ 8000 million. By 2006 and 2017, the Kenyan government borrowed at least US$9.9 billion (Ksh, 1044.77 billion) from the government of China in form of interest-free loans. By this period, China's debt accounted for 22% of Kenya's total foreign debt, and 72% of Kenya's bilateral debt.

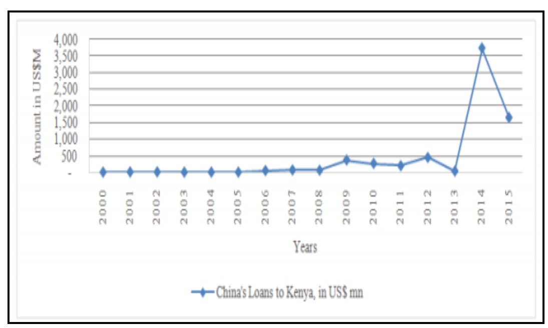

Fig. 4 China's Loans to Kenya in Millions of USD from 2000-2015)

Source: Central Bank of Kenya (2015)

The result in Figure 5 below shows two distinct trajectories the Kenya debt has taken as from 2001. The first years prior to 2013 represents a period of steady linear increase. The years after 2013 presents a period of upward increasing rate; a period heralding heightened borrowing from China.

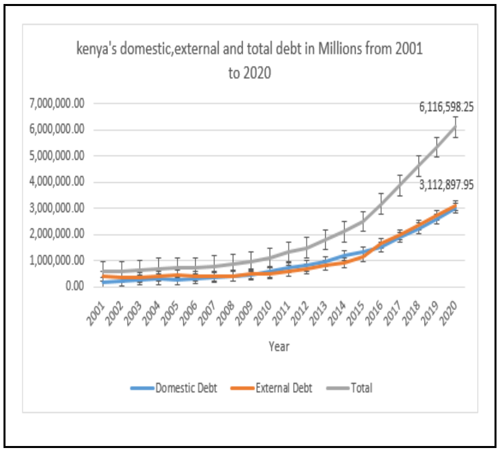

Fig. 5 Kenya's Domestic, External and Total Public Debt (2001-2020)

Source: Central Bank of Kenya (2020)

One observation is clear; the 2013/2014 period marks the period of remarkable borrowing as shown from the fast rate of debt increase. This is the period China's debt proportion also increased from 59% in 2014 (Figure 4.14) and currently stands at 72% (2020). One clear impact of China's aid is increasing Kenya's external debt levels from Kshs. 763,971 million in 2012 to Kshs 3.6 billion by July 2020, representing an increase of 300% in a span of seven years. But compared to the same 7-year period; 2001 (Kshs 596 billion) and 2008 (Ksh. 856 billion), the increase was only 44%.

Another clear impact the China aid has achieved is pushing the debt performance indicators outside the required maximum. Prudent borrowing goes hand in hand with growth or developmental indicators or ratios set out by organizations like the International Monetary Fund, IMF. These ratios include the Debt to GDP ratio. In this ratio, GDP is the denominator such that the smaller the ratio, the better the utilization of the debt. The IMF recommends a maximum debt to GDP ratio of 0.5, which is 50%. However, the trend of the ratio from 2008 to 2019 indicates that the threshold point was surpassed as from 2016 by 4.5%. The ratio is increasingly and consistently surpassed as from 2016 and stood at 62.2% in 2019; and 12.2% above the International Monetary Fund (IMF) recommended threshold of 50.0%.

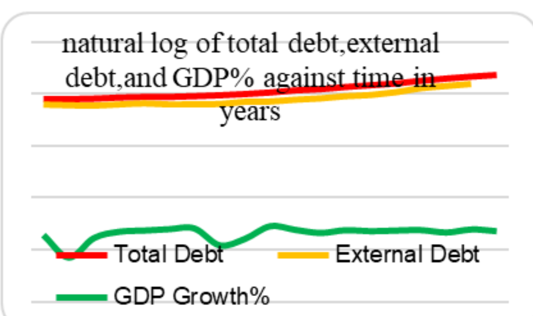

Fig. 6 Natural Log Plot of Total Debt and GDP Growth rate % Against Time (2001-2019)

Source: Central Bank of Kenya (2019).

The study revealed that in 2018, the Ministry of Finance amended the contentious clause on the Public Finance Management (PFM) regulations to substitute the debt ceiling which was previously set at 50.0% of GDP to an absolute figure of Kshs 9.0 trillion to plug the budget shortfalls without hurting the economy since there were no more avenues to raise more taxes from the already over-taxed Kenyan citizens. The Fitch Ratings indicated that the effects of COVID-19 pandemic were expected to delay the narrowing of the fiscal deficit. The Public debt was forecasted at 70.0% of GDP towards the end of 2021 on the back of rising public debt levels and weakens revenue growth.

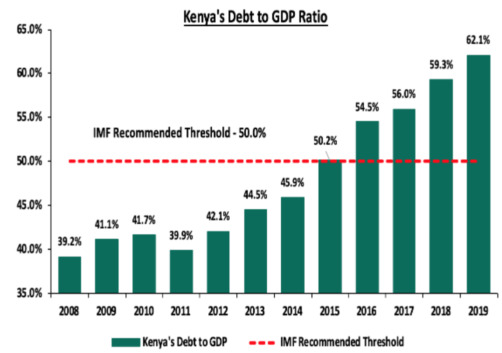

Fig. 7 Trend of Kenya's Public Debt to GDP Ratio (2008-2019).

Source: Central Bank of Kenya (2019).

China can be termed as Kenya's biggest bilateral creditor, amounting to 72% the Kenya's total foreign debt of about US$4.51 billion, (World Bank, 2019). The findings of this study have established that China's monetary aid to Kenya in form of loans to Kenya grew an annual rate of 54% for 2010-2014, while loans from other lenders like France and Japan fell, the impact therefore of the loans on are majorly China induced.

The result in Figure 8 below is the plot of natural log of % of GDP, the external debt and natural log of total debt from 2001 to 2019 period. While the GDP growth curve is almost constant from 2014 to 2019, the debt curves are showing an increasing trend. The loans from are largely for infrastructural projects that take years to complete, like the SGR project that is still underway, their effect to the economy takes time.

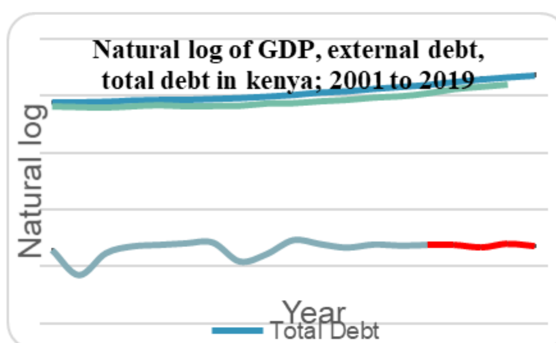

Fig. 8 Natural log of GDP, external debt, total debt in Kenya; 2001 to 2019

Source: Central Bank of Kenya (2019).

The GDP is an important indicator of a country's growth performance. The underlying purpose in this section is to assess whether the current soaring public debt, both domestic and external levels in the recent couple of years matches the economic growth as measured by GDP growth. Descriptive results of the GDP data and the growth rate from 2001 to 2019 is discussed in order to shed more light on the general trend of these two variables. The figure 8 above shows the trend in real GDP, domestic and external debts in Kenya from 2001 to 2019 in Kenya. it is observed that the domestic and external debts increased at a relatively constant rate in years prior to 2011. But after 2011, the debts have taken an exponential form in which the increase is at an increasing rate. However, the growth pattern has not followed the debt pattern. It is clear that the growth rate of the economy, as measured by GDP and debt levels, are not in synch; the borrowing is increasing faster than the economic growth.

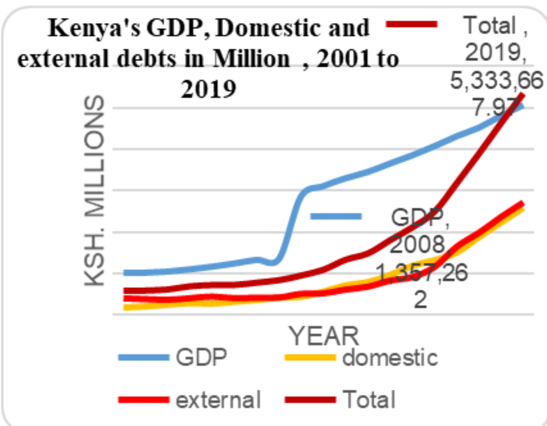

Figure 9: Kenya's GDP, Domestic and External Debts in Millions of Shs (2001-2019)

Source: Central Bank of Kenya (2019).

A country with a debt level that does not match its growth presents a number of developmental challenges. It does not only limit the country's ability to achieve important developmental levels**.** The result shows that the general trend is an increasing trend in overall, from 3.8% in 2002 to 5.4% in 2019. However, the growth rate recorded is between the 2002 to 2007 from 0.5% to 6.9%. The year 2007/2008 recorded the steepest GDP negative drop from 6.9% to 1.6%, the period of post-election violence. However, from 2012 the growth has been increasing at rather constant rate. Figure 10 above shows the general trend in economic growth of the real GDP. The general result shows two distinct parts of the growth curve. The first years, prior to 2012, is a period of high volatility in GDP growth and from 2012 onwards is a period of stable growth. These two periods reflect the effect of Kenya's policy shift in domestic and external borrowing coincides with when Kenya has increased borrowing from China.

Based on the results, it may be concluded that Kenya is has been receiving substantive monetary aid from China in form of concessional loans, grants and interest free loans which have spurred the ballooning of the public debt since 2002. The study findings have concluded that most of the Chinese investment in Kenya are largely resource-seeking and to this end; the Chinese authorities have concentrated their efforts on construction, manufacturing and trading as well as bringing in their own work force as human capital. The development of the aforementioned investments has however remained steady over years and is likely to remain same in the coming years though majorly advantageous on the Chinese side as much as servicing of loans and repayments by the Kenyan government is concerned. Also, the amount of grants and loans Kenya has received from China since 2006 up to date, construction of schools, hospital construction in underdeveloped regions, provide volunteers to train the local population to establish a malaria control and prevention centres.

The findings of the study further can be concluded that on the view that the financial support from China-based Eximbank and concessional loans is attached to the employment of China's merchandise and labour, it is viewed also as the sole adherence needed for 'One China' big policy and not pegged on 'good governance paradigms' as much as the management of financial aid is concerned. The above trend implies that the Chinese foreign aid is integrated in several ways and it poses challenges for the two sides to have a mutually beneficial engagement on fair grounds and interest. The implications of imports from China into the Kenyan economy, can be concluded that there is flooding of goods from China which are basically cheaper and counterfeit in the Kenyan market hence killing the local manufacturing companies. In general, the Impact of China's Monetary Aid on Kenya's Public Debt is intertwined since they harbour loses and gains altogether.

Recommendations

(i) The findings of this study have demonstrated that China' monetary aid both as concessional loans, zero-or-no interest loans, grants or developmental aid have positively impacted economic growth of many countries in Africa but on the same breath has led to increased public debt which has forced some African countries into debt burden. Kenya being one of the beneficiaries of aid development from China. The Sino-Kenya relationship has seen many development projects since 2006 under President Kibaki's regime, then to the President Uhuru Kenyatta's regime and this has gone hand in hand with immense borrowing by the subsequent governments of Kenya.

(ii) Based on the findings of the study, it is prudent however, that respective Sub-Saharan African governments to instantly take advantage of the availability of technology transfer agreements and be able to negotiate for new ones. This will be in order to benefit from technical knowledge and skills from Beijing required effectively developing and resurrecting the already dead local industries of their respective countries. In this way, bilateral ties between China and Kenya will enable Kenya to not only engage China only for monetary aid but be able to do mutual trade on balanced terms and not based on producer-consumer premise.

(iii) Further research may be carried out on;

- Debt-Trap Diplomacy Claims associated with China's aid policy
- Ways the Kenyan government should protect their domestic market against transnational importation of processed goods.

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