IE University IE International Policy Review (IPR)
Journal **6 Issue 1** (2025)
https://ipr.blogs.ie.edu/

China's Belt and Road Initiative and Kenya: Debt Trap or Development?

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Published 27th of January 2025

Abstract

This research paper examines the implications of the Belt and Road Initiative (BRI) on Kenya and the disputed narrative of debt-trap diplomacy. The paper explores both sides of the double-edged sword of Chinese economic engagement, namely the issuance of unsustainable loans to seize strategic assets on the one hand, and the refusal of the debt-trap allegations and the emphasis on economic benefits for recipient countries on the other hand. Through the case study of Kenya and its relationship with China, this study poses that while Chinese investments have led to Kenya's economic growth, they pose risks of trade imbalances and dependencies. The paper concludes that whilst claims of the Chinese Debt Trap remain unsubstantiated in Kenya, the government needs to be cautious in future borrowing practices to mitigate further risks.

Keywords: Belt and Road Initiative (BRI), Chinese debt-trap diplomacy, Foreign Direct Investment (FDI), Sino-African trade, Economic growth, Debt sustainability, Strategic assets

1. Introduction

In 2017, China Merchants Port Holdings Company (CMPort) and the government of Sri Lanka signed a 99-year lease for the Port of Hambantota. This event has been characterized by many as being the initial example of Chinese Debt-Trap Diplomacy, which refers to the practice of China providing large loans to developing countries, with the alleged intention of trapping the borrower in a cycle of debt and eventually gaining control over strategic assets or resources of the borrower state. In Sri Lanka's case, their total debt burden was 78% of the GDP in 2017, whilst they were unable to repay their debts to their Chinese lenders. The only way out of this situation for the local government was a "debt for equity swap," essentially, letting CMPort take over the Port, to lower the amount of debt they must pay back.[1]

Chinese investment has been sharply increasing all over the globe ever since the announcement of the Belt and Road Initiative (BRI) in 2013.[2] But with these increasing

[1] Christopher Alden, "Understanding Debt and Diplomacy: China, 'debt Traps' and Development in the Global South," Monograph (London, UK: LSE IDEAS, London School of Economics and Political Science, January 2020), https://www.lse.ac.uk/ideas.
[2] Statista, "China: Total Investment in BRI Countries 2021," Statista, accessed December 16, 2022, https://www.statista.com/statistics/1274991/china-total-investment-in-belt-and-road-countries/.

investments, there is also growing fear that China will exploit the desperation of developing countries to entice them with condition-less loans (in comparison to the IMF) to lure them into their Debt-Trap. This has been especially argued for African countries. [3]

In many African countries, the issue of Chinese debt has been a subject of concern for some time. Many have taken on significant loans from China to fund infrastructure projects, including the construction of railway lines and the expansion of roads or airports. However, there have been allegations that these loans come with unfavorable terms and may not be beneficial to the countries' long-term economic development. Some have argued that the African countries' debt to China is unsustainable and could lead to a debt crisis or even a loss of sovereignty if they are unable to pay back the loans. But what is really behind these allegations? Is China's only interest in Africa economic and political exploitation or is the West once again overreacting? To what extent is China's economic presence in Africa detrimental to the countries? Is the Chinese Debt Trap a myth or is it a reality?

To answer these questions, two separate schools of thought can be advanced. On the one hand, there is the Debt Trap school of thought, mostly represented by Western scholars and local media outlets, that tries to shed a bad light on China. This school claims that China exploits African countries such as Kenya and their desperation to get funds to finance its infrastructure projects and stimulate growth, by lending them unsustainable amounts of money that they will not be able to repay and thus will lead to a loss of sovereignty and economic disadvantages. On the other hand, there is the School of Thought, which claims that the Chinese Debt trap is essentially a mythç, and that there are no negative political and economic implications yet. The latter school gives a more coherent view of what the situation is right now in all the affected countries, although there might potentially arise some negative implications for the African Countries in the future.

This paper argues that the more economic relations a country has with China, the more economic gains it receives. To explore this hypothesis, this paper will analyze China's economic relations with Kenya, i.e., how China is involved economically in Kenya and which economic sectors it affects. After analyzing China's economic presence some consequences can thus be drawn, some being positive, and some being negative. This paper will show a correlation between the level of Chinese investing in Kenya and the potential economic benefits that Kenya receives. Kenya is of course not the only case in which China has been accused of practicing its Debt-Trap Diplomacy and of being detrimental to the country's economies. The precipitous expansion of the Belt and Road initiative to other countries will certainly lead to a lot of similar cases as the one in Kenya in the future.

II. Literature Review: The Chinese Debt Trap, myth or reality?

[3] Joseph Onjala, "China's Development Loans and the Threat of Debt Crisis in Kenya," Development Policy Review 36, no. S2 (2018): O710–28, https://doi.org/10.1111/dpr.12328.

There can be identified two distinct Schools of Thought concerning the effects of the Economic Relations between China and the countries touched by the BRI. The first one claims that a Chinese scheme to give loans to developing countries knowing that they will be unable to pay them back in order to seize their assets exists. The opposing side argues that there is no proof whatsoever of a deliberative "Debt Trap" strategy pursued by China and that Chinese investments are largely beneficial to the economies of the affected countries. Yet it also points out that if there are no issues right now, some might arise in the future. The second school gives a more coherent overview of what is currently happening.

The term "Debt-Trap" was first mentioned by Brahma Chellaney, a Professor of Strategic Studies at the New Delhi-based Center for Policy Research, in 2017. He argues that China has used infrastructure financing as a tool to extend its influence and gain strategic leverage over recipient countries. He asserts that China has used infrastructure financing to gain control over strategic assets, such as ports and energy infrastructure, and that this has created a risk of debt distress for recipient countries. Additionally, he states that China is using its infrastructure financing to advance its own interests rather than the needs of recipient countries, by prioritizing Chinese materials and labor rather than supporting local businesses.[4] Other authors such as Kisero claim that the concept of the debt trap can in fact be applied to Kenya. He claims that Kenya has taken on too many loans and they went into too many opaque agreements with China to finance its infrastructure projects such as the Standard Gauge Railway and thus risking having to exchange key strategic infrastructure to clear their debt, just like Sri Lanka.[5] Finally, it can be added that, as pointed out by Eickhoff, many public officials from the US such as the Secretary of the Treasury Janet Yellen, or officials of Western organizations such as the World Bank's President, David Malpass, have voiced concerns about countries taking on "predatory" Chinese loans and thus risking losing their assets and sovereignty to China.[6]

On the other side of the spectrum, there are several scholars who argue that the "Chinese Debt-Trap" does not exist, that there are no concrete facts to prove its existence, and that Chinese investments are actually beneficial to the affected countries. Deborah Brautigam, the Director of the China Africa Research Initiative at Johns Hopkins University's School of Advanced International Studies, claims that there is no evidence whatsoever of China pursuing a deliberate strategy of embedding countries into debt to exploit them. She adds that even for the so-often-stated case of the lease of Hambantota Port in Sri Lanka, "the evidence for this project being part of a Chinese master plan is thin."[7] Furthermore, Sanghi and Johnson state that Chinese investments in Kenya are

[4] Brahma Chellaney, "China's Debt-Trap Diplomacy," Project Syndicate, January 23, 2017, https://www.project-syndicate.org/commentary/china-one-belt-one-road-loans-debt-by-brahma-chellaney-2017-01.

[5] Jaindi Kisero, "Kenya Must Avoid China Debt Trap or Fall into Sri Lanka Pit," Nation, July 4, 2020, https://nation.africa/kenya/blogs-opinion/opinion/kenya-must-avoid-china-debt-trap-or-fall-into-sri-lanka-pit-41354.

[6] Karoline Eickhoff, "Chinese Mega Projects in Kenya: Public Controversies around Infrastructure and Debt in East Africa's Regional Hub," Megatrends Afrika, May 2022.

[7] Deborah Brautigam, "Misdiagnosing the Chinese Infrastructure Push," The American Interest (blog), April 4, 2019, https://www.the-american-interest.com/2019/04/04/misdiagnosing-the-chinese-infrastructure-push/.

important and beneficial to the Kenyan economy. In addition to that, they underline that debt could become unsustainable soon if the Kenyan government keeps getting loans, but there are only a few economic or political problems yet.[8] Moreover, Osman supports the claims that there is no Chinese Debt Trap by pointing out that China has reassured itself in the lending contract, that there will be a repayment made by numerous means -such as through the Standard Gauge Railways earnings- and not through giving up assets should the Kenyan government be unable to repay their debts. Moreover, he also says that Kenya itself has denied all allegations of having agreed to anything remotely close to a debt-for-equity swap.[9] Alden finally points out that China itself has publicly pledged to give potential borrowers projections about debt sustainability and potential risks at the BRI summit in 2019, thus promoting transparency and refuting all claims of a deliberate "Debt Trap Diplomacy."[10]

The second school of thought is more compelling because the first one does not have enough proof to be considered true. As a matter of fact, Chinese investment can be seen as mainly beneficial for the affected countries, vitalising the economy, creating job opportunities, and generally leading to a more prosperous and stable future for these States. This leads us to the following thesis: Chinese economic expansion under the form of the Belt and Road Initiative is essentially beneficial to the affected countries.

IV. Research Design

To assess the hypothesis that economic relations with China yield a lot of benefits for lower-developed countries, we will focus on the case of Kenya. This country is of a very high strategic value to China, allowing it to access the rest of East Africa with its Belt and Road Initiative. For this reason, Kenya has been subject to strong Chinese investment and is thus a very good example of how Chinese loans can affect the economic and political situation of a country. To prove the previously mentioned hypothesis, we will assess a World Bank Report about Chinese investments in Kenya (Sanghi and Johnson, 2016), other reports on Chinese loans, and their economic effects (Otele, 2022), and secondary literature such as academic papers tackling not only the economic but also political effects of Chinese and Kenyan economic relations (Alden, 2020; Onjala, 2018; Osman, 2021; Were, 2018; Eickhoff, 2022; Stone et. al, 2022).

V. China and Kenya: A strong economic relationship

China and Kenya have had close economic ties for quite some time now. Ever since the announcement of the Belt and Road Initiative, these ties were fortified, because of Kenya's strategic position on the Indian Ocean, geographically linking the BRI and Eastern Africa. For this reason, China has gradually increased its Foreign Direct

[8] Apurva Sanghi and Dylan Johnson, "Deal or No Deal: Strictly Business for China in Kenya?" (World Bank, Washington, DC, 2016), https://doi.org/10.1596/1813-9450-7614.
[9] Faiza Omar Osman, "China's Debt Trap Diplomacy in Africa," 2021.
[10] Alden, "Understanding Debt and Diplomacy."

Investment in Kenya, totaling approximately 840 million US dollars between 2013 and 2021.[11]

China invests in many ways in Kenya. First, they do so through bilateral trade. The Asian giant is a major trading partner for the African country, importing goods such as tea, horticultural products, or minerals and exporting machinery and electrical equipment used for Kenya's big construction projects.[12] China is a very big importer of goods to Kenya, whilst being only a small export market.[13] This is best illustrated by Ontele who points out that there is a trade imbalance between the two countries, which is largely in favor of China. As a matter of fact, between 2015 and 2019, 3% of the total trade value of the two countries was Kenyan exports to the Asian country, whilst 97% were Chinese exports to Kenya.[14]

Second, China is investing in Kenya through Bank loans. The Chinese Export-Import Bank (EXIM) plays a huge role in this process. In fact, as pointed out by Were, China is Kenya's biggest source of external debt, being responsible for a whopping 66% of it in 2018[15]. This amount has only increased in the years since then. Kenya has taken on these big amounts of loans to finance their "megaprojects" as mentioned by Eickhoff.[16] These projects are mostly infrastructure projects, almost completely sponsored by Chinese loans. In addition to that, Chinese state-backed companies are granted contracts to construct the infrastructure and do so using cheaply imported Chinese machinery, whilst the Kenyan government gets to be the proprietor of the built infrastructure.[17] The most important infrastructure projects so far are the Eldoret Special Economic Zone which is an industrial Park; the Thwake Multipurpose Dam and of course the Mombasa-Malaba Standard Gauge Railway, which is especially important because it connects the coast (Port of Mombasa on the Indian Ocean) with the inner land and consequently also with the other East African countries.[18] The Standard Gauge Railway, which is built by the China Road and Bridge Corporation is the most ambitious project so far, receiving two 1.6-billion-dollar loans from the Chinese government and the Exim Bank.[19] It is also important to mention that Chinese loans are especially attractive to developing countries because unlike World Bank or IMF loans, they come without the conditions of economic and political liberalization, which already had negative effects on Kenya in the 20th century.[20]

Finally, they also invest in Kenya through foreign direct investment (FDI) and the installation of some companies in Kenya. This involves Chinese companies setting up operations in Kenya and investing in local businesses or industries. According to Sanghi and Johnson, there were more than 400 Chinese private or State-owned firms

[11] Oscar M. Otele, "China-Kenya Relations: Economic Benefits Set against Regional Risks | Merics," accessed December 3, 2022, https://merics.org/en/china-kenya-relations-economic-benefits-set-against-regional-risks.
[12] Otele, "China-Kenya Relations."
[13] Sanghi and Johnson, Deal or No Deal.
[14] Otele, "China-Kenya Relations."
[15] Anzetse Were, "Debt Trap? Chinese Loans and Africa's Development Options," Africa Portal, August 31, 2018, https://www.africaportal.org/publications/debt-trap-chinese-loans-and-africas-development-options/.
[16] Eickhoff, "Chinese Mega Projects in Kenya: Public Controversies around Infrastructure and Debt in East Africa's Regional Hub."
[17] Sanghi and Johnson, Deal or No Deal.
[18] Otele, "China-Kenya Relations."
[19] Osman, "China's Debt Trap Diplomacy in Africa."
[20] Onjala, "China's Development Loans and the Threat of Debt Crisis in Kenya."

spreading across a large variety of sectors ranging from manufacturing to tourism, that had operations in China in 2016. Most of the Chinese FDI in Kenya is directed toward communications, energy, and the mineral extraction sector.[21]

It becomes apparent that China willingly has a lot of economic interactions with Kenya. But what are the effects of this relationship? Is it beneficial for Kenya to rely that much on one State? And is China pursuing an opaquer strategy rather than simply wanting to help out a developing country in need of money?

VI. Economic and political effects of Chinese investments in Kenya: Between Risks and Benefits

On the one hand, it can be clearly seen that Chinese investments are beneficial for Kenya. In fact, the large importations of cheap Chinese goods such as machines and phones are beneficial to the overall economy of the country. Because of the cheap imported goods, most retailers and consumers gain,[22] since the latter spend less money on goods and the retailers make more sales and gain more money. Therefore, there can be a legitimate claim that the economy is more efficient thanks to China's imports. In addition to that, it must be mentioned that thanks to the "megaprojects" such as the Standard Gauge Railway, which were financed with Chinese loans, the country becomes more attractive economically as pointed out by Sanghi and Johnson: "improvement in infrastructure will help lower the cost of doing business, attract more investment, and enhance productivity."[23] In effect, if there are lower costs of transportation, more investors, and businesses from all over the world will turn towards Kenya which would benefit greatly from investment (in terms of more jobs and higher GDP) and might become a business hub in the future, connecting Eastern Africa with the rest of the world. Moreover, it is also important to mention that thanks to Chinese FDI and the installation of Chinese firms in Kenya, there are more job opportunities for the local population. As pointed out by Sanghi and Johnson, 78% of the employees in Chinese companies in Kenya in 2016 were locals, which stands in contrast with the Western accusations that Chinese firms only hire Chinese workers and are thus detrimental to the local economies. This does, however, not mean that this phenomenon applies to every country involved in the BRI.

Overall, China's investments in Kenya have helped to boost economic development and create job opportunities in the country. Therefore, it can be said that Kenya could go into a period of growth, in which its citizens become wealthier and its overall economy prospers, which will thus lead to higher demands towards the state -such as better healthcare, and a good education-, leading to a government that has to work more towards the general will of the people and the wellbeing of society, and eventually to an overall more stable political situation.

On the other hand, it must be pointed out that Chinese investments do not only bring positive effects but in the case of Kenya yield numerous political constraints and

[21] Sanghi and Johnson, "Deal or No Deal."
[22] Sanghi and Johnson, "Deal or No Deal."
[23] Sanghi and Johnson, "Deal or No Deal."

negative consequences. Indeed, there can be a legitimate claim that Sino-Kenyan trade relationships are very one-sided and only beneficial to China. As pointed out earlier by Otele, there is a trade imbalance largely in favor of China.[24] The Asian giant is in fact able to offload its cheaply manufactured products and make a profit, whilst they spend only a fraction of its export profits on its imports from Kenya. In addition to that, because of the cheap price of Chinese products, these importations are fatal for Kenyan producers and manufacturers, because Kenyan consumers turn their back on them since they are unable to keep up with the low Chinese prices and thus go bankrupt. Also, the fact that the China Road and Bridge Corporation imports cheaper Chinese machinery and construction material instead of buying it from local producers is detrimental to the latter and leads to bankruptcy.

Furthermore, there are numerous claims that Kenya's debt towards China has reached unsustainable levels already and that Kenya will struggle even more to repay that debt in the future since it keeps on rising and is already higher than the World Bank's recommended amount of 15-20% of GDP, sitting at over 34% in 2021.[25] Moreover, some argue that China's investments in infrastructure are there to facilitate resource transportation and extraction, only benefitting China and even labeling it "neo-colonialism".[26] Additionally, it is necessary to point out that should Kenya be unable to repay their debt directly, China will be repaid by a fraction of the earnings of the Standard Gauge Railway, thus reducing its profitability. This shows clearly that China is in Kenya to make a profit, they want to make sure that they don't lose out on their investment and will do whatever is necessary to get repaid and profit. Yet there are no signs of the Chinese Debt Trap, meaning that they will not seize Kenyan assets to get repaid.

As well as that, it can be claimed that if Kenya falls into a position in which they owe the Chinese government huge sums of money or if they want more loans, this can have negative political consequences such as losing its sovereignty in terms of internal and external political decisions. This means that should they want more loans or some of their debt forgiven they might have to stand on the same side as China on the international stage, such as accepting the "One China Doctrine" by not recognizing Taiwan (which they already do) or voting in China's favor in the United Nations.[27] Also, it must be mentioned, that should the Kenyan economy suffer, be less efficient and lead to many people falling into poverty, this has of course also political consequences, such as a less satisfied population, that might accept more authoritarian ideas as long as they promise to liberate them from their misery, or

[24] Otele, "China-Kenya Relations."

[25] "Kenya External Debt: % of GDP, 2006 – 2022 | CEIC Data," accessed December 25, 2022, https://www.ceicdata.com/en/indicator/kenya/external-debt--of-nominal-gdp.

[26] Xiaochen Su, "Why Chinese Infrastructure Loans in Africa Represent a Brand-New Type of Neocolonialism," accessed December 7, 2022, https://thediplomat.com/2017/06/why-chinese-infrastructural-loans-in-africa-represent-a-brand-new-type-of-neocolonialism/.

[27] Randall W. Stone, Yu Wang, and Shu Yu, "Chinese Power and the State-Owned Enterprise," International Organization 76, no. 1 (2022): 229–50, https://doi.org/10.1017/S0020818321000308.

officials trying to get the best out of the situation for themselves by stealing and disregarding the greater good, thus leading to a less stable political situation.

However, it remains to be seen if all these negative effects come to life since most of them, except for the negative effects of Chinese trade, are only hypothetical consequences that might only turn into reality under certain circumstances.

VII. Conclusion

In Conclusion, we can say that Chinese economic expansion is largely beneficial to the affected countries as was demonstrated in the case study of Kenya. Chinese investment can in fact potentially bring economic benefits to the countries that receive it, such as by creating jobs, contributing to infrastructure development, and increasing trade. Nevertheless, it remains to be seen whether the countries will be able to repay their debts, or if they will face serious economic and political issues in the future because they accepted the Chinese loans. These negative consequences do not however include the Chinese Debt Trap since there is no single proof of it as of now.

Nonetheless, every country must be careful and make a calculated decision when it comes to accepting a loan, whether it comes from China or the USA since economic development and business decisions always yield a certain risk and thus must be very well thought through before they are made.

Overall, it is going to be important for recipient countries to carefully consider the potential benefits and risks of accepting Chinese investment, and to take steps to mitigate any potential negative impacts. This might involve negotiating fair and transparent investment agreements, implementing appropriate regulatory frameworks, and taking steps to protect the interests of domestic industries and workers.

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