



Xian Li Charlene Lee

Chinese and Japanese Development Aid

A comparative Study of two case studies in the Republic of Kenya

Topic and Research Question

In the new global economy Development Aid has become an important issue for the development of a country's economy, society, politics, and poverty reduction. Over the last few years, China has contributed a large share of Development Aid and has become the biggest non-traditional donor to African countries. The growing presence of China in African countries has spawned not only positive attention but also severe negative attention. Also, the rise of Japanese Development Aid to African countries has followed suit and the media call it 'Sino-Japanese competition in Africa' (Sun, 2016). The research intention of this thesis is to provide an in-depth introduction and analysis of the general importance and impact of Development Aid on a recipient's economy, society, and politics. Furthermore, this paper will also present general characteristics, approaches and implementations of Chinese and Japanese Development Aid. The thesis focuses particularly in the field Economic Infrastructure with two case studies in Kenya, one project conducted by China and the other by Japan. By doing so, the thesis will reveal whether or not Chinese and/or Japanese Development Aid is helping or harming the development of Kenya.

State of the Art

There is a rapidly growing literature on Development Aid, which indicates that the topic is vast and also at the same time extremely heterogeneous. Some researchers argue that Development Aid is provided as a means of humanitarian concern (Lumsdaine, 1993, p. 3) as well as an assistance to develop recipient's economy and to alleviate poverty (United Nations, 2016; Lumsdaine, 1993). On the other side, there are also researchers who believe that Development Aid is misspent and is only benefiting donor countries. They are driven by political, military, strategic, and welfare interests of the donor country (Boone, 1996; Easterly, 2006; Alesina & Dollar, 2000; Maizels & Nissanke, 1984). Researchers like Deborah Brautigam (2011a; 2011b; 2009) and David Dollar (2016) have published several studies on international relations and Development Aid between China to Africa. From the basis of development strategies and the history of Japanese ODA, there are only few studies about Japanese Development Aid to Africa and therefore not widely studied and/or known (Lehman, 2010, p. 25; Ndulo & Walle, 2014, p. 326). Nevertheless, the

Ministry of Foreign Affairs of Japan as well as Japan International Cooperation Agency (JICA) provide not only official numbers to their ODA but also conduct many studies in recipient countries in Africa.

Methodology and Approach

ODA according to DAC (2008, p. 1)	China's equivalent to ODA (Brautigam, 2011a)
ODA is provided by official agencies, including state and local governments, or by their executive agencies.	Provided by China's Ministry of Commerce, China EXIM Bank (owned by the Chinese government) and China Development Bank.
Each transaction administered with the promotion of the economic development and welfare of developing countries as its main objective.	Scholarships for African students; Chinese medical teams; building government buildings, telecommunications networks and other infrastructure; technical assistance teams in agriculture and other sectors; short-term training programs; youth volunteers; and material aid.
Each transaction is concessional in character and conveys a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent).	China provides: grants, zero-interest loans, and concessional (fixed-rate, low-interest) loans.

Main Facts

China

In the last couple of decades China has become "Africa's largest trading partner" (Ighobor, 2013). Especially in terms of infrastructure it has contributed in the development of Africa's least developed countries. Projects span the whole continent and include building basic infrastructure like roads, homes in rural areas, power, set up pipelines for running water, and other projects. The case study comprises the Standard Gauge Railway project in Kenya. It is financed by the Export-Import Bank of China (China EXIM Bank). It represents one of the largest railway projects in Sub-

Saharan Africa and the biggest project in Kenya. Once finished, the railway will run from Kenya's western coastal city Mombasa through its capital city Nairobi to neighboring countries like Uganda, Rwanda, Burundi, and South Sudan. The loan for the Standard Gauge Railway is financed by the China EXIM Bank through two separate loans: one concessional loan and one commercial loan. Benefits of the project serve not only the economy but welfare of the country. This include passenger and freight transportation service, tourism, job enrichment, and lower logistic costs. The transaction is considered to be concessional in character as interest rate of the concessional loan is 2%, which is lower than from the People's Bank of China with a repayment period of 15 years. (Oirere, 2014; IMF, 2015, p. 9) Both, concessional and commercial loan, in total make a grant element of around 25% (Prizzon & Hart, 2016).

Japan

Before China took over to be Africa's largest economic partner in 2000, Japan was their most important Asian partner (Ighobor, 2013). Japan lost its name as 'Aid superpower' due to many factors including its own economic stagnation. Nevertheless, in the last few years, JICA started to invest in numerous infrastructure projects across the continent. Projects not only include the construction of the Nairobi Western Ring Road, bridges from Mombasa to the mainland (World Highways, 2014), but also our case study project: Port of Mombasa. The continuous commitment to support Kenya in its infrastructure development, show that Japan is seeking long-term economic and business ties with Kenya. Once finalized, the port will serve as a hub from and for the international market benefiting not only Kenya but also all Eastern African countries. The loan for the Port of Mombasa Project is financed by the governmental agency JICA, through two ODA Loan Agreements. Objectives of the project serve economic development in sense of higher volume of import and export. Both of the loans (2007, 2015) are considered concessional with a 0.2% interest rate for the first phase and 0.1% for the second phase. (JICA, 2007; JICA, 2015) In comparison to the Central Bank (Bank of Japan), average interest rates are between 0.5% and 0% (Global Rates, 2009-2017).

Results

The result of this thesis reveals that the loan for the Standard Gauge Railway provided by the China EXIM Bank does not quite qualify as ODA. Nevertheless, the

project is vital to Kenya's economy. With the completion in 2018, it opens opportunities for regional trade and strengthens competitiveness of East African countries. In terms of strategic motives for Chinese aid to Africa the research reveals that China is indeed interested in Africa's natural resources. However, the more relevant motives are business relations. China has focused on partnership, development, and mutual benefits.

Also the Port of Mombasa project by JICA is a vital project to Kenya serving as a hub for international trade from and to Eastern Africa. Up to six countries rely on this port, including rather smaller land-locked countries like Burundi, Rwanda, Uganda and other East African countries. Serving as such a hub, economic trade between neighboring countries should be improved and result in an overall benefit in sustaining and accelerating growth in East and Central Africa (JICA, 2007). By finalizing this project, the Port of Mombasa will represent "East Africa's best and most important deep-sea port" (The Oxford Business Group, 2014, p. 129). In terms of Japanese strategic motives our research show similar motives as China which are natural resources and business relations. In addition to this, Japan also seeks political influence in Africa. Nevertheless, Japan also focuses on mutual benefits and development in Africa. Once finalized, both projects will contribute to Kenya's Vision 2030 which is a long-term development plan aiming at industrialization, high quality life, and raising Kenya to become a middle-income country by 2030. (Kenya Vision 2030, 2016).

References

All references can be found in the full version of the MA thesis available at <http://othes.univie.ac.at>

About the Author

Charlene Lee holds a BA degree in Korean Studies and a BSc in International Business Administration with Chinese as a minor both from the University of Vienna. Her research interests include international relations, economic and business ties in East Asia.



Contact information:
Charlene.xian.lee@gmail.com

Examination Date: 26 April 2017