

Rollins College

Rollins Scholarship Online

Faculty Publications

5-2018

Live and Let Live: Africa's Response Options to China's BRI

Emmanuel T. Kodzi

Follow this and additional works at: https://scholarship.rollins.edu/as_facpub



Part of the [International Business Commons](#)

Live and let live: Africa's response options to China's BRI. In Zhang, W., Alon, I., & Lattemann, C. (Eds.), *China's Belt and Road Initiative: Changing the Rules of Globalization* (pp. 155-178). Cham, 2018. 155-178. https://link.springer.com/chapter/10.1007/978-3-319-75435-2_9

Emmanuel T. Kodzi Jr., Rollins College, USA

ABSTRACT

Kodzi offers a timely perspective on the ongoing debate about how China's BRI might deliver tangible benefits to African partners. The impact of Chinese engagement on local businesses in different regions is explored both broadly, and in a specific African country context. Using the resource dependence theory and the supply chain practice view, the chapter focuses on technology- and knowledge-enhancing industry linkages to conceptualize a pragmatic response by African industry sectors to the competitive pressures associated with Chinese business engagement. By adopting a response view, this chapter proposes credible options for African countries to increase the strategic value of their contribution in BRI exchanges - rather than being casualties of power asymmetry.

Keywords: Response, Reorganization, Internationalization, Africa, Belt and Road Initiative, Supply Chain

1. Introduction

China's increasing role in African development is consistent with the goals of the Belt and Road Initiative (BRI). The 2015 Ministerial Meeting of the Forum on China-Africa Cooperation (FOCAC) ended with a declaration that China-Africa relations have been upgraded to "comprehensive strategic and cooperative partnership status". This is significant because China categorizes its relations with other nations in order of importance (strategic partner, cooperative partner, and friendly cooperative), based on depth of collaboration and other factors. The FOCAC declaration is an implicit acknowledgement of interdependence between the parties, and a signal of increasing Chinese investment in African countries for the foreseeable future. The proliferation of Chinese firms in Africa also appears to be driven by shorter institutional distance between China and Africa, leading to more favorable risk assessments and easier adjustment of business practices to local conditions (Cuervo-Cazurra and Genc 2008; Luo et al. 2011; Wang et al. 2013). However, increasing the level of engagement is also associated with unintended effects like competitive pressures, power asymmetries and diplomacy challenges. For host nation businesses, the combination of competitive pressures and the imbalance of power in China's favor raises the stakes for survival. Thus, with increasing Chinese engagement, it is important for local businesses in African countries to understand the real basis for competitive advantage in their local markets, in order to be adequately rewarded in the ensuing exchange. From a supply chain disruption perspective, it is conceivable that even for a country in a weaker position, the survival of its industries may be highly beneficial to global economic exchanges.

China has itself prioritized the survival of various industries by providing support for businesses in both their domestic growth and international expansion. The Haier Group is one such business, that has played a significant role in transforming a fledgling home appliances industry, while benefitting from state support of the industry (Duysters et al. 2009). The Haier Group appears to have subsequently staged a robust response to the competition thrust upon it by the entrance of GE and Whirlpool into the Chinese market – and has more than survived. Du (2003), Child and Rodrigues (2005), and Duysters et al. (2009)

have all examined Haier's competitive response in detail. Other examples of industry sector response to competitive foreign direct investment (FDI) include Bajaj Auto in India. Bajaj focused on the competitive levers within its supply chain – distinctive local products, local connections, and local distribution networks – to continue earning substantial market rents when Honda entered the Indian motorcycle market (Dawar and Frost 1999). The response principles adopted by the Haier Group and Bajaj Auto may have application for local African industry sectors, given that the operating context at the time bears some similarities with the current African situation in terms of FDI flows and limited in-country capabilities. The nature of the response will depend on the intensity of the power dynamics and competitive pressures resulting from Chinese exchanges with various African countries. For example, Djibouti may have only been a “pitstop” on China's path to European markets, since the country previously had just “friendly negotiations” with China. However, Djibouti's increasing importance in providing global access for Chinese-driven Ethiopian exports, and in enhancing security to ship lanes in the Horn of Africa has changed the relationship significantly. Djibouti welcomed the opening of a Chinese-funded Silkroad International Bank in January 2017, and China's first foreign military base in July 2017. It appears that this country will have a key role in the unfolding of the BRI. More intense engagement with a strategic partner may warrant a comprehensive response, to ensure mutually beneficial exchanges. So, it is of interest for Djibouti to carve out local industry advantages in transportation and logistics, for example, as it provides benefits to the BRI. The broad question in this study is how countries that are integral to the BRI might recognize and harness the potential value they bring to these economic exchanges. Thus, we concur with previous literature recommending a search for strategies by which Africa might utilize the developmental spin-offs that result from the increased investment and trade (Cheru and Obi 2011). Given the importance of African countries to the BRI based on the FOCAC declaration, this study examines applicable response strategies for African countries with increased FDI flows from China. The study explores dimensions of industry-level response and the enabling mechanisms for the survival of specific sectors that experience disruption through Chinese investment. By adopting a pragmatic conceptualization of how African countries could *respond* to China's business engagement, this study contributes a critical

dimension to the ongoing debate about how China's BRI might deliver tangible benefits to African countries. This response view will allow managers of impacted business clusters to proactively embrace options for meaningful exchange under competition, rather than be victims.

The rest of the paper is structured as follows: in the next section, we review China's engagement in Latin American and Southeast Asian countries, to identify patterns of impact on local industry. Our goal is to ascertain which patterns might signal possible business impacts on African countries in the new BRI dispensation. We adopt the resource dependency theory and the supply chain practice view as our framework for exploring impact and response. We then select Kenya for in-depth analysis, given its economic influence in the East African region, the importance of its Mombasa port as a gateway for trade, and evidence of multi-sectoral Chinese investment. This step involves examining flows of product, information and capital into, and out of Kenya to understand the mutual dependencies and power imbalance associated with the China-Kenya exchange. The next stage conceptualizes how specific industries and government sectors might respond to the competitive pressures accompanying Chinese business engagement. We summarize the discussion with possible theoretical generalizations of this response view to other African countries connected with the BRI.

2. Expected impact of Chinese Engagement

Many developing countries seek FDI, along with the expectation of positive spillovers like job creation, technology transfer, and productivity increases. Such positive effects are likely to be more substantial if the investors are closer technologically and institutionally (Takii 2005; Luo et al. 2011); thus, investment from China is generally welcomed by developing countries. However, there is the need to establish value-adding linkages between incoming and local businesses for the expected FDI benefits to be realized. Kubny and Voss (2014) find that in Vietnam, Chinese firms source local inputs only to a limited degree, and that their arms-length exchanges do not furnish the expected technology transfers. Similar to Vietnam, local sourcing in Africa is particularly low because Chinese businesses typically import their inputs for production and construction, and so have weak if any linkages with local firms

(Corkin 2007; Amendolagine et al. 2013). Furthermore, Chinese construction businesses have been known to import low-skilled Chinese labor for several projects in Africa (Cheru and Obi 2011), which further obstructs linkages for local knowledge transfer. Sun and Lin (2017) refute the notion of poor linkages by pointing to a Chinese multinational partnering with the Kenyan Ministry of Education for skills training. However, their paper also refers to this MNE as “unique among Chinese companies in Africa in the extent to which it has invested in local skills development”. The phenomenon of limited business linkages has also been observed in several Latin American countries. In that region, increased Chinese engagement has often led to relocation of high-end manufacturing activity from some Latin American countries to China. This relocation means that actual Chinese investment in those countries has mainly targeted specialization in primary products, which further limits the creation of local value-adding linkages (Jenkins 2010). Similarly, Flynn (2013) refers to how China's demand for primary products like minerals and timber restricts specialization in many African countries to low value-added outputs – which constrains linkages. By nurturing backward and forward linkages, Chinese investors could possibly generate opportunities for local businesses to be drawn into the global production system, and thereby deliver on the often-touted “win-win” exchanges (Irshad 2015; Ferdinand 2016). Contrary to such disposition, infrastructure investments overseas are often viewed as opportunities to increase the demand for components supplied by businesses back in China (Swaine 2015; Chia and Sussangkarn 2006). Therefore, it is considered reasonable that incoming Chinese firms would source production inputs not from local suppliers, but mainly from their parent companies or other Chinese firms (Corkin and Burke 2006; van der Lugt et al. 2011). In fact, backward linkages in the host country may only serve to strengthen the foreign business position where there is the need to establish initial local connections or build legitimacy in an incremental expansion model (Johanson and Vahlne 2009), as may be the case in Sun and Lin (2017). Moreover, such linkages may be loose, and not aimed at developing the long-term relationships that enhance the productive capacities of local businesses. The weak linkages between Chinese investors and local suppliers does not appear to be driven by poor absorptive capacity in the local firms *per se*, but from the general unwillingness of the investor to recognize, engage or develop local

capabilities (Kubny and Voss 2014). Foreign-local partnerships that involve shared ownership of portions of the supply chain, may create better linkages. As Smarzynska Javorcik (2004) finds with Lithuanian firms, positive productivity spillovers derive more from projects with shared foreign-local ownership.

Another aspect of the potential for reaping positive FDI benefits is the type of goods involved in the exchange. Chinese businesses may tackle overcapacity by exporting capital goods (Rolland 2015), and this may be in the interest of importing nations - small scale manufacturers gain increased access to machinery which support the conversion of inputs into intermediate goods, for example. The opportunity for technology transfer and improved production capability is improved when FDI is associated with the import of capital goods rather than consumer goods (UNCTAD 2012). On the whole, the value of capital goods imports into Africa from China has exceeded the value of consumer goods between 2011 and 2015 (WITS 2016). However, concerns about import competition still remain. Kaplinsky and Messner (2007) capture this tension in terms of complementary and competitive impacts: for example, where the import of cheap consumer goods from China could improve the buying power of local customers but also displace local producers. Elu and Price (2010) note that increased trade with China has the effect of lowering Total Factor Productivity for sub-Saharan African manufacturing firms directly through import competition, and indirectly through negative technology transfer. Reduced productivity in African countries hampers cost reduction efforts and further compounds the relative cost disadvantage (Adisu et al. 2010). Thus, even where benefits accrue from the exchange, the positive impact may be transient if African businesses do not build the productive capacity to be relevant in long term exchanges. In a related context, Chia and Sussangkarn (2006) highlight the need for members of the Association of Southeast Asian Nations (ASEAN) to pursue integration in order to exploit scale economies and together become more competitive in their exchanges with China. The essential theme here is that competitiveness elevates the status of ASEAN countries in the relationship, by increasing mutual dependence with China. Similarly, rather than expect Chinese businesses to voluntarily create value-adding interactions with African businesses, Onjala (2010) challenges African countries to actively diversify the structure of their

exports and produce higher volumes through taking advantage of the scale and scope of the Chinese economy.

3. Navigating mutual dependence and power imbalance

The idea of African businesses making adjustments to increase their standing in BRI exchanges may be conceptualized with the resource dependency theory (RDT) – that organizations must restructure their dependency on the external environment in order to increase their chances of survival (Pfeffer and Salancik 1978). Kaplinsky and Morris (2008) present an example of supply chain adjustment adopted by a South African producer of underwear that faced severe competitive challenges from Chinese imports. The company helped its retailers reduce inventory holdings and improve their responsiveness to customer demand – a clear example of relational performance (Carter et al. 2017, Cheung et al. 2011) in the supply chain. This company had the capability to restructure its dependency on the external environment; and such traits make it an attractive target for partnerships. Partnering (including alliances and joint ventures, co-optation, interlocks, mergers, or vertical integration) is one way to create a long-term view of cooperative business exchanges and reduce uncertainties across the supply chain (Hillman et al. 2009). The opportunity for value-creating long-term partnerships will increase when the competitive levers across specific industries in Africa are identified and nurtured.

Casciaro and Piskorski (2005) view mutual dependence and power imbalance as two related aspects of the RDT notion of interdependence between two parties in an exchange. Pfeffer and Salancik (1978) had focused on minimizing interdependence. However, there is value to collaboration and reciprocity especially between buyers and sellers (Ado and Su 2016). High levels of mutual dependence shift exchange relationships more toward symbiosis than competition. Thus, the competitive impacts of power imbalance may be reduced if mutual dependence is high. In the case of African countries, even though the balance of power is heavily in China's favor, the exercise of that power may be restrained if high levels of mutual dependence exist between Africa and China. Clearly, bilateral relations between African countries and China will yield more benefits if African businesses can supply substantial

resources that are critical to the BRI. Such resources must be identified carefully, since in several industries (such as textiles) China has comparative advantage in the factors of production. The production challenges like capacity limitations in various industries, make production sharing an attractive model for competitively scaling the output of national or regional supply chains. Koopman et al. (2010) view supply chains as systems of value-added sources and destinations within integrated production networks. The integration of production networks is at the core of production sharing, and implies a reorganization of the production function. Reorganization might involve achieving a balance between outsourcing peripheral productive functions across a regional network, and controlling the centers of value creation (Neilson et al. 2014). The functions in the network need to be assigned collaboratively rather than just dictating the terms of engagement to supply chain partners. This collaborative approach to production sharing may be a useful framework to consider within industry sectors (Wang et al. 2013). In other words, with proactive collaboration in a specific industry, it may be possible to establish unique regional or country production advantages, relative to Chinese businesses, and thus create a basis for increased mutual dependence. Carter et al. (2017) describe the mutual dependence between Amazon and several businesses in terms of the benefits to smaller companies of being roped into Amazon's extensive delivery network, while Amazon reaps the benefits of better network utilization. This is a win-win in the supply chain. It is from this perspective, that the study explores the response of African businesses to increased Chinese engagement.

Industry-level coordination of production sharing does not preclude institutional oversight. On the contrary, the role of the state may be reframed as an agent of development, as China itself did. Even with a liberalized economy, China's policies were endogenously-driven rather than being imposed externally, allowing them to have better control over the globalization of their economy (Jilberto and Hogenboom 2012). Similarly, the dispensation of zero-tariffs for Cambodian textile exports into the EU, allowed Cambodia to participate in the textile industry even though neighboring Vietnam had a larger economy, a larger pool of cheaper labor, and industrial production advantages relative to Cambodia (Chen et al. 2011). Thus, Cheru and Obi's (2011) challenge to African leadership is pertinent: define thoughtful

frameworks for bilateral, fair, and balanced cooperation. Could country-level negotiations in Africa create a fairer production climate and provide incentive for industries to collaborate in a production-sharing framework that makes the most of the BRI dispensation? Would intra-regional trade in a production-sharing framework redirect China's engagement with the continent, and result in local enterprise skills development and technology transfer? These questions align with the main objective of examining industry-level response strategies under the threat of foreign competition. The next section comprises in-depth analyses of industrial flows in Kenya to examine the mutual dependencies and power imbalance associated with the China-Kenya exchange, and to conceptualize how specific industry sectors might respond to the competitive pressures accompanying Chinese business engagement.

4. The case of Kenya

In recognition of the significant country differences at the industry and institutional levels across Africa we focus on the East African region as an area with historic and current connections with China. We select Kenya for study, given its economic influence within the East African Community of nations (EAC), the importance of its Mombasa port as a gateway for trade, and evidence of multi-sectoral Chinese investment. For example, in 2014 Kenya signed a US\$3.8 billion agreement for Chinese high-speed railway technology to connect Nairobi to Mombasa, the largest port in East Africa (Arase 2015). Kenya has the largest economy in the EAC, and is among the top 5 African countries receiving imports from China. Kenya is also one of two African countries whose Presidents were part of the May 2017 Belt and Road Forum for International Cooperation (BRF) in Beijing; the forum involved cooperative consultation on the BRI for participating countries (China Daily 2017).

Kenya produces and exports substantial quantities of Tea, Flowers, and Coffee, among others. Participation in global production networks has often been construed to mean increasing industrial production for exports, suggesting it may be attractive to target China's markets with value-added products. This view is reasonable, given that China's growth strategy has pivoted to greater reliance on domestic consumption (Hawke 2016). However, existing capacity constraints limit the scaling of export-

oriented production in Kenya. For example, Ikiara and Ndirangu (2003) point to a concentration of Kenya's industrial production in Export Processing Zones as evidence of infrastructure inadequacies in the wider economy. Despite such limitations, export orientation will continue to be attractive because increased scale may translate into productivity, learning, and quality advantages. On the other hand, export pricing may decrease the incentive for local production if the perceived local value is small, thereby weakening rather than supporting local industry amid foreign competition. Thus, response initiatives like increasing the production of premium tea for local Kenyan consumption (Stevis 2017) may help to not only stabilize producer prices, but also cement the comparative advantage that Kenya has in Tea production. Similarly, local factories can be reorganized to reduce order minimums, and increase direct access for small-scale manufacturers. Such reorganization will reduce the direct cost of inputs for small-scale manufacturers (Coughlin and Ikiara 1988), and increase demand for the output of these factories, thereby providing impetus for scaling up production, improving learning, and increasing competitiveness. Reorganization as a response will likewise benefit tanneries and the local leather industry in general amid growing demand for high quality leather, and the increased import of Chinese shoes into the EAC. Analogous applications may be made for Sisal, Pyrethrum, and even Tire manufacturing; the recent capacity additions for automotive assembly in Kenya offers an opportunity for local tire manufacturers, but without significant reorganization, tire imports from China will limit this potential.

Our goal in this analysis is not to conduct a comprehensive quantification of China's impact on Kenya, but to understand the nature of the impact on industry as a basis to explore potential models for reorganization. In this regard, a survey of individual businesses is beyond the scope of this study. However, sans such a survey, evidence exists (as is true even in the US) of local industries that have been impacted adversely by China's low-priced imports - including textiles in Zambia, shoes in Ethiopia, and garden furniture in Ghana (McGreal 2007). Our interest is in exploring options for African businesses in general, and Kenyan businesses in particular, to remain relevant in global production and trade networks. Thus, we examine how existing opportunities for reorganization and production sharing might be framed

in support of a competitive industrial response. We examine product and trade flows within and across Kenya's borders, by assembling and triangulating limited available data from several sources including the Kenya National Bureau of Statistics (KNBS), the East African Community Data portal, the International Trade Center (ITC) in Geneva, the United Nations Conference on Trade and Development (UNCTAD), the World Integrated Trade Solution (WITS) of the World Bank, the Hong Kong Trade Development Council (HKTDC) and other specialized sources like the East African Tea Trade Association. We also reference available data from the Kenya Association of Manufacturers (KAM) to glean more detailed industry information for a fuller conceptualization of our response framework.

Considering trade flows within East African countries, and between these countries and destinations outside the region, it is clear that trade within EAC is almost the same in value as that between EAC and the rest of Africa (see Figure 1). However, trade outside Africa is significantly higher, and it appears that total trade is more sensitive to the extra-African component. Herein lies the opportunity for diversifying the direction and structure of African exports and for achieving less volatility in demand, pricing, and production (Onjala 2010). Kenya's contribution to EAC trade is significant, even though in recent years, Kenya appears to have contributed a smaller proportion to trade within the EAC (see Figure 2). The decline in Kenya's contribution may not necessarily be as a result of decreased production per se, but perhaps of the strengthening of productive capacity in other EAC countries, or of the increase in imports arriving in the other EAC countries. Net FDI flows as a percentage of GDP have been generally higher in Uganda and Tanzania averaging 4.65% and 4.12% respectively between 2005 and 2015 compared with Kenya at 2.15% over the same period (World Bank 2016).

Figure 1: Trade (\$m) within and outside East African Countries (*data assembled from UNCTADstat*)

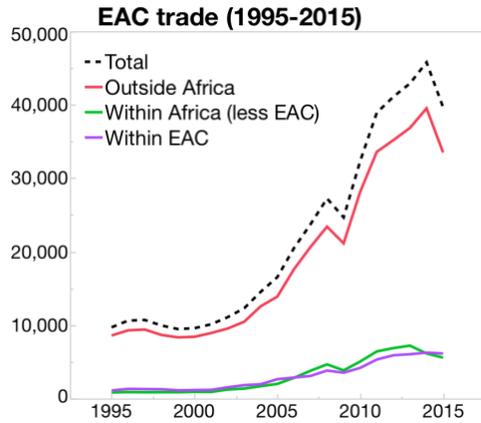


Figure 2: Contribution of Kenya to EAC Trade (*data assembled from UNCTAD and EAC*)

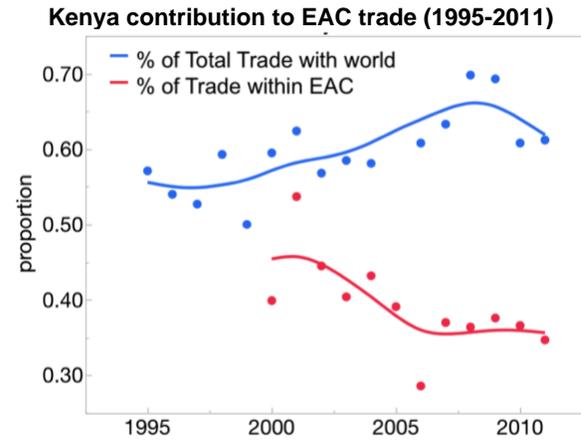


Figure 3: Value of imports into Kenya and Industrial production within Kenya (*data assembled from KNBS, ITC, and HKTDC*)

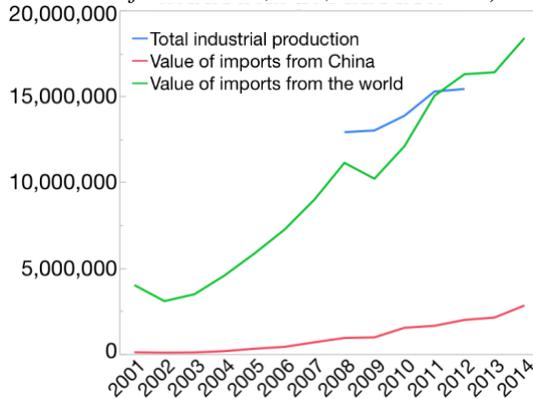
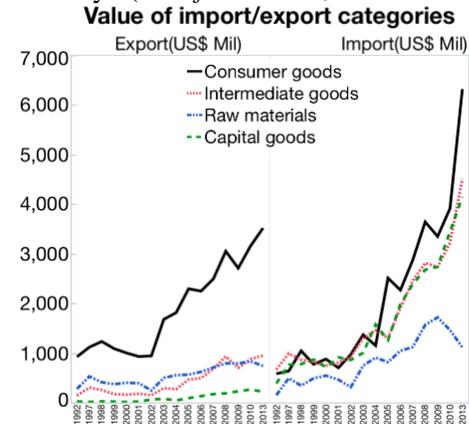


Figure 4: Main categories of imports and exports in Kenya (*data from WITS, World Bank*)



Further insights emerge when Kenya's industrial production is superimposed on imports from China and total imports (see Figure 3). Evidently, Kenya's production has been growing, even though at a slower rate in recent years. World Bank (2016) data corroborate this pattern, but indicate that the value-added contribution of services has been growing significantly faster than that of manufacturing. The World Bank data also show that the contribution of manufacturing to GDP was about 11% on average from 2001-2014 (max 12.8% in 2007, and min 9.7% in 2001 and 2003). However, a regression line from 2006 (5 years after the Doha Round of WTO negotiations) shows a strong negative association between Year-since-2001 and manufacturing contribution (slope estimate -0.3405, t ratio -9.48). This is a cause for

concern since total imports outstripped industrial production in 2011 (see Figure 3). The import of Chinese tires, for example, may already be hampering local production in that sector. The free flow of goods and services within the EAC also creates a situation where tires imported from China into Tanzania may have direct impacts on the productive capacity of the larger automotive industry in Kenya. Overall, with growing Chinese imports, it remains to be seen to what extent Kenya’s aggregate industrial activity may be affected. As shown by the components of imports (see Figure 4), the largest proportion of imports into Kenya comprises consumer goods, and these are not known to support local production capacity as discussed previously. However, capital goods imports are also high along with intermediate goods, suggesting that there is a sustained demand for inputs of industrial production. These flows may be accounting for the fact that we do not currently observe drastic shifts in Kenya’s aggregate industrial activity. On the other hand, FDI inflows rose from \$21m in 2005 to \$1.44b in 2015 (UNCTAD 2016), and may be reflecting China’s involvement in large infrastructure projects (road and building construction), in the financial sector, and in the telecommunications sector. Investments in these sectors may also compete directly or indirectly with industrial production (e.g. building materials) in Kenya, if no prior arrangements exist for sourcing supplies locally. Skillful negotiation and targeted incentives on the part of government may be a channel by which such large investments may enable industrial production. The affected sectors may complement such negotiation by reorganizing to leverage the associated efficiencies in transportation and financial services.

Figure 5: Industrial production in Kenya; contribution by sector (data assembled from KNBS and HKTDC)

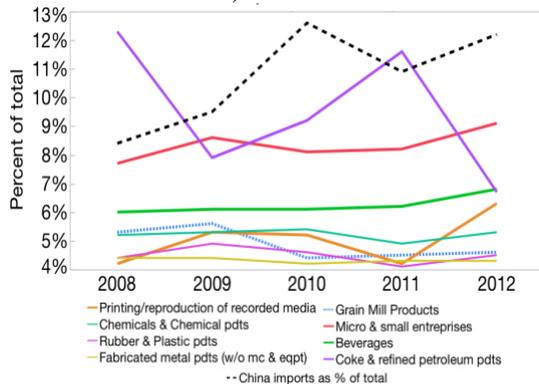
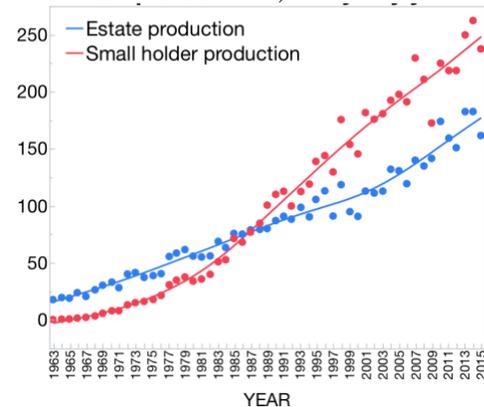


Figure 6: Tea production in Kenya with focus on small-holders (data assembled from East Africa Tea Trade Association)



We also identify sector making major contributors to Kenya’s industrial production (see Figure 5). Understanding the nature of these contributing sectors may provide some insights into what competencies Kenya might leverage to sustain an advantage in certain industries. The graph shows only the top 7 sectors plus grain mill products. Grain mill products is the highest in the food category, but its contribution has declined over time. This decline may be a function of droughts in Kenya, and the inability to effectively source grain supplies from the sub-region. The contribution of coke and refined petroleum products has been high but variable and may be reflecting petroleum price variation. However, the increased installed capacity of geothermal power plants may also be reducing the demand for petroleum products. The contribution of beverages has been growing only slightly over time. Perhaps, this stagnation reflects the intense price competition in that industry between East African Breweries Ltd, and South African Breweries. These beverage establishments have now negotiated an operating model based on co-opetition, and the contribution of beverages may increase with time. The contribution of micro- and small enterprises is high and significant, and presents an important opportunity for Kenya. When Africa is viewed as an aggregate market, it is very attractive to foreign investors. The same is true of understanding the total productive power of micro- and small enterprises in Kenya. We underline the importance of the aggregate of smaller enterprises by noting that the changing structure of tea production is a credible signal that small holders cannot be ignored in the Kenyan economy (see Figure 6). The other industry contributors like fabricated metal, rubber and plastic products, and chemicals and chemical products are also very significant when taken together (about 14 percent of production). It is reasonable to consider their joint contribution, given their impact on the automotive industry, for example.

Table 1: Industry sectors represented by the Kenya Association of Manufacturers

Sector	N	% of Total
Food & Beverages	146	24.13
Metal & Allied	73	12.07
Chemical & Allied	60	9.92
Plastics & Rubber	58	9.59
Paper & Board	56	9.26
Textiles & Apparel	46	7.60
Motor Vehicle Assemblers & Accessories	40	6.62
Energy, Electrical & Electronics	33	5.45
Building, Mining & Construction	31	5.12
Timber, Wood & Furniture	24	3.97
Pharmaceutical & Medical Equipment	19	3.14
Fresh Produce	12	1.98
Leather & Footwear	6	0.99

* 102 companies listed in services and consultancy were excluded

We review the broad structure of industry sectors in the KAM. It is of interest to examine each industry in turn. For brevity, however, we focus only on the Motor Vehicle Assemblers & Accessories (MVAA). As expected, there are more companies operating in the associated sectors of metals, chemicals, plastics and paper than in the MVAA sector. Of the 40 MVAA companies, 21 had websites listed, and 20 of those websites were functional. Based on detailed analysis of information from their websites, we observe that the companies included: businesses that had started small and kept growing to the third generation; businesses that operated as subsidiaries of global companies; and businesses that were operating in the EAC market with plans to further expand into the larger COMESA region. There were businesses that reported adapting their operating model after WTO rules opened the Kenyan market to direct global competition. There were also businesses maintaining a hybrid of importing some standardized intermediate goods, and yet manufacturing their own customized versions of the end-product. These companies appeared to thematically cater to the harsh transportation specifications of Kenya, and viewed that strategic targeting as an advantage. The product range was impressive from vehicle seats and interiors, to filters (air, oil, fuel), to trailers, to complete vehicle design and manufacturing.

The MVAA industry sector uses inputs from several other sectors including Paper & Board, Plastics & Rubber, Chemicals & Allied, and Metals & Allied – and if the linkages can be clearly identified, a system of value-addition will emerge. Considering the scope of production across these sectors, there is certainly room to leverage the scale and synergies of production sharing. Similar to the supply chain levers of distinctive local products, local connections, and local distribution networks that were in Bajaj Auto's favor (Dawar and Frost 1999), these Kenyan business networks have sometimes idiosyncratic local advantages. Thus, Kenyan businesses must be proactive about building resilient industry clusters to maintain a growth trajectory, given the substantial and growing impact of Chinese engagement. Using the case of Mauritius, Ancharaz (2009) emphasizes building resilience as a way of mitigating adverse effects of sudden pressure like Chinese dominance, and then striving to create a win-win exchange. In this case, win-win meant China had access to other world markets through Mauritius'

free trade zones; and Mauritius built its manufacturing base by purposeful negotiation and institutional support. Mauritius had responded to the AGOA initiative and tariff preferences in the EU by setting up Export Processing Zones (EPZ), which spurred industrial growth and provided this leverage for engaging China. In this way, Mauritius was better incorporated into global production networks. An opportunity exists to approach Chinese engagement as a potential path for participating in global value chains through technological upgrades and innovation. In the case of Kenya, China is deriving benefits from large-scale infrastructure projects, and Kenya can coordinate its industrial activity to create a more inclusive supplier-base for Chinese-led projects. Such coordination is best managed by an agency reflecting private-public partnership. For example, “Enterprise Mauritius” was a collaborative partnership between industry and government to help local enterprises develop competitive capacity and evolve into regional or global exporters. Such an agency in Kenya will share a vision of staged but connected production across industry sectors. This step will help operationalize the vision of production sharing and process innovation within industry sectors such as the MVAA. Thus, the needed adjustments may be supported institutionally by removing structural constraints to synergistic production across sectors. As noted earlier, incentives to reduce order minimums and improve access to inputs from local factories will reduce raw material costs, increase the pace of local production, and provide better opportunities for scaling. If the fragmented production in these sectors is better coordinated, the resulting efficiencies will immediately free up capacity for increased output. Increased output means more learning, with the associated benefits of quality improvements, innovation and market appeal. All these benefits will help to increase the level of mutual dependence between Kenya and China, as Chinese businesses seek investments in Kenya.

5. Summary and Conclusion

This chapter explored how African countries might respond to the competitive pressures associated with China’s increased engagement with Africa in the BRI dispensation. The possibility that China’s business activity can marginalize industrial production in Africa was of concern because industrial production has been a critical path of growth for many countries. Thus, despite the imbalance of

economic power in China's favor, we examined the plausibility of creating win-win exchanges with African countries. Specifically, the chapter focused on industry-level adjustments by which African countries may increase the strategic value of their contribution in BRI exchanges. Despite having access to limited data on the subject, there was sufficient indication from literature about how economic exchanges might play out between China and Africa. We found that, based on the pattern of Chinese business activity in other regions, African countries cannot rely on China to create the industry linkages that facilitate technology and knowledge transfer unless it is in their clear interest to do so. However, African countries cannot afford to be ambivalent about the growing dominance of China in their markets. Rather, these countries could proactively change the power dynamics by increasing the level of mutual dependence between their industries and China's incoming businesses. African countries can promote mutual dependence through reorganizing industry supply chains based on country and regional priorities, and creating integrated production networks as a means to increase the value their industries bring to the economic exchange. FDI can and should be harnessed for growth in SSA countries, but it needs to be done strategically to minimize the downsides and derive reasonable rents. By adopting a *response view*, this study contributes a critical dimension to the ongoing debate about how China's BRI might deliver tangible benefits to African countries.

The response of industry will be limited without institutional support. Therefore, we offer the forgoing perspectives on supply chain coordination and production sharing, not only for the consideration of existing businesses but in hopes that it will help frame the institutional support provided for business growth in key sectors. By establishing soundly-negotiated investment partnerships with China, African countries may be able to stimulate local industrialization without having China pursue its usual business practices in Africa. The returns to a nation, for developing an integrated production network, and building regional markets to increase demand, may outweigh the mere establishment of Chinese businesses in the country. Much like a capable stage in a supply chain that manages flows of product, information and funds, a respected public-private partnership will be responsible for building trust among industry players, coordinating their roles in the network, and facilitating an equitable distribution of supply chain surplus

until a steady state of production is attained. At this point, the success of the first iteration will have some spillover effects, and feed subsequent refinements. This chapter points to some avenues for research on strengthening the developmental impacts of Chinese investments through responsible supply chain management and corporate engagement. Our hope is that conversations will continue around the relationship between globalization, country response, and sustainable economic development. This is important for strengthening the social contract in various African countries.

6. References

Adisu, Kinfu, Thomas Sharkey, and Sam C. Okoroafo. 2010. "The impact of Chinese investment in Africa." *International Journal of Business and Management* 5: 3.

Ado, Abdoukadre, and Zhan Su. 2016. "China in Africa: a critical literature review." *Critical Perspectives on International Business* 12: 40-60.

Amendolagine, Vito, Amadou Boly, Nicola Daniele Coniglio, Francesco Prota, and Adnan Seric. 2013. "FDI and local linkages in developing countries: Evidence from Sub-Saharan Africa." *World Development* 50: 41-56.

Ancharaz, Vinaye. 2009. "David v. Goliath: Mauritius facing up to China." *The European Journal of Development Research* 21: 622-643.

Arase, David. 2015. "China's two silk roads initiative: What it means for Southeast Asia." *Southeast Asian Affairs* 1: 25-45.

Carter, Craig R., Tobias Kosmol, and Lutz Kaufmann. 2017. "Toward a supply chain practice view." *Journal of Supply Chain Management* 53: 114-122.

Casciaro, Tiziana, and Mikolaj Jan Piskorski. 2005. "Power imbalance, mutual dependence, and constraint absorption: A closer look at resource dependence theory." *Administrative Science Quarterly* 50: 167-199.

Chen, Lurong, Ludo Cuyvers, Philippe De Lombaerde, and Wahyu Mukti Kusumaningtyas. 2011. "An Asean–Eu Fta, Regional Production Sharing, And Regional Cohesion. Focus on Cambodia, Laos and Myanmar." *South African Journal of Economics* 79: 411-427.

Cheru, Fantu, and Cyril Obi. 2011. "Chinese and Indian engagement in Africa: competitive or mutually reinforcing strategies?" *Journal of International Affairs*: 91-110.

- Cheung, Mee-Shew, Matthew B. Myers, and John T. Mentzer. 2011. "The value of relational learning in global buyer-supplier exchanges: a dyadic perspective and test of the pie-sharing premise." *Strategic Management Journal* 32: 1061-1082.
- Chia, Siow Yue, and Chalongphob Sussangkarn. 2006. "The economic rise of China: challenges and opportunities for ASEAN." *Asian Economic Policy Review* 1: 102-128.
- Child, John, and Suzana B. Rodrigues. 2005. "The internationalization of Chinese firms: a case for theoretical extension?" *Management and Organization Review* 1: 381-410.
- China Daily. 2017. "List of Deliverables of the Belt and Road Forum for International Cooperation". http://www.chinadaily.com.cn/china/2017-05/16/content_29359377.html. Accessed on August 1, 2017.
- Corkin, Lucy. 2007. "The strategic entry of China's emerging multinationals into Africa." *China Report* 43: 309-322.
- Corkin, Lucy, and Christopher Burke. 2006. "China's Interest and Activity in Africa's Construction and Infrastructure Sectors, Centre for Chinese Studies." *University of Stellenbosch*.
- Coughlin, Peter E., and Gerrishon K. Ikiara, eds. 1988. *Industrialization in Kenya: in search of a strategy*. East African Publishers.
- Cuervo-Cazurra, Alvaro, and Mehmet Genc. 2008. "Transforming disadvantages into advantages: developing-country MNEs in the least developed countries." *Journal of International Business Studies* 39: 957-979.
- Dawar, Niraj, and Tony Frost. 1999. "Competing with giants: Survival strategies for local companies in emerging markets." *Harvard Business Review* 77: 119-132.
- Du, Yuping. 2003. "Haier's survival strategy to compete with world giants." *Journal of Chinese Economic and Business Studies* 1: 259-266.
- Duysters, Geert, Jojo Jacob, Charmianne Lemmens, and Yu Jintian. 2009. "Internationalization and technological catching up of emerging multinationals: a comparative case study of China's Haier group." *Industrial and Corporate Change* 18: 325-349.
- Elu, Juliet U., and Gregory N. Price. 2010. "Does China Transfer Productivity Enhancing Technology to Sub-Saharan Africa? Evidence from Manufacturing Firms." *African Development Review* 22: 587-598.
- Ferdinand, Peter. 2016. "Westward ho—the China dream and ‘one belt, one road’: Chinese foreign policy under Xi Jinping." *International Affairs* 92: 941-957.
- Flynn, Daniel. 2013. "Africa Investment - China brings goods and roads, now Africa wants jobs". <http://www.reuters.com/article/africa-china-idUSL6N0FI3TE20130721>. Accessed on August 1, 2017.

Hawke, Gary. 2016. "Stagnation of Trade or Trade Reorganization? What Future for GVCS?." *Economy, Culture & History Japan Spotlight Bimonthly* 35: 1.

Hillman, Amy J., Michael C. Withers, and Brian J. Collins. 2009. "Resource dependence theory: A review." *Journal of Management* 35: 1404-1427.

Ikiara, Moses, and Lydia Ndirangu. 2003. *Prospects of Kenya's clothing exports under AGOA after 2004*. No. 24. Kenya Institute for Public Policy Research and Analysis.

Jilberto, Alex E. Fernández and Barbara Hogenboom. 2012. "Latin America and China: South-South Relations in a New Era", in Jilberto, Alex E. Fernández and Barbara Hogenboom *Latin America facing China: South-south relations beyond the Washington consensus*. Vol. 98. Berghahn Books.

Muhammad Saqib Irshad, Qi Xin and Hamza Arshad. 2015. "One Belt and One Road: Dose China-Pakistan Economic Corridor Benefit for Pakistan's Economy?", *Journal of Economics and Sustainable Development*, 6:24.

Jenkins, Rhys. 2010. "China's global expansion and Latin America." *Journal of Latin American Studies* 42: 809-837.

Johanson, Jan, and Jan-Erik Vahlne. 2009. "The Uppsala internationalization process model revisited: From liability of foreignness to liability of outsidership." *Journal of International Business Studies* 40: 1411-1431.

Kaplinsky, Raphael, and Dirk Messner. 2008. "Introduction: The impact of Asian drivers on the developing world." *World Development* 36: 197-209.

Kaplinsky, Raphael, and Mike Morris. 2008. "Do the Asian drivers undermine export-oriented industrialization in SSA?" *World Development* 36: 254-273.

Koopman, Robert, William Powers, Zhi Wang, and Shang-Jin Wei. 2010. *Give credit where credit is due: Tracing value added in global production chains*. No. w16426. National Bureau of Economic Research.

Kubny, Julia, and Hinrich Voss. 2014. "Benefitting from Chinese FDI? An assessment of vertical linkages with Vietnamese manufacturing firms." *International Business Review* 23: 731-740.

Luo, Yadong, Hongxin Zhao, Yagang Wang, and Youmin Xi. 2011. "Venturing abroad by emerging market enterprises." *Management International Review* 51: 433.

Neilson, Jeffrey, Bill Pritchard, and Henry Wai-chung Yeung. 2014. "Global value chains and global production networks in the changing international political economy: An introduction." *Review of International Political Economy* 21: 1-8.

McGreal, C. 2007. "Backlash as cheap Chinese labour and products follow investment from Beijing." *The Guardian* 5.

Onjala, Joseph. 2010. "Impact of China–Africa Trade Relations: The case of Kenya." *Final Report submitted to the African Economic Research Consortium (AERC), Nairobi*. <http://dspace.africaportal.org/jspui/bitstream/123456789/32373/1/kenyaPB5.pdf?1>. Accessed on March 1, 2017.

Pfeffer, Jeffrey, and Gerald R. Salancik. 1978. "The external control of organisations." *New York* 175.

Rolland, Nadege. 2015. "China's new silk road." *The national bureau of Asian research* 1-4.

Smarzynska Javorcik, Beata. 2004. "Does foreign direct investment increase the productivity of domestic firms? In search of spillovers through backward linkages." *The American Economic Review* 94: 605-627.

Stavis, M. 2017. "Kenyan Tea, a Reliable Export, Brews a Market at Home." *The Wall Street Journal*. <https://www.wsj.com/articles/kenyan-tea-a-reliable-export-brews-a-market-at-home-1488796208>. Accessed on March 1, 2017.

Sun, Irene Y. and Qi Lin. 2017. "Creating a Market for Skills Transfer: A case study of AVIC International's Skills Transfer Programs in Kenya. Working Paper No. 2017/14. China Africa Research Institute, School of Advanced International Studies, Johns Hopkins University. <http://www.sais-cari.org/publications>. Accessed October, 10, 2017.

Swaine, Michael D. 2015. "Chinese views and commentary on the 'One Belt, One Road' initiative." *China Leadership Monitor* 47: 3.

Takii, Sadayuki. 2005. "Productivity spillovers and characteristics of foreign multinational plants in Indonesian manufacturing 1990–1995." *Journal of Development Economics* 76: 521-542.

UNCTAD. 2012. "Technology and innovation report 2012: Innovation, technology and south–south collaboration". New York and Geneva: United Nations. http://unctad.org/en/PublicationsLibrary/tir2012_en.pdf. Accessed on May 1, 2017.

UNCTAD (2016). General Profile: Kenya. <http://unctadstat.unctad.org/CountryProfile/GeneralProfile/en-GB/404/index.html> Accessed on May 1, 2017.

Van der Lugt, Sanne, Victoria Hamblin, Meryl Burgess, and Elizabeth Schickerling. 2011. "Assessing China's role in foreign direct investment in Southern Africa."

World Development Indicators (WDI)World Bank (2016). <http://eac.opendataforafrica.org/digdgyc/world-development-indicators-wdi-october-2016>. Accessed on May 1, 2017.

World Integrated Trade Solution (2013) Kenya Trade Summary 2013.
<http://wits.worldbank.org/CountryProfile/en/Country/KEN/Year/2013/SummaryText> Accessed
on May 1, 2017

Wang, Zhi, Shang-Jin Wei, and Kufu Zhu. 2013. *Quantifying international production sharing at the bilateral and sector levels*. No. w19677. National Bureau of Economic Research.