China’s Private Enterprises in Africa and the Implications for African Development

Dr Jing GU

Institute of Development Studies

Email: j.gu@ids.ac.uk

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This paper evaluates the growing presence of China's private business sector in Africa. Currently, attention focuses on China's state-owned enterprises in extractive industries. Less attention is paid to Chinese private enterprises. This study fills a knowledge-gap by evaluating characteristics and motivations of Chinese private firms in Africa and assesses their development impacts. Key findings are that the Chinese private firms have followed their own paths to Africa and the primary factors driving private investment are African market opportunities, competition within China and the presence of a strong entrepreneurial spirit. An effective mechanism bridging a gap between China's Africa Policy and its implementation in terms of private sector engagement is lacking. To maximise development gains, a top-down and bottom-up 'two-way street' approach to Chinese public-private sector relations is necessary. This is a mutual learning process for the Chinese public and private sectors and also China-Africa relations. These are fluid relationships with each adapting to and shaping the other.

Key words: Africa; China; development; private investment; private enterprises

1. Introduction

The scale of the rapidly growing engagement between China and Africa has generated debate around two issues: what motivates this engagement, and what are its implications for Africa's sustainable development? (Broadman, 2006; Chan, 2006; Goldstein, Pinaud, Reisen and Chen 2006; Tull, 2006; Wild and Mepham, 2006; Alden, 2007; Chin and Frolic, 2007; Li, 2007; He, 2007; Davies, Edinger, Tay and Naidu, 2008; Manji and Marks, 2007; World Development Special Issue, 2008; Gu, Humphrey and Messner, 2008; ADB, 2008; Dollar, 2008; Review of African Political Economy, 2008). Based upon extensive empirical research undertaken in Africa and China, this article examines the character of Chinese private enterprises and investment in Africa and identifies development implications.

China's African investments create a combination of optimism, concern and puzzles. Optimism derives from the fact that increasing investment is critical for accelerating economic growth in Africa and, the global financial crisis notwithstanding, Chinese investors seem ever-more willing to invest. Concern arises partly from the general perception that Chinese involvement in Africa (both state and private sector) has characteristics that are in some ways distinct from the involvement of OECD countries. These might distort economic growth, compromise the pursuit of the Millennium Development Goals, and obscure the issues of good governance, human and labour rights. Puzzles relate to why Chinese firms are so willing to invest in Africa? What drives their investment?

Unlike Chinese state-owned enterprises (SOEs), the roles and significance of private investment and entrepreneurial activities have been under-researched. Conventional wisdom accepts a strong, directive role for the Chinese government as the powerful motivating and guiding force behind the rapid expansion in Chinese investment in Africa. Yet since 2005, 'the private sector, rather than government ministries, is increasingly the engine of economic exchange between China and Africa.' (Wang, 2007).

In this paper we review the motivations of private sector Chinese investors in Africa, based on interviews in eight Chinese provinces and three African countries. The database which we have generated is referred to in subsequent discussion as the China-Africa Project Survey. The section discussing the 'Features and Trends of China's Enterprises in Africa' briefly reviews the growth of Chinese investment in Africa. The 'Main Characteristics of Chinese Private Firms in Africa' section addresses the main aspects of this investment. The 'Why Invest in Africa?' section identifies the primary factors that drive Chinese private sector investment in Africa, and the major constraints that they perceive are discussed within the

‘Constraints Experienced by Chinese Private Sector Investors in Africa’ section. The manner in which Chinese firms obtain knowledge about the African market is considered in the section entitled: ‘How Do Chinese Investors Learn about Market Opportunities in Africa?’ This is followed in the Chinese Government Support for Outward Investments to Africa’ section with an assessment of the support provided by the Chinese public sector to investment by its private sector in Africa, and in the ‘Development Implications for Africa’ section with a review of the developmental impact of this private sector investment. The concluding discussion draws out a series of relevant policy issues.

2. Features and Trends of China’s Enterprises in Africa

Until recently, Chinese firms have gone to Africa for three major reasons. Firstly, they went to start-up development projects. Those firms that were able to enter African markets early through development assistance projects, gained an advantage to learn about local markets and then to use their familiarity with Africa to make subsequent investments. Secondly, particularly a limited number of apparel manufacturers established processing factories in Africa in order to increase their sales and, for some of these the idea was to circumvent US and EU protectionist trade restrictions on products from China by changing the country-of-origin of their goods and gaining access to these developed markets under their preferential trade agreements with Africa. Thirdly, investments have involved the search for oil and gas and other resources to export to China:

Table 1 below characterises five phases of Chinese companies’ engagement in Africa The first stage (1949-1980s) related to Chinese aid projects; the second (1980s to mid-1990s) involved large SOE trading companies; stage three (mid 1990s-2000) saw the entry of large SOE and private companies into manufacturing often involving linkages from resource based and infrastructure investments; phase four (2000-2005) saw the growth of spillovers from these earlier large scale investments, and in the most recent phase (post 2005) the entry of a new family of small scale private sector Chinese firms into Africa.

The most salient FDI here, and the primary subject of this paper, is in Stage 5 as its driving force is rooted in critical structural adjustments in the Chinese and global economies. Seeking an escape from the pressure cooker of domestic competition and surplus production, China's private firms find some relief overseas in Africa's large markets and relatively less intense market competition from local firms. A key aspect of this fifth stage is that these firms tend to act autonomously from the Chinese government's policy frameworks and existing bilateral arrangements. As these enterprises have moved to Africa, they have spurred the development of a Chinese support infrastructure such as business associations, community groups as well as expanding embassy and consular facilities.

Table 1: Growth Stages of Chinese Companies in Africa

Stages	Main features
Stage One: 1949-1980s	Limited number of Chinese companies, mainly implementing Chinese Governments development Aid Projects
Stage Two: 1980s-mid 1990s	Large national and provincial level State-owned Trading Companies, closely associated with diplomatic agenda; few private companies.
Stage Three: Mid 1990s-2000	Emergence of large State-Owned Enterprises mainly resource-seeking, strategic asset-seeking, and infrastructure investments; Increasing number of private companies start exploring African market.
Stage Four: 2000 – 2005	Expansion of large State-Owned Enterprises and private companies; emergence of clustering development strategy e.g. Trade zones; industry parks.
Stage Five:	Acceleration of private companies in various sectors and continued expansion

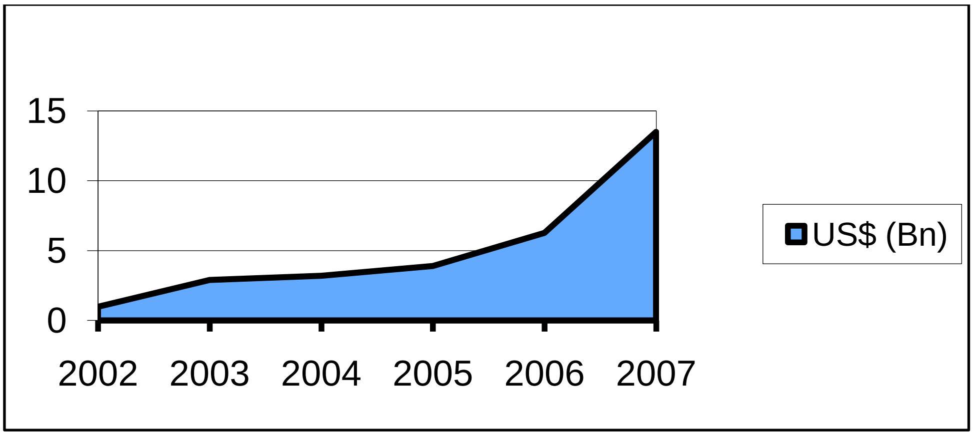
2005—present	of SOEs; the development of clustering industry strategy.

Source: China-Africa Project Survey

Although Chinese investment in Africa remains a relatively small proportion of China's global FDI (4%), there has been a remarkable explosion in Chinese FDI to the African continent. It is not, therefore, the stock or absolute level of Chinese FDI into Africa that is significant, but the remarkable speed of the growth in this investment. Recent years have seen China's direct investment and trade with Africa rising fast. The volume of trade between China and Africa has risen very rapidly, exceeding US$100 billion in 2007, an increase of almost 40% year-on-year. This makes China the third-largest trading partner for Africa (People's Daily, 2007).

Investment and trade are complementary. Figure 1 shows the rapid growth in investment from China into Africa. China's accumulative investment in Africa rose from $982.7 million in 2002 to $13.5 billion at the start of 2007. In 2007, the flow of FDI had more than doubled over the previous 2 years, reaching $650 billion. As we have noted above, whilst significant investment in Africa has come from the Chinese SOEs, the investment from China's private enterprises is growing quickly and is widely expected to take the lead in establishing and maintaining these links.

Figure 1: Chinese Accumulative Investment in Africa 2002-2007



Source: MOFCOM (2007a)

Estimates regarding the number of Chinese enterprises in Africa vary considerably. In 2006, the Chinese EXIM Bank estimated that there were about 800 Chinese companies operating in Africa. According to this data, approximately 85% were privately owned. However, evidence from interviews with Chinese Embassies and the Chinese business communities in Africa during 2007 and 2008 indicates that China now has more than 2,000 enterprises in Africa. According to one senior Chinese official interviewed by the author: 'To be honest, we don't know how many firms, especially private firms, invest overseas. There are only about 2,800 companies registered with us [in our Province]. In fact, I believe that there are more than 28,000. Even 10 times is a conservative figure.' The majority of Chinese enterprises in Africa are private companies.[1]

Chinese private investment in Africa is increasingly in manufacturing. For instance, if one considers Ghana's 336 Chinese investment projects, more than 100 are in the manufacture sector.[2] In Ethiopia, about 66% of Chinese companies are in the manufacture sector (Geda and Meskel, 2008). Chinese enterprises are springing up all over Africa, working across industries such as agriculture, forestry, food processing, fishing, furniture manufacturing, footwear, textiles and garment making, pharmaceuticals and services. They are not simply operating within the conventional sectors of oil and extractive industries associated with Chinese SOEs activity. These investments are also distributed widely across Africa. By the end of 2006, China's FDI had already spread across 49 African countries and regions (Africa Investment, 2008).

3. Main Characteristics of Chinese private firms in Africa

The study is based on extensive field research in 8 provinces and regions in China and in Ghana, Nigeria, and Madagascar. Quantitative and qualitative data was collected from the 80 Chinese firms and 30 designated senior government officials, as well as Chinese and African business associations across a comprehensive range of industrial sectors. Interviews in China and Africa were arranged via a variety of formal and informal governmental, business and academic contacts. Data was acquired through written questionnaire; face-to-face, in-depth interviews and China-Africa Business Council (CABC) and All-China Federation of Industry and Commerce (ACFIC) databases. Research was conducted by a team of Chinese interviewers (in Chinese in China, and English and Chinese in Africa). The interview methodology used was qualitative and involved participant observation and intensive interviewing based upon semi-structured interview formats.

The China fieldwork (in 2007 and 2008) interviewed senior central and provincial government officials, peak business association representatives, and corporate executives, comprising 65 in-depth interviews. In Africa, interviews were conducted in May-June 2008 in Ghana, Nigeria and Madagascar, involving a total number of 30 interviews with Chinese corporate executives and 15 senior African government officials, Chinese and African peak business association representatives and inter-governmental organization representatives.

As shown below, the key features of this FDI engagement are that they primarily involve small and medium enterprises (SMEs), that they reflect a strong entrepreneurial drive, that they are affected by the province of origin, that they involve a three-stage "jump" in their dynamics (from trading to manufacturing to the establishment of industrial parks), that they involve greenfield sites, make limited use of local labour skills and that they are often spurred by competition in Chinese markets.

3.1 Small-Medium Enterprises (SMEs)

The majority of the Chinese private firms in Africa are SMEs. These enterprises are highly flexible and adapt quickly to local conditions. So far, only a very small number of large Chinese private manufacturing firms have invested in Africa such as Huawei Technologies, Holley Group, and Zhongxing ZTE Corporation among others. According to one Chinese senior corporate executive interviewed for this survey, some of the other larger firms lack the ambition to go to Africa because they think the Chinese domestic market is so huge and they are satisfied if they can do well domestically.

3.2 Strong entrepreneurial drive

At their heart, these Chinese SME's are characterised by a strong entrepreneurial spirit or ethos. They are risk-taking ventures with a powerful work ethic.[3] As one Chinese CEO interviewee remarked: 'We work very hard, we can accept real hardship!' In terms of defining the type of entrepreneurship in play here, the key is not the objective conditions of the African market which are similar for all entrepreneurs, whether Western, African or Chinese, but the subjective element in the character of the Chinese entrepreneur. Chinese entrepreneurs are willing to go into areas where the profit margins are very low to begin with, and supply chains are weak. The hope is that, in the long term, they will become strategically very effectively placed to expand into leading positions. This is corroborated by African perceptions, for example a senior Ghana Investment Promotion Centre officer commented: ‘They [the Chinese] are hard-working, very adventurous and innovative.’[4]

Most firms chose, firstly, to put the emphasis on the need for flexibility and adaptability to changes in the market. Secondly, they wish to stress the need to seize the opportunity. The Chinese entrepreneurs have changed the concept of risk because when Western firms see “risk”, Chinese entrepreneurs see “opportunity”. In other words the objective opportunities are the same, but the Chinese are thinking in the longer term, with hard conditions of work and lower profit margins in the short run.

This thinking is evident again in firm responses to the question: ‘What is your company’s African strategy for the next three years?’ The responses were to: consolidate their position in existing markets they have already gained, to increase the size of the investment in these markets and expand into new markets. This is a long-term strategy of an entrepreneur creating opportunities. When asked why they thought some firms failed, they attributed failure to subjective factors, such as strategic mistakes and incorrect information.

Secondary factors stressed by the entrepreneurs included essentially subjective elements (i.e. to do with the personal characteristics of the entrepreneurs) such as good planning and provision of correct information, host government support. Only later were factors cited such as comparative advantage vis-¨¤-vis competitors, good partnership and, finally, the application of the experience gained in China.

3.3 Disparities in the originating provinces

There are disparities in the originating provinces for FDI from China to Africa. China’s private firms are highly concentrated in origin as the majority come from several Chinese provinces and coastal regions: primarily Zhejiang, Guangdong, Fujian, Jiangsu and Shandong. Among Chinese provinces, Zhejiang ranks first in investment to Africa. Up to November 2007, Zhejiang had invested US$167 million in Africa. According to the Zhejiang Foreign Trade and Economic Cooperation Bureau, it had approved some 219 company investments 'going out' to Africa. However, this is likely to be a conservative figure as many firms did not register with the Government. Zhejiang enjoys one particular advantage that many other Chinese provinces do not have, namely, the overseas Zhejiang diaspora. It is estimated that there are over 1 million overseas Zhejiangese and, with many based in Africa, this was said by Zhejiang's companies to be a strong factor in facilitating their investments.[5]

3.4. A 'Three Jump' Pattern of trade-investment and Enterprise Growth

The firms surveyed confirmed the following pattern. Most firms began by trading with Africa, leading on to their decision to invest. Where local supply infrastructures are weak, these firms find that they have to source most of their parts and equipment from China and other countries. This leads to the elements of trading and investing continuing to be interactive, largely because of the ongoing weaknesses of local infrastructure. However, a positive effect of the process has been to increase intra-regional trade among African countries. There is, finally, a third stage so that one can speak of a three-jump pattern of investment. After trading and investment, partly because of the poor state of the African supply base and because of the spillovers arising from locating close to other Chinese firms, the investment matures into the establishment of industrial parks.

The experience of a Chinese baggage manufacturing company is typical. The firm began trading with Africa in 2000. Three years later it established its own factory in Nigeria. The Nigerian Government's regulations prohibit the import of fully-manufactured suitcases (Cotecna.com) and this was a key factor in this company's decision to move from the trade relationship to then set up its local factory. However, until a strong local supply chain can be developed, partly in conjunction with the company, many parts still have to be imported in order to complete the production process. The company's primary market is the domestic Nigerian market but it also brings in export revenues for Nigeria by exporting its locally manufactured goods to other African countries such as Ghana.[6]

In terms of the pattern of these firms' investments, industry parks have become a new trend in the way that Chinese firms invest in Africa. Groups of Chinese firms locate together in these parks, gaining mutual support and coordinated production. This approach can reduce costs and create an industry cluster and a favourable investment environment. According to the CEO of the Yuemei Group, a well-known textile enterprise in China, his company is following a 'three jump' pattern in entering the African market. The first 'jump' is to establish a trading post; the second is to invest in Africa to build a local manufacturing factory; and the third is to create an industrial park. The company's intention is to invest over US$50 million to construct a Yuemei Nigeria Textile Industry Park. It is said that, if brought to fruition, this will be the first textile industry park set up outside China. Once the industry park is completed, it is expected to have an initial complement of 15 Chinese textile firms and will employ more than 3,000 African workers.[7] In future, this industry park expects to attract African firms to locate on the park.

3.5. 'Greenfield' investments and the sourcing of labour

Many private investments are also 'greenfield' and provide much greater opportunities for new employment for local labour. Fieldwork evidence indicates that most of these private firms initially established contact with the Chinese diaspora in Africa before undertaking their investments. Once the FDI has been committed to establishing local operations, the majority of the employment is drawn from the local labour force. However, survey results are somewhat ambiguous, as the high degree of variance among companies' reports on use of local labour is difficult to interpret. In general, Chinese companies surveyed employ most of their local workers in production whilst the Chinese are normally in managerial positions. The percentage of the local labour force is high. For example, in the Haitian Suitcase and Baggage Company in Nigeria some 93% of its workforce is local African. Likewise 91% of the workforce of the Songlin Company in Ghana is local labour. 90% of the workforce of the Glory Garment Co. Ltd in Madagascar is local. This is also because African laws restrict import of labour. Some companies interviewed said they would like more managerial staff from China, but they cannot get the work permits for them because of these regulations. Hence, the role of the African governments is important.

3.6. Competitors and linkages

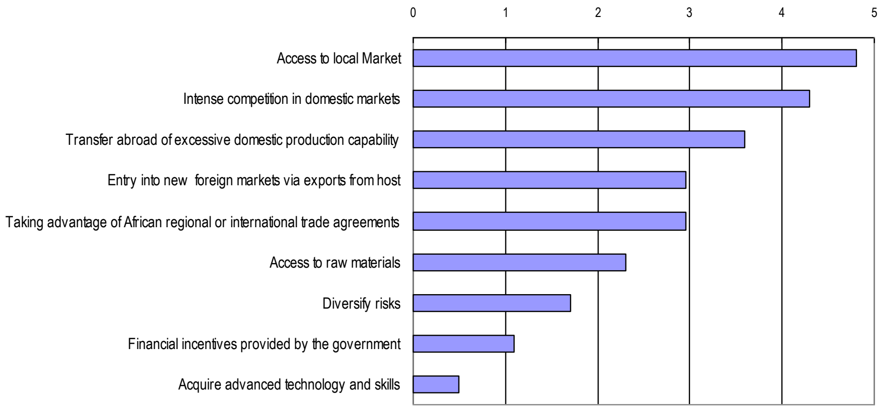
Chinese firms tend to compete most fiercely with one another rather than with other foreign or local firms, which they can outmaneuver quite easily in terms of cost of their products. This fact is also connected to the "greenfield" character of activities of Chinese companies that produce goods which were previously imported, or produce them at costs which a wider African market, rather than the restricted elite, can afford.

There are weak linkages between Chinese firms and local African firms. This influences the extent to which technological transfers and business know-how can be successfully undertaken. Interviewees reported that this is also partially because of the issues of language and cultural understanding that Chinese companies face as well as different working practices. A mutual lack of information causes great uncertainties in business partnerships between the Chinese and Africans. MOFCOM officials such as Deputy Director Lu Bo recognise that: 'Chinese companies still lack knowledge of African people and African markets. ¡- Chinese companies are not deeply rooted in Africa, therefore we must be well-prepared for all kinds of challenges and problems' (Beck, 2007). Yet, if there is such a degree of uncertainty, why do Chinese firms seem so willing to invest in Africa?

4. Why invest in Africa?

Primary evidence from the interview surveys suggests that the increase of Chinese private investment in Africa is a result of both domestic and global factors. The survey of Chinese private firms sought to identify the factors leading them to invest and operate in Africa. Each corporate respondent was asked to indicate, and rank in order of importance, those factors that were decisive in its investment decision. The top five motives for investing identified by these firms were: (1) Access to local market; (2) Intense competition in domestic markets; (3) Transfer abroad of excessive domestic production capability; (4) Entry into new foreign markets via exports from host; (5) Taking advantage of African regional or international trade agreements (Figure 2).

Figure 2 Reasons for Investing in Africa



Source: China-Africa Project Survey

‘Push’ factors stem from the fact that from the late 1990s, China started to restructure its economy, recognising the need to upgrade its manufacturing capacity, moving up the scale of value added production, thereby increasing its international competitiveness. Particularly**,** China’s coastal area has experienced great adjustment. For example, Zhejiang province, after years of high speed economic growth, had an outdated industry structure with serious problems. Its booming private economy enjoyed a number of comparative advantages yet at the same time it was limited by many factors from growing further. For example, many new entrants into the market, and an inability to find sufficient domestic consumption, created excess production capacity (e.g. in light textile, electronic appliances and machinery[8]) and led many firms to look to establish operations overseas in new less challenging markets. Since these Chinese firms have established themselves in China in very basic market conditions they have a comparative skills advantage over against Western companies when they expand operations to similar markets in Africa.

An example is Ningbo C.S.I Power & Machinery Group. It has a successful business in Africa, which is to supply the construction of small to medium power plants. It has built 20 power plants in Nigeria and is planning to increase investment in other manufacturing areas and also to build an industry park. When asked about their decision to invest, the Company’s executives said: ‘This was mainly due to the necessary industry policy adjustment in the late 1990s and also due to the fact that China and Africa are both developing countries. We feel comfortable in investing in Africa.’[9]

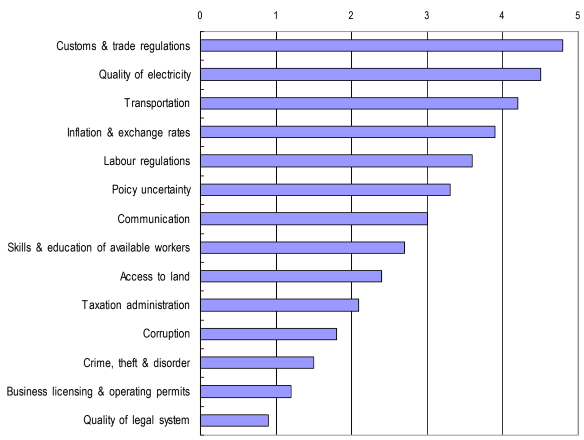
However, Chinese FDI in Africa does not just reflect “push-factors’. Although the ferocious domestic competitiveness and continuing structural adjustment of the Chinese economy are the context of firms’ decisions to go to Africa, Chinese firms operating in Africa are also attracted by pull-oriented explanations. A view widely shared among Chinese entrepreneurs in Nigeria is that: 'This part of Africa is like the 1980s and 1990s in China; it is full of commercial opportunities.'[10] When questioned why they decided to invest in Nigeria, the answer was that it is the second largest economy in the African region. The huge market was listed as the most attractive factor. Nigeria could also serve as the way to achieve access to the West African sub-regional market. When asked about their perception of the investment climate in Africa in general, there is even a saying among the Chinese investors: 'Despite the strong wind and wild waves, the deepwater still has fish to be found.'

5. Constraints experienced by Chinese private sector investors in Africa

Figure 3 details the most and least important problematic factors for these firms in their assessments of the investment climates of the countries in which their businesses operate. Constraints on importing, poor infrastructure, weak macroeconomic management and labour regulations all scored highly as constraints, followed by a lack of skills in the labour force. Interestingly, unlike many western investors, corruption, crime and bureaucracy did not seem to disturb Chinese investors particularly.

Figure 3: Chinese Business Perceptions of African Investment Climates:

Most important constraints



Source: China-Africa Project Survey

6. How do Chinese investors learn about market opportunities in Africa?

Information about Africa and the investment climates was a central factor leading to entry into African markets by these firms. Figure 4 illustrates the most valuable information sources for Chinese investors when making their original investment decision. In response to the question 'How did you find out about opportunities for investment in Africa', the top two sources were identified as being, firstly, through friends or networking introductions and, secondly, through trading experience.

Figure 4: Sources of Information

Top	Through friends or networking introductions; Through own research and trading experience;
Important	Central government; Chinese Embassies in Africa; Local Chinese business and community networks in both China and Africa;
Less Important	Local government; Other firms in the area.

Source: China-Africa Project Survey

Ranking the sources of information for their firm's investment, central government, Chinese Embassies in Africa, and also local Chinese business and community networks in both China and the African states were all cited as most important. Less important to these investing firms were the roles of local governments or other firms in the area.

7. Chinese government support for outward investments to Africa

Whilst at the central level there is strong enthusiasm and emphasis on China-Africa relations, at the Provincial and local level, in China, there is less enthusiasm and less attention is paid to China-Africa links. Firstly as will be shown below, in reality, the 'going global' fund allocates very little to firms that invest in Africa. Moreover, many local firms and enterprises do not have much knowledge or understanding of the policies relating to going out and investing in Africa. One CEO observed ‘The government in Beijing is highly motivated and fired up to push the China-Africa relationship. At the local government levels though, attitudes are much cooler and calmer towards China-Africa. We don’t know whether they have policies or, if they do, what kind of policies our local government has towards this.’ ‘We have learned about central government policies about China-Africa from the media, television news or newspapers. We do not know the policies or exactly how they operate in reality.’[11]

Even in the most active provinces in China-Africa investment, there have been only a handful of training sessions organised by local governments to disseminate and explain government policies related to investing in Africa and to China-Africa relations. The Chinese business men interviewed explained that the reasons might ‘involve the issue of local protectionism such as lost tax revenues accruing to local governments if these firms leave to go overseas to Africa.’ A local Chinese official’s view is generally representative of many local officials: ‘About the private firms’ investment in Africa, while the firms’ enthusiasm is rising, my enthusiasm is falling. The reason is that if problems arise we have to help them to solve them, we have to clean up the mess. But how can we help them? So we don’t want them to go out – far too much trouble! However, on the whole, the private firms have more opportunities than challenges in Africa. They are very enthusiastic about that. But the crucial thing is how to ‘go out’. I object to firms blindly going out. They need to plan in detail in advance.’

In the interviews conducted in China, many firms identified the ‘going out/going global’ strategy, industrial structural adjustment and transfer of production over-capacity, and trade zones provision as the primary factors contributing to the growth and development of their firms' business in Africa. Yet, this perspective was contradicted by the views of Chinese managers (including African subsidiaries of firms interviewed in China) in Africa. Here the evidence was that the local Chinese managers knew little or nothing about the policy or practical support. So why is this?

China's 'Going Out Strategy', that is, investing abroad, was a major step in China's economic and diplomatic expansion from the early 1990s, which reached a new stage with the accession of China to the WTO in 2001 (Cai, 2006; Berger, 2008). Its aim was to encourage and support firms with comparative advantage to invest overseas. It was designed to meet the challenges of over-capacity in production within the Chinese economy and to strengthen processes of industrial structural adjustment. In this sense, the strategy has a significant meaning for China in strengthening the competitiveness of Chinese enterprises by facilitating the search for natural resources, encouraging greater efficiency through mergers and acquisitions, gaining advanced technology, enhancing industrial research and development, and transcending trade barriers.

The 'going out' strategy includes a range of practical measures to promote overseas investment, such as financial support and information dissemination. Through it the Chinese government provides a range of state-sponsored promotion factors – many of which are simply symbolic - for Chinese private investment, including special and general tax incentives, credit and loans, and a favourable import and export regime. It was recognised that SOEs would require more substantial support. In October 2004 the National Development and Reform Commission (NDRC) and the Export-Import Bank of China (Eximbank) jointly decided to provide significant support to priority overseas projects (Cai, 2006). Furthermore, other Funds support key overseas investment projects, usually in quite open negotiations with Foreign Governments, as part of a wider intergovernmental package.

The central government promotes SMEs exploring overseas markets through the 'Small-Medium Enterprises International Market Development Fund'. China has more than 40 million SMEs, which account for 99% of Chinese companies, making up 60% of Chinese exports (MOFCOM, 2007). SMEs whose export volume is below US$15 million are entitled to apply to this fund, but the maximum they can get is approximately US$100,000 (RMB700,000). More than 76,000 SMEs have benefited from this Fund in sectors such as food processing, agriculture, textiles, and electronics. Support is geared to the size of the investment, and is generally limited to US$10,000 or less (Gang, 2008: 14). However, the nature of Government/private sector relations makes it difficult for private companies to avail themselves of this facility. This example of the limits to support for SMEs, despite the commitment to a 'going out strategy', reflects a world in which private firms are largely bereft of practical government support and, in practice, they have followed their own paths overseas. As one CEO puts it, 'We heard there are some policies, but we don't know what they are about.'[12]

In summary, Chinese investors and enterprises face a significant challenge in the perceived gap between policy *formulation* and policy *implementation*. Moreover, there continues to be a lack of knowledge about culture and communication in Africa among Chinese investors. In spite of the possible obstacles, Chinese firms see Africa as an opportunity to be risked rather than perceiving it as a problematic investment ground. Most CEOs were very optimistic about their future prospects. When asked what Chinese government could do to support their operations in Africa, Chinese investors and enterprises ranked the key issues in the following order:

1. The need for Chinese local embassies and other official organisations to provide active support for investments.
2. More bilateral or multilateral free trade agreements.
3. Simplifying the procedures and regulations for Chinese firms to invest overseas and to acquire the necessary capital to make such investments. In part, this helps explain why many firms have not registered with the government. One CEO said that: ‘What’s the point of registering with the government? What kind of benefit or service do I get?’[13]
4. Provide loans from the EXIM Bank, Development Bank, or other banks’ overseas branches.

8. Development implications for Africa

A senior Chinese official argued that China’s approach is to try to encourage both Chinese SOEs and private SMEs to cooperate in the development of Africa. SOEs and SMEs are believed to better understand local African needs and, when they report to the Chinese government, it will then try to address those issues. This view underlies the Chinese government’s perception of a ‘win-win’ strategy in Africa. As a Chinese official said, ‘Though they [private firms] are not as big as the state-owned enterprises in terms of investment volume, they have a big impact on the grass roots level. So how to guide them or support them are very important issues for the implementation of our Africa policy.’[14]

However, the relationship between the Chinese private business sector and the Chinese public sector in Africa is still in a state of flux. Ideally the Chinese government, whether national or provincial, would like to be able to work with the private sector in Africa so that it can deal collectively with some emerging developmental issues and thereby ensure implementation of its policies. But, as observed above, few of the interviewed Chinese private sector firms share a sense of being part of an overall project, strategy or expectation. Consequently, there is a significant difference between expectations of how such investment *ought* to bring developmental gains to Africa, and the extent to which Chinese investment *is* able to deliver such benefits in practice. These differences can be seen in relation to industrial and social and environmental development issues.

8.1. Industrial development

From some African perspectives, expectations of the gains to be realised from inward Chinese investment are high. Hopes rest in particular upon the capacity for Chinese investment to actively drive an upgrading of Africa's role in the global manufacturing value chain. It is argued that, as China itself moved up the global manufacturing value chain, then so too can Africa. As Chinese enterprises relocate to Africa, they should provide opportunities for local enterprises to learn from Chinese experience, to access the Chinese value chains and gain enhanced value-added access to global value chains in the global economy.

Chinese private investment potentially delivers a number of benefits. These range from providing an important source of additional investment capital at a time when Aid alone is unable to meet Africa's perceived shortfall; to offer employment opportunities; to contribute to poverty-alleviation; to generate a significant multiplier effect through the local economy by way of local sourcing and provision of local management expertise; to engage in technology transfers; and to inculcate production, management, distribution and marketing skills and innovation knowledge.

However, whilst there is clearly a large potential for Chinese investment to bring developmental benefits to Africa, the reality is that the actual development impacts on a host economy depend upon several critical factors. Kragelund points out that there are four factors that are of particular importance here: (a) the *investment motives* of the investing firms; (b) the *time horizon* of the investment; (c) the extent of *linkages to other firms* in the economy and (d) the *capacity* of the local firms to absorb spillovers and face competition (Kragelund, 2007).

Regarding the first of these factors, investment motivation, evidence from the interview survey of the CEOs of private Chinese firms investing in Africa indicates that, contrary to the conventional wisdom on Chinese FDI in Africa, private investment was emphatically market-driven. Consequently, their investment motives reflect both the intensive competition being experienced in the Chinese marketplace today as well as the attractiveness of African markets and the growth potential identified by the enterprises themselves.

In such a context of Chinese investment motivation it is a cause for concern that, as Brautigam has noted, where the provision of an inward investment regime is either weak or rejected as a development option by a host Government, then the opportunities for technology and knowledge transfers are made more limited. Indeed, there is a need for African governments to fine-tune their investment regimes to the new situation represented by the surge in Chinese investment. This absence or failure is exacerbated by a shortage or lack of local business personnel with the requisite technical know-how and skills for technology transfers (Brautigam, 2008). The perception of the 'lack of a skilled workforce' has been a typical feature of the African investment climate in the eyes of the Chinese investors. An additional key factor, however, is whether a viable production and supply capacity exists in the host economy. Given the potential financial, commercial and logistical benefits that can accrue to a Chinese firm from being close to its suppliers, Chinese CEOs are, at least in principle, open to local sourcing linkages. However, the absence of local networks of specialised supplies or, where they do exist, the high cost and often poor quality of goods, means that many Chinese firms simply turn to the reliable, tried and tested, and cost-competitive established suppliers back in China. This then necessitates additional imports. The fieldwork research interviews with Chinese CEOs in Africa had most firms confirming that they have to source most of their parts from China. This problem is particularly acute in instances such as the footwear sector where host governments impose local content targets on such firms. The limited capacity of local firms to deal with 'spillover' and to compete robustly with Chinese firms in the local market is also held to reflect such considerations.

The onset of the global financial crisis raises new questions regarding China's continued public and private investment intentions in relation to Africa. Preliminary research by the author in Beijing in January 2009 indicates a continued commitment, with entrepreneurs stating their intention to continue to invest in Africa and an interest among such entrepreneurs to move up the value chain in their African activities. In a new trend, the stated intention is to move 'upwards' from low value-added products towards middle-to-high value-added goods that they believe have a sustainable demand in African and other markets. Already, Africa is called the "Best refuge for sunstroke prevention from the Financial Crisis" (Guangdong Daily, 2008) Chinese companies exporting to Europe and America have to adjust rapidly to the slowdown in these markets by finding new markets, such as in Africa.

8.2. Social and environmental development

Chinese firms are subject to intense scrutiny and evoke strong criticism regarding an alleged lack of corporate social responsibility ranging from failures over labour rights to environmental neglect. Michelle Chan-Fishel has argued that 'Chinese companies are quickly generating the same kinds of environmental damage and community opposition that Western companies have spawned around the world.' (2007: 139) Part of the cause of this problem is to be found back in China and the issues of corporate social responsibility to be found in the domestic situation. China's dramatic economic growth came with a high environmental cost with corporate social responsibility a lower priority for Government in the past and, consequently, it has not really figured in China's enterprise culture until recently. This remained the case as Chinese firms established their African operations. Only with the recent emphasis of the Chinese Government on 'scientific development', sustainable and harmonious growth, have the 'green' credentials of China's firms come under close scrutiny (Kaplinsky, 2008). Thousands of Chinese firms failing to reach the new green standards have been closed down by the Chinese Government. Some of these have relocated to countries, including some in Africa, where regulatory requirements are less stringent or less severely enforced. Other Chinese firms, however, have responded more positively to considerations of social responsibility, including environmental challenges both at home and in Africa. But these are not usually the SMEs. There is a pressing need to get these enterprises more engaged in the landscape of social development in Africa. In Ghana the UNDP, recognising the key role now being played by Chinese private firms in Ghana's economic development, is actively seeking to open a dialogue with these firms and initial corporate responses appear encouraging with Chinese CEOs open to such dialogue. But the Chinese CEOs stress that they are primarily commercial entities and that a joint effort is needed with national agencies in the context of enhanced practices of good governance and with interested international organisations.[15]

These questions of public standards and whether Chinese SMEs, driven primarily by market forces, can be expected to observe them, raise issues similar to those of transparency of company-government relations in developing countries. Here, as with bribery laws, it is not simply a matter of individual African states expecting Chinese companies to observe national standards or the Chinese government back home expecting this either in China or in Africa. There must be intergovernmental collaboration, through Chinese-African fora, to ensure that individual companies cannot go 'shopping' for countries with low standards and those well behaved companies will not lose out to badly behaved companies.

9. Conclusions

This paper has evaluated the growing presence of China's private business sector in Africa. Currently, attention focuses on China's state-owned enterprises in extractive industries. Less attention is paid to Chinese private enterprises. Conventional wisdom about China's investment in Africa holds that it is largely resource focused, conducted by large SOEs, and driven by Chinese State interests rather than market forces. The evidence of the practical realities of Chinese private companies in Africa beyond the resources sector presents a different picture. This study has shown the established view to be one-dimensional and thus significantly flawed as a general explanation of China's role and impact in Africa. Consequently, the actual developmental role and impact of Chinese investment is often either misunderstood or misrepresented.

Our knowledge of China-Africa relations requires a greater understanding of the relationship between the Chinese public authorities, mainly the Chinese government, and China's private sector. This study has sought to contribute to the stock of knowledge on this relationship by evaluating characteristics and motivations of Chinese private firms in Africa and assessing development implications. In addressing this, this study posed three central questions: (i) "What are the principal characteristics and trends of Chinese private investment and

Chinese enterprises in Africa?" (ii) "Who or what is driving this investment and the outward expansion by Chinese private enterprises ©¤ the Chinese authorities or China's increasingly strong private entrepreneurs?" (iii) "What are the implications of this growing private sector presence for African development?" There are five primary conclusions.

Firstly*, the Chinese private firms in Africa are mainly SMEs and these risk-taking entrepreneurial firms have followed their own paths to Africa*. Following commercial rather than policy imperatives, the 'three jump' pattern of engagement saw these enterprises move to make their investments and establish their operations in Africa.

Secondly, *an effective mechanism bridging a gap between China's Africa Policy and its implementation in terms of private sector engagement is lacking.* In following their own path in terms of internationalisation and investment in Africa as a commercial response to intensified competition and overproduction in China and the attractiveness of African markets, a weakness in the relationship between China's public administration and its private sectors is highlighted. This was evident in the lack of knowledge about Chinese government policies across the private firms surveyed. There is a clear gap in this Chinese public-private relationship. In mitigation, however, to help explain this, the speed with which the Chinese private sector has expanded in Africa since 2000 and the fact that the operations of these companies (numbering more than 88% of the total of Chinese companies in Africa) are so numerous, widespread and relatively small in their operations helps to explain this gap.

Thirdly, *to maximise development gains, there is a pressing need for a bottom-up and interactive 'two way street' approach to policy formulation and implementation. The Chinese public sector needs improved, stronger, interactive relations with China's private sector.* The notion of a Chinese 'model' characterised as a 'top-down' approach needs to be qualified in the light of the growth of China's private sector in Africa. But, as this paper has demonstrated, SMEs are very important as they are having a much greater impact at the grassroots level in Africa.

Fourthly, *this is a mutual learning process for both Chinese public and private sectors and also for the Chinese and African governments*. These are fluid not static relationships and they are changing with each developmental stage of their relations. Each is adapting to their growing understanding of the other and, importantly, they are also shaping each other. China's public and private sectors have to build constructive relationships contributing to both Chinese and African development goals, whilst African states can maximise their development gains through greater understanding of the Chinese private sector's presence and potential contribution to sustainable development.

Fifthly, *China's State and private sector engagement in Africa also requires a multidimensional African response. In this, African states deal with both Chinese dimensions and also bring in both the public and private dimensions of their own countries into a multidimensional, interactive Chinese African relationship of mutuality*. The African response has to recognise that there is much more diversity and there are many more actors involved in China and Africa than usually thought to be the case. Different interest groups have different agendas. There are public sector and private-civil society sectors on the Chinese and on the African sides, whether provincial or national. In other words, different dimensions and levels require a multifaceted African response, through government, the private sector, unions and NGOs. Moreover, the transnational dimension of the current financial crisis situation requires a multilateral response. China and the African development community should develop a common framework of this "development Partnership" and create a network supporting bilateral/trilateral/multilateral dialogue and cooperation at various levels.

We can conclude with two statements, each broadly summarising China and Africa positions on these investment links. One Chinese businessman of long standing in Africa observed that:

> ‘Chinese private firms in Africa are a very dynamic engine, but they need good guidance so they can establish a good image so they can become big and strong. One of the main reasons the private firms are very important is that the local, ordinary African people do not distinguish whether you are state-owned or private Chinese companies. For them, you are only Chinese! So we represent the Chinese image. And we must keep this in mind’.

From the African perspective, in the final analysis, whether or not the development impact of Chinese private investment in Africa can be effectively realised rests with African governments and the wider policy-making community, including civil society. African governments, along with the African Union and civil society, need to work together to establish constructive policy frameworks that help ensure that FDI helps to make a net positive contribution to their economies and societies. The key element in this was spelt out in an interview by African Development Bank (ADB) President Donald Kaberuka prior to the ADB’s Shanghai 2007 annual meeting. Noting the vital nature of China’s contribution to Africa’s development but that much of the China-Africa relationship was ‘still commodity based’, he argued that:

> ‘the challenge for the Chinese and ourselves is to move up the value chain¡-.I don’t see why we can’t find a mechanism to encourage Chinese investors to go [to Africa] and produce higher value products there ¡- It can make it a win-win situation. The timing is right to discuss the issues of this relationship.’ ¡- [But] that is Africa’s agenda, it

cannot be Europe's agenda or China's agenda, it has to be Africa's agenda. It very much depends on what these African countries do with these new opportunities.' (Morgan, 2007)

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Notes

1. As at the beginning of June 2008, Ghana had over 336 Chinese firms; Nigeria had more than 400 Chinese firms; Ethiopia had over 95 Chinese firms; Uganda had over 100 Chinese firms and Madagascar is estimated to have over 500 Chinese companies.

2. Author's interview with senior staff from Ghana Investment Promotion Centre (GIPC), Accra, 4 June 2008.

3. Also see Xiao and Chen, 2008. Based on empirical analysis, their finding is that most of the unique features of the internationalisation of Chinese privately-owned firms are related to the special entrepreneurial spirit of these firms.

4. Author's interview with senior staff from Ghana Investment Promotion Centre (GIPC), Accra, 4 June 2008.

5. Author's interview, Zhejiang Province, May and November 2007.

6. Author's interview, Lagos, Nigeria, 10 June 2008.

7. Author's interview, Zhuji, Zhejiang Province, 9 November 2007 (Huang, 2009, 80-83).

8. Author's interview, Hangzhou, Zhejiang Province, 7 November 2007.

9. Author's interview, Ningbo, Zhejiang Province, 9 November 2007. Similar comments were also made by the entrepreneurs in Shandong and Sichuan.

10. Comments made by a Chinese corporate CEO who has more than ten years experience of doing business in Africa. Author's interview, Lagos, 11 June 2008.

11. Author's interview, Antananarivo, Madagascar, 20 June 2008.

12. Author's interview, Lagos, Nigeria, 9 June 2008.

13. Author's interview, Lagos, Nigeria, 8 June 2008.

14. Author's interview, Accra, Ghana, 4 June 2008. The All-China Federation of Industry and Commerce also made the point in its report that the Chinese State needs to strengthen its support and guidance on private firms' 'going out' (Huang, 2009, 3).

15. Author's interview with UNDP Ghana Office, Accra, 6 June 2008.

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