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The Last Golden Land? Chinese Private Companies Go to Africa

Jing Gu
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The Last Golden Land? Chinese Private Companies Go to Africa

Jing Gu

Summary

A new dynamic presence is spreading rapidly and widely across Africa: that of Chinese private enterprises. For these firms, Africa is 'the last golden land' of economic opportunity. Based on the most extensive survey to date of Chinese private firms, business associations and government officials across China and sub-Saharan Africa, this paper explores the critical questions of why these enterprises are investing in Africa? What are their perspectives on Africa's investment climate? The study shows a growing number of firms that contradict the stereotype of Chinese firms in Africa. Pushed by intense competition within China's domestic marketplace and pulled by the glint of new opportunities, many small, private manufacturing firms are heading to Africa quite independently of the Chinese government. They grasp this opportunity in a 'three jump' pattern. The first of these 'three jumps' are better known, from doing business within China to exporting to Africa; and then from exporting to Africa to investing in production in Africa. The third jump is less familiar: to investing in industry parks in Africa. Chinese firms cluster in new business parks, collaborating in coordinated production. Yet simultaneously, and contrary to popular perceptions, they are most concerned about the competition they face from other Chinese firms and not by competition from African or other expatriate firms in Africa. The Chinese business sector in Africa thus has growing 'enclave' characteristics: enterprises are located together in business parks, and simultaneously both competing with one another and cooperating and largely doing business with one another in the supply chain. They are relatively optimistic about the investment climate in Africa, especially those obstacles created by governments and public policy. However, Africa's prospects for successfully harnessing the Chinese private firms to its development goals lies in the way each is adapting to their growing understanding of each other.

Keywords: Chinese Private Enterprises; internationalisation; 'Three Jump' Pattern; enclave characteristics; Africa investment climate; development implication.

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1 Introduction

> The Chinese Communists are just such great capitalists. They are just unbelievable capitalists masquerading as communists.
>
> Jim Cramer, December 2006

The dynamic contemporary relationship between China and Africa[1] has caught the imagination of people interested in global affair issues. It has generated an enormous amount of debate about the motivations for this engagement and the implications for the emerging global economic and political order and, more important, for the sustainable development of Africa.

China's increasing African involvement is evident across the continent. Chinese private enterprises have a rapidly growing presence in the continent. Unlike Chinese state-owned enterprises, the roles and significance of private investment and entrepreneurial activities have been under-researched: 'The internationalisation phenomenon of exclusive Chinese private firms remains largely unexamined,' (Zhao and Wang 2008). It is conventional wisdom that the Chinese government exercises a strong, directive role in motivating and guiding the rapid expansion in Chinese investment in Africa. Yet in reality 'the private sector, rather than government ministries, is increasingly the engine of economic exchange between China and Africa,' (Wang 2007).

There is a saying among Chinese investors about Africa's attractiveness, 'Africa is the last golden land'. China's African investments generate a potent mix of optimism, concern and puzzlement. 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 undermine progress on issues of good governance, human and labour rights. Puzzlement relates to why Chinese firms are so willing to invest in Africa? What drives their investment? The global financial crisis has made South-South Cooperation between the developing countries a hot topic, and more people are paying attention to issues such as how Chinese enterprises invest in Africa and what the prospects will be for Africa.

Orthodox thinking remains wedded to the assumptions that: (i) China's economic role in Africa is primarily about foreign direct investment by state-owned enterprises; (ii) both private and public Chinese investment is motivated by the strategic interests of the Chinese state; (iii) China private investors locate in Africa because they face a supportive investment climate. Given this conventional wisdom, the

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1 The author is aware that there are, of course, many China's and many 'Africa's', homogenised shorthand descriptors notwithstanding.

principal questions that have driven this study are, to what extent is this investment promoted by the Chinese government as part of its broader strategic interests in Africa and how far is it based on market forces? How much is private sector investment merely following strategic investments by state-owned firms in the extractive industries? If Chinese firms are positive about prospects in Africa and willing to make investments, when Western firms often appear reticent, what does this tell us about their perceptions of the investment climate particularly in African countries? What do the choices made by Chinese firms and the factors underlying them tell us about their perception of the investment climate in sub-Saharan Africa?

As Kolstad and Wiig have noted: ‘Though Chinese outward FDI (foreign direct investment) has generated considerable interest, concern and controversy, few empirical studies have been conducted to test the motives behind or consequences of the presence of Chinese business in other countries’ (Kolstad and Wiig 2009). The research underlying this paper helps to fill that gap.

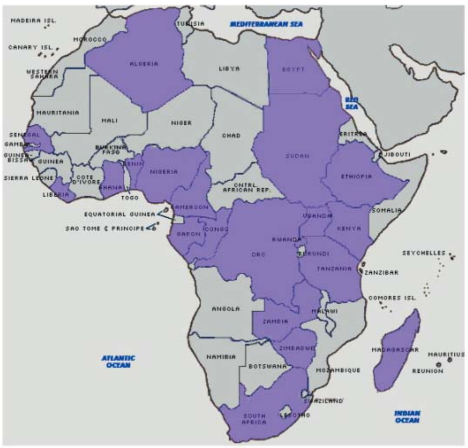
The paper contains five substantive sections. I will begin by offering in Section 1 a brief overview of the survey methods used in the study. It was qualitative fieldwork undertaken cooperatively by researchers from Institute of Development Studies, Chinese Academy of Social Sciences and China-Africa Business Council, with assistance from Chinese Associations in China and Africa. It can only lead to impressionistic estimates of the extent of Chinese engagements, but one can estimate from case studies that the extent of engagement is very considerable and increasing exponentially. Section 2 focuses on the general dynamics and trends of Chinese investment in Africa. The main points are as follows, statistics on Chinese investment in Africa are neither well disaggregated nor reliable. They are biased toward investment through Chinese state owned enterprises in the natural resources and infrastructure sectors of a few leading African countries. This research tells a very different story. Section 3 is on general theory of internationalisation of firms. Special attention will be given in Sections 4 and 5 to exploring critical issues such as why Chinese private firms are so willing to invest in Africa and are what their perspectives on the African investment climate. Section 6 concludes.

2 Survey methodology

This study is based on extensive field research in Ghana, Nigeria, Madagascar, Ethiopia and Kenyaand in eight provinces and regions in China, Zhejiang; Guangdong; Jiangsu; Shandong; Hebei; Sichuan; Hubei and Beijing (Map 2). Most private Chinese firms in Africa are originally from these areas.

We collected quantitative and qualitative data from 50 firms in China and another 40 in Africa, and held interviews with a total of 30 senior African and Chinese government officials and business association leaders [Annex 1]. Map 1 illustrates the geographical breadth of the African trade and investment by the firms interviewed in this survey. The Chinese firms interviewed invest and trade in a total of 21 African countries. The provincial distribution of these firms in China is indicated in Map 2.

Map 2.1 African trade and investment spread of firms interviewed in China



Map 2.2 Project interviews in China: by province

Interviews in China and Africa were arranged via a variety of formal and informal governmental, business, academic and project team networks. Data was acquired through written questionnaire; face-to-face, in-depth interviews; and databases maintained by the China-Africa Business Council and All-China Federation of Industry and Commerce. The research was conducted by a team of Chinese interviewers from IDS, the Chinese Academy of Social Science and the China-Africa Business Council, with fieldwork undertaken over three main periods in 2007, 2008 and 2010. Interviews were conducted 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. Interviewees were promised anonymity. Interviews lasted an average of two hours. It has been quite a difficult journey. First, we needed to identify the firms that we wanted to interview through incomplete official statistics and private networks (such as business and community leaders). Once we believed we had a comparatively complete list of firms, we approached a sample of them via official and unofficial channels. However, when we went into the field, we often discovered that the firms no longer existed or had changed to a different line of business.

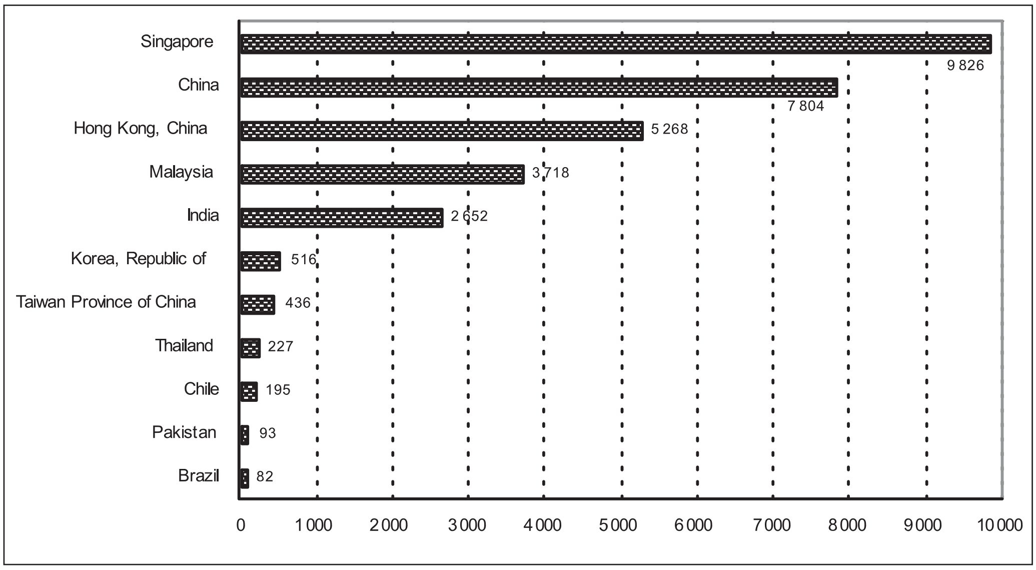
The China fieldwork identified senior central and provincial government officials, peak business association representatives and corporate executives. Of the 50 firms, 32 have investment in African countries. Eight are exclusively trade oriented. Ten are at the stage of exploring the opportunities of investing in Africa. In Africa, interviews were conducted during 2008 and 2010 in Ghana, Nigeria, Madagascar, Ethipoia and Kenya involving a total number of 40 interviews with Chinese corporate executives and 15 designated senior government officials, Chinese and African peak business association representatives and inter-governmental organisation representatives.

3 Features and trends of China's FDI to Africa

China's outward foreign direct investment has increased substantially in recent years (Cai 1999; Buckley *et al*. 2007; Zhao and Wang 2008); 'While China accounted for 3.3 per cent of total outward investments from developing countries in 1996, its share had risen to 10 per cent in 2006' (Kolstad and Wiig 2009). There are different statistics on Chinese investment in Africa. Having reviewed all the published sources, the UN Commission on Trade and Development concluded that none are reliable. The problems 'are fundamental. The figures given, in absolute terms, are not reliable, and, anyway, they are not sufficiently disaggregated by sector' (UNCTAD 2006: 106)

The flow of foreign direct investment (FDI) into Africa increased hugely between 1985 and 2008, accounting for 5.2 per cent of the world total (US$2.4 billion to US$87.6 billion). The actual stock of Chinese FDI in Africa grew from US$40 billion in 1980 to US$515 in 2008 – representing 3.4 per cent of the global stock of FDI, according to UNCTAD figures (2010). Africa is still a very small player as an FDI recipient. The largest developing country investors in Africa in stock terms in 2008 were Singapore, China, Hong Kong, Malaysia, and India (Figure 3.1).

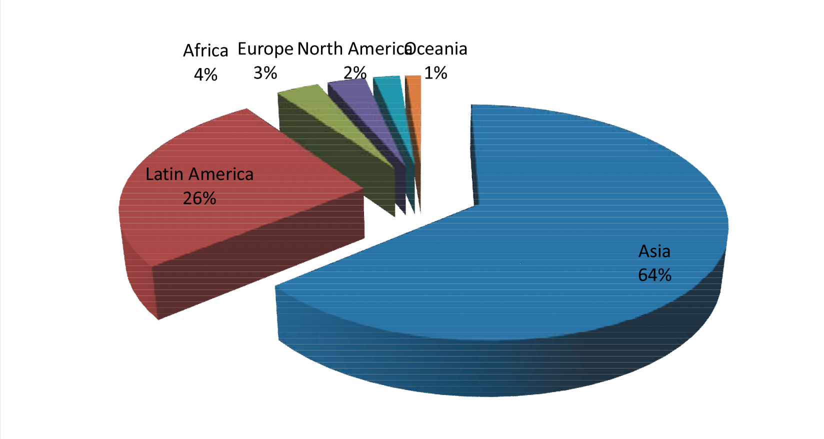
Figure 3.1 Major developing country investors in Africa, 2008 (millions of dollars)



Source: UNCTAD, FDI/TNC database

China's total investment in Africa needs to be seen in a global perspective. Over the past two decades, half of the cumulative flows of total Chinese FDI were directed to Asian economies. While Africa was the third-ranked destination for Chinese FDI in regional terms, it received less than 5 per cent of China's total FDI flows (Figure 3.2) (N.B. gross and net inflows to Africa are not differentiated here).

Figure 3.2 Global distribution of China's outward FDI

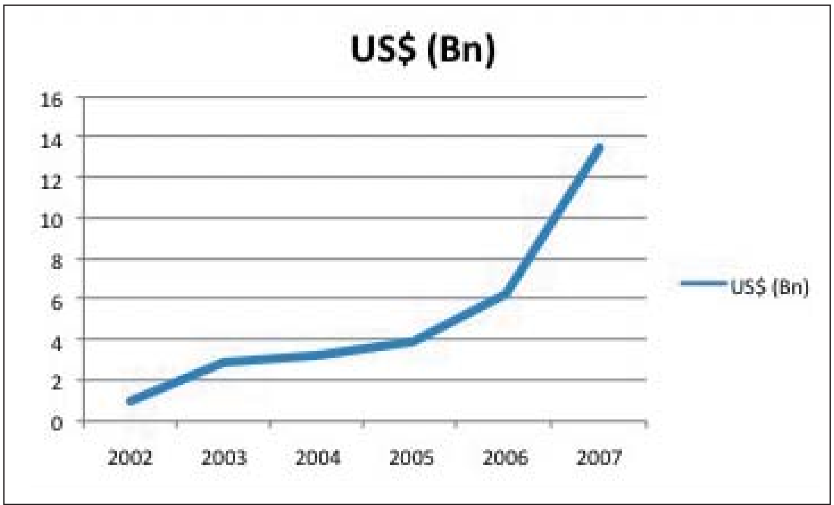


Source: Ministry of Commerce, *China's Outward FDI Report 2006.*

Although Chinese investment in Africa remains a small proportion of China's global FDI, it has grown very fast in recent years, as has China's trade with Africa. China's direct investment in Africa rose from US$210 million in 2000 to US$9.3 billion in 2009. The volume of trade between China and Africa has risen exponentially, reaching US$114.81 billion in 2010. This makes China the largest trading partner for Africa.[2]

Figure 3.3 below shows the astonishing speed of the growth of the FDI from China into Africa. In 2007 the flow had more than doubled over the previous two years.

Figure 3.3 Chinese FDI to Africa 2002–2007

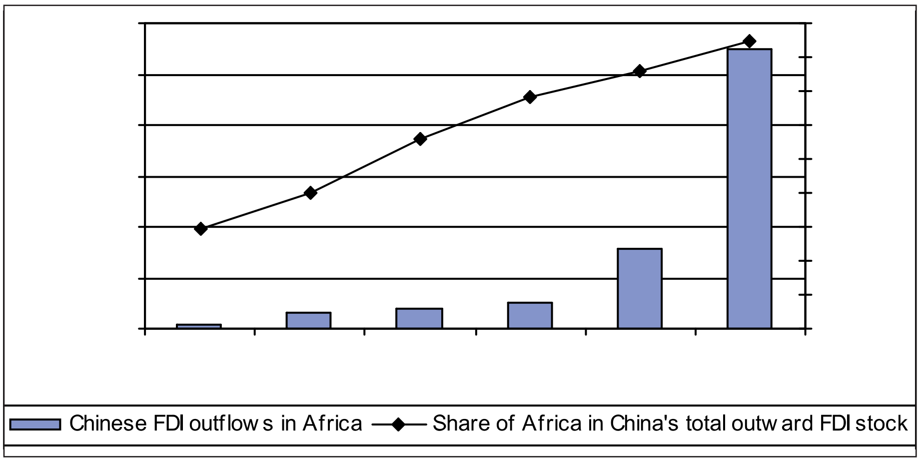


Source: Ministry of Commerce, China

2 The China-Africa Trade and Economic Relationship Annual Report 2010, The Chinese Academy of International Trade and Economic Cooperation, MOFCOM. Also see *People's Daily*, 'China, Africa Celebrate Anniversary of Beijing Summit', 5 November 2007, available at: http://english.people.com.cn/90001/90776/90883/6296 229.html.

Chinese investment is not simply directed at the obvious natural resource rich states. The leading African recipient is South Africa, which has both natural resources and a huge potential beyond this (40 per cent of total; US$3 billion). The other major states include resources rich states such as Nigeria (US$797 billion); Sudan (US$528 billion) and Algeria (US$509 billion); and others which have a variety of attractions such as Tanzania (US$4,134 million), Zambia (US$4651 million), Mauritius (US$230 million), Niger (US$137 million); Madagascar (US$147 million), Egypt (US$131 million), Congo (US$134 million) and Ethiopia (US$127 million). In total this amounts to US$7.8 billion, now representing some 4 per cent of total Chinese FDI outflows, and must be seen as taking place in the context of growing Chinese African cooperation at the highest level.

Figure 3.4 FDI from China to Africa, 2003–2008



Source: UNCTAD, FDI/TNC database

We have noted that many of the countries offer a variety of goals for the Chinese investors, especially South Africa and Nigeria, and yet the official statistics are rarely disaggregated at the sectoral level, even though resource rich countries are always included within the Chinese investment targets (see Figures 3.5 and 3.6).

Figure 3.5 Destinations of China’s FDI flows into Africa (2003–2007)

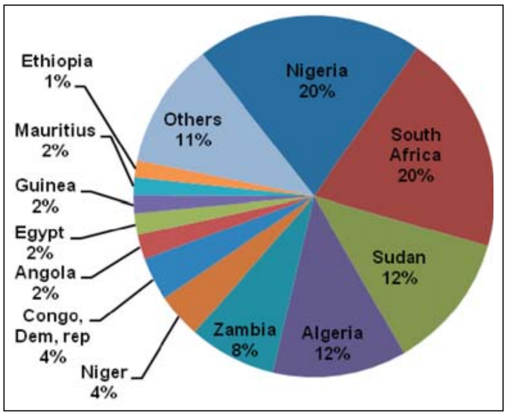
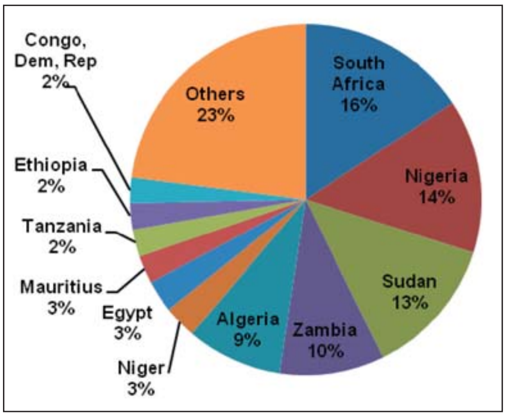


Figure 3.6 Destinations of China’s FDI stocks in Africa (2007)



Source: China Ministry of Commerce (2008)

It is well known that the Chinese enterprises investing in oil, ores and infrastructure and other measures of structural development aid, are mostly state-owned and can be assumed to be coordinating their planning with high level government officials. The scale of their operations is usually very large (Kaplinsky and Morris 2009).

In contrast, many medium-to-large sized enterprises are also engaged in very significant activities in Africa; firstly, in the wholesale trade sectors, but then graduating to manufactured goods, and with some firms entering into sectors such as telecommunications. These are private sector Chinese activities, not subject to detailed Chinese official direction. Small Chinese firms engage at a micro level in the light industry and retail sectors, before graduating to more complex sectors. None of these latter private sector activities, despite their considerable importance, are captured in official statistics, which are, in any case not disaggregated by industrial sector. This may throw interesting light on the Chinese FDI investment figures for states such as Nigeria and South Africa, which, along with Egypt, have the most potential for the Chinese private sector.

Estimates of the number of Chinese enterprises in Africa vary considerably. In 2006, the Chinese Export and Import Bank estimated that there were about 800 Chinese companies operating in Africa. According to this data, approximately 85 per cent were privately owned. In 2010, it was estimated that there were about 1600 Chinese companies in Africa. However, evidence taken by the author from Chinese Embassies and the Chinese business communities in Africa during 2007 and 2008 indicates that China now has over 2000 enterprises in Africa. According to one senior Chinese official: ‘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 firms. Even ten times is a conservative figure. I hope they come to register with us.’[3]

The majority of these are private companies. This expansion overseas is being driven by the willingness of Chinese private entrepreneurs to take risks. One Chinese CEO interviewed, reflecting upon the ability of China’s private firms to survive and grow, drew upon a Chinese proverb; ‘If we have a little rain, then the seeds become shoots; a little bit of sunshine then the shoots grow robustly!’ (*Jian Dian Yu Lu Jiu Fa Ya, Gei Dian Yang Guang Jiu Can Lan* 见点雨露就发芽, 给点阳光就灿烂)

Initially, Chinese firms went to Africa for three reasons. Firstly, to start-up development projects, those firms that were able to enter African markets early through development assistance projects gained an advantage by learning about local markets and then used their knowledge to make their investments. Secondly, manufacturers established processing factories in Africa in order to increase their sales and, for some, to circumvent US and EC trade restrictions on products from China by changing the country-of-origin of their goods and gaining access to

3 Author’s interview.

these developed markets under their preferential trade agreements with Africa. Thirdly, the search for oil and gas to export to China, 'in the 1990s, there were over 200 [Chinese] trading companies or distribution centres [in Africa]. Since 2000, Chinese enterprises have established more than 100 processing centres, 70 per cent of them investing in plant equipment and machinery, like Haire (Tunisia), Shinco (Nigeria) and Hisens (South Africa).'[4]

Table 3.1 demonstrates that Chinese companies in Africa have passed through a number of growth stages.

Table 3.1 Growth stages of Chinese companies in Africa

Stages	**Main features**
Stage One *1949–1980s*	Limited number of Chinese companies, mainly implementing Chinese official development 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 seeking natural resources strategic assets, 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 *2005–present*	Acceleration of private companies in various sectors and continued expansion of state-owned enterprises; the development of clustering industry strategy.

Source: China-Africa Project Survey 2007–2011

Chinese private investment in Africa is increasingly a manufacturing phenomenon. For instance, if one considers Ghana's 336 Chinese investment projects, more than 100 are in the manufacturing sector.[5] Investments are being made in many sectors across the African continent, including agriculture, forestry, food processing, fishing, furniture manufacturing, footwear, textiles and garment making, pharmaceuticals and services – not simply the conventional sectors of oil and extractive industries associated with Chinese state-owned enterprises (Annex 1). By the end of 2007, China's FDI had already spread across 49 African countries and regions, a coverage amounting to about 81 per cent of the continent (Africa Invest Net 2008).

4 Lu Bo, addressing Experiences of Chinese Enterprises in Exploring African Market Forum, 15 May, 2007 'Advice Provided for Chinese Enterprises Entering Africa', China.org.cn, available at: www.china.org.cn/english/features/adb/210820.htm.

5 Author's interview with senior staff from Ghana Investment Promotion Centre (GIPC).

In sum, our fieldwork shows that Chinese private firms investing in Africa are mostly Small and Medium Sized Enterprises (SMEs); with a strong entrepreneurial spirit; originating in a few Chinese provinces, often demonstrating a 'three jump' pattern of engagement with African markets, clustering around Chinese industry parks or developing 'greenfield' sites; and more concerned with competition with other Chinese firms than with non-Chinese competitors.

4 Why are Chinese private entrepreneurs investing in Africa?

4.1 Theory, background and hypotheses

There are a range of explanations that have been advanced as to why firms invest in other countries. One established analytical approach is to break down the various motivating drivers into 'push' and 'pull' factors. Push factors are the economic and investment conditions prevailing within the 'home' economy that spur firms to look outside for new investment opportunities. Pull factors are the attractive features of the investment climate in the 'host' economy. It is possible to classify or group the contributory factors according to the conditions in the various sectoral markets and their trading environment; the prevailing business conditions for the local firms; the production costs incurred by these Chinese enterprises; and the economic, business, taxation, labour and regulatory policies of government that impinge directly and indirectly on the environment within which a firm operates. China describes itself as a developing country. Like other emerging economies such as India and Brazil, its firms are investing abroad and becoming transnational in their corporate structures and operations. In seeking to explain this why Chinese firms invest in Africa, it is useful, albeit simplistic, to refer to the three-fold classification of motives for foreign direct investment; namely, as resource-seeking, efficiency-seeking, or market-seeking. The search for natural resources is undeniably, a significant reason for the Chinese corporate presence in Africa, especially in the case of state-owned enterprises (UNCTAD 2006: 161–2; UNCTAD and UNDP 2007: 56–9). Their highly visible role in this strategically sensitive sector has been subject to intense scrutiny within Africa and globally. Important as resource-seeking clearly is, a central argument of the present study is that the motivations behind most Chinese private investments in Africa are efficiency-seeking and, even more, market-seeking. There are various theoretical explanations for such behaviour. Theoretical approaches related to business studies emphasise the significance of intra-firm 'advantage exploitation and disadvantage avoidance' (Hongxin Zhao and Yagang Wang 2008). Political economy explanations tend to more holistic assessments of the potential motivational factors involved in an enterprises FDI decision, emphasising in particular the importance of the Chinese political economy. The efficiency-seeking explanation locates the decision to invest abroad in the need for firms to cut their production costs and to operate on a much more efficient basis. One of largest cost problems facing firms in China is the fast rising price of labour. China's previous comparative advantage in low cost labour is being steadily eroded by a combination of increases in domestic labour cost and the emergence of competitors like Vietnam where labour cost remains low. In such conditions, even small cost differences between China and Africa may play a part in encouraging Chinese firms to shift to Africa.

However, it is market-seeking factors that most directly explain the growth of Chinese private investment in Africa. Applying a political economy approach, Schortgen argues that, ‘the combination of officially sanctioned support for a so-called “Go-Out” (*zou chu qu*) strategy, “Deep Reform” (*shenhua gaige*) commitment, and extensive institutional and interactional changes of China’s domestic political economy space has resulted in aggressive, diversified, and omni-directional outward internationalisation of the Chinese economy’ (Schortgen 2008). As we shall see in the following analysis, Schortgen’s point is relevant as an increasingly important factor motivating Chinese private firms to invest in Africa. Intensifying competition within Chinese labour and product markets is pushing them to invest in Africa In addition, market access agreements between Africa and the EU (‘Everything But Arms’) and the US (African Growth and Opportunity Act) have encouraged some Chinese enterprises, especially in the textiles and clothing sectors (UNCTAD 2006: 160; UNCTAD and UNDP 2007: 5), to invest in Africa in order to access these European and American markets.

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 firms, including Huawei Technologies Co. ltd and Holley Group and Zhongxing ZTE Corporation. As one study notes, ‘a number of Chinese companies, particularly large ones, have engaged in overseas investments for the benefit of risk diversification. They expand abroad often with the encouragement of the government, which is keen to see the development of Chinese conglomerate multinationals’ (Ping Deng 2004). Some of the other larger firms do not feel they need to go to Africa because they think the Chinese domestic market is so huge and they are satisfied if they can do well domestically.[6]

4.2 Strong entrepreneurial spirit

At their heart, these firms are characterised by a strong entrepreneurial spirit or ethos. They are risk-taking ventures with a powerful work ethic. 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 theoretical literature would describe Chinese success as primarily attributable to the human actor factors, rather than exogenous conditions (Buenstorf 2006). Indeed, as stated in the report *Private Firms Going Global* produced by the Chinese Ministry of Commerce (MOFCOM) and the All-China Federation of Industry and Commerce (ACFIC), ‘the pioneer spirit of these entrepreneurs is the key element of the going global strategy’ (Ministry of Commerce and All-China Federation of Industry and Commerce 2006). This specifically places the responsibility for initiating the

6 Author interview.

opportunity, discovering and exploiting situations upon the role of the actor (in this case, the entrepreneurs) (Shane and Venkataraman 2007). The key is not only the objective conditions in African markets, which are the same for every entrepreneur, whether Western, African or Chinese, but also the subjective element in the character of the Chinese entrepreneur. The Chinese MOFCOM-ACFIC report suggests that 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 be well placed to expand into leading positions. This is also, according to our interviews, a view among Africans themselves. An interviewee at the Ghana Investment Promotion Centre told us that 'They [the Chinese] are hard-working, very adventurous and innovative.'[7] Our research findings would not, in this case, support the theoretical literature which believes that the ability to recognise opportunity is overemphasised at the expense of the exogenous emergence and existence of the opportunity.[8]

As Figure 4.1 illustrates, in identifying factors that contribute to the success of their own businesses or that of other Chinese in Africa, the Chinese private entrepreneurs that we interviewed emphasised first flexibility and adaptability to changes in the market; and second the capacity to seize opportunities. 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, and are willing to accept hard conditions of work and lower profit margins in the short term.

Figure 4.1 Factors contributing to success

Source: China-Africa Project Survey. N.B. Factors identified in the darker highlighting indicate that they were more strongly emphasised by the interviewees than those in the lighter highlighting.

7 Author's interview with senior staff from Ghana Investment Promotion Centre (GIPC).

8 Author interview.

This thinking is evident again in company answers to the question: 'What is your company's African strategy for the next three years?' The company responses were to consolidate their position in existing markets they have already gained, 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 factors such as strategic mistakes at management level and incorrect information.

Secondary factors stressed by the entrepreneurs included essentially elements to do with the personal characteristics of the entrepreneurs such as good planning and provision of correct information, and host government support. Only later in the interviews was any mention made of more 'structural' factors such as comparative advantage *vis-à-vis* competitors, good partnership arrangements or the application of the experience gained in China.

4.3 Disparities in the originating provinces

Most Chinese investors come from the coastal provinces and regions of Zhejiang, Guangdong, Fujian, Jiangsu and Shandong. Zheijang ranks first. It has the advantage of a large overseas diaspora, estimated to number over a million people. The Zhejiang Foreign Trade and Economic Cooperation Bureau reported that, by November 2007, it had given approvals to 219 Zhejiang firms to invest US$167 million in Africa. However, this is likely to be a conservative figure as many firms did not register with the Government.

For instance the percentage of outward investment which is private is the following: for Zhejiang, Fujian, Jiangsu and Shandong, 97 per cent, 70 per cent, 65 per cent, and 53 per cent respectively.[9]

4.4 A 'Three Jump' pattern of trade-investment and enterprise growth

The firms surveyed confirmed a pattern that most firms began with their initial trading with Africa, leading to their decision to invest (Figure 4.2). 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. At present the elements of trading and investing continue to be interactive, largely because of the continuing weaknesses of local infrastructure. However, a positive effect of the process has been to increase intra-regional trade among African countries.

The experience of Haitian 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[10] and this was a key factor in this company's decision to

9 *'Focus: Refine Going Out Strategy',* Zhang Shujun, 27 March 2008, http://gov.smeshx.gov.cn/l%5C20080327%5C196765447.htm.

10 *Destination Inspection of Imports for Nigeria,* www.cotecna.com/COM/ Images/Nigeria_DI_Datasheet.pdf.

Figure 4.2 'Three Jump' pattern of Chinese companies in Africa

Source: China-Africa Project Survey 2007–2011

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.[11]

4.5 Industry parks

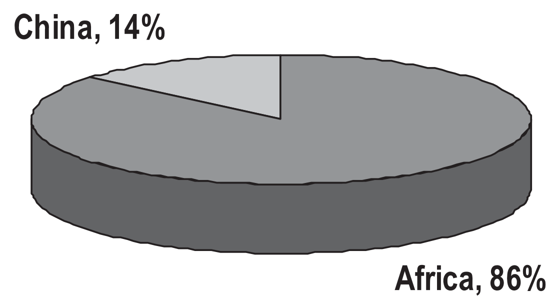
In terms of the pattern of these firms' investments, industry parks have become a new trend in the way that Chinese firms invest in Africa. Groups of Chinese firms locate together to Africa in these parks, gaining mutual support and coordinated production. This approach can reduce costs and create a whole industry cluster and a favourable investment environment. According to the CEO of the Yuemei Group Co. ltd, a well-known textile enterprise in China, his company has been following a 'three jump' pattern in entering the African market. The first 'jump' was to establish a trading post in Nigeria in 2000. This resulted in the net export profits of Yuemei rising from 5 per cent in 1998 to 40 per cent in 2002. The second was to invest in Africa to build a local manufacturing factory in Nigeria in 2004 and another one in Senegal in 2006. 'By setting up factories in African countries, not only could we overcome the import restrictive measures in Africa itself, but we could also access European market via Africa'.[12] The third jump has been to create an industrial park in 2008. The company's intention was to invest over US$50 million to construct a Yuemei Nigeria Textile Industry Park. It was said that, when brought fully to fruition, this is the first textile industry park set up outside China. Once the industry park is completed, it is expected to have an initial compliment of 15 Chinese textile firms and will employ more than 3,000 African workers.[13] In future, this industry park expects to attract African firms to locate on the park. The overall development strategy therefore includes approaches all the way from trading alone and setting up an industrial park and is very long-term, to where Chinese investment moves into fields traditionally occupied by other companies and makes do with very tight profit margins in the short-term.

11 Author interview.
12 Author interview.
13 Author interview.

4.6 'Greenfield' investments

Many of the private investments are also 'greenfield' investments that 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, (Figure 4.3). However, survey results are vague on this, 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 'blue-collar' jobs whilst the Chinese are normally in managerial positions. For example, In the case of the Haitian Suitcase and Baggage Company in Nigeria, some 93 per cent of its workforce is African as well as 90 per cent of the workforce of the Songlin company in Ghana and 90 per cent of the workforce of the Zhongshun Cement Plant in Ethiopia are local African labour. This is because African laws restrict import of labour. For example, Ghanaian regulations provide that the proportion of permitted immigrant labour is determined by the amount that the company invests. 'Every enterprise with a paid-up capital of US$100,000 but less that US$500,000 or its equivalent in credits shall be entitled to an initial automatic maximum immigrant quota of two persons… US$500,000 or more or its equivalent in credits shall be entitled to an initial automatic maximum immigrant quota of four persons.'[14] 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.

Figure 4.3 Source of labour



Source: China-Africa Project Survey (2007–2009)

In terms of the pattern of labour relations within Chinese companies, some firms employ labour on a temporary basis in order to avoid or limit tax costs and also other benefits that long term workers should or could reasonably expect to enjoy. Some companies have an interactive relationship with local African people through social events such as organised football matches. So they can be very close to the local African people rather than with other Chinese communities with whom they can be quite guarded.

14 Ghana Investment Act, p.12, www.gipc.org.gh/UploadFiles/Publications/Investment_Law070627114453.pdf

4.7 Competitors and linkages

Chinese firms tend to compete most fiercely with one another rather than with foreign firms, which they can outmanoeuvre 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 restricted elite, can afford.

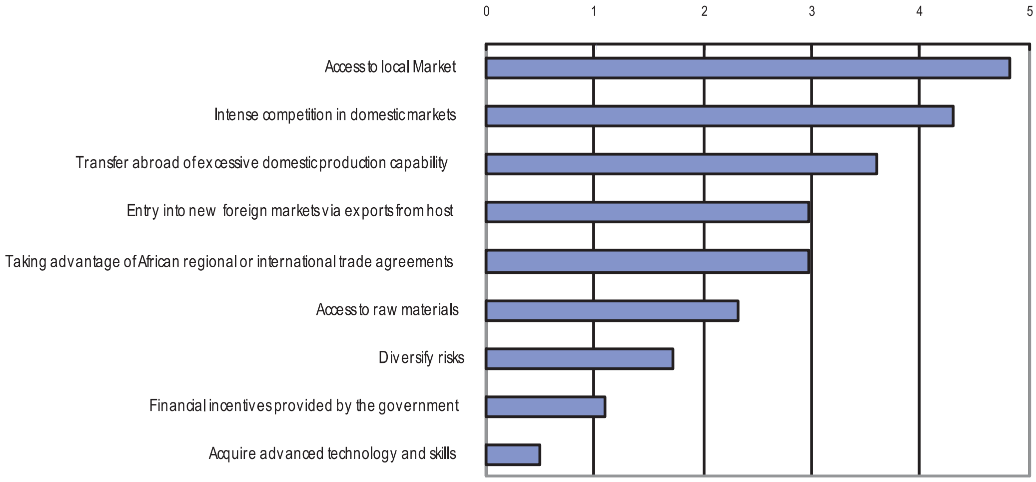
There are weak linkages between Chinese firms and local African firms. Broadman (2006) argues that Chinese companies ‘pursue business strategies that yield them greater control up and down the production chain, resulting in enclave types of corporate profiles, with more limited spillover effects’ (Broadman 2006). This influences the extent to which technological transfers and business know-how can be successfully undertaken. Fieldwork discovered that this is also partially because of the internal constraints such as issues of language and cultural understanding that Chinese companies face and different working practices. As well as this, a mutual lack of information causes great uncertainties in business partnerships between the Chinese and Africans. Chinese academics have called for an educational campaign in China to raise Chinese public awareness and understanding of Africa and to better prepare Chinese companies for entering Africa and MOFCOM officials such as Vice Minister Lu Bo have stated 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.’[15] Yet, if there is such degree of uncertainty, why do Chinese firms seem so willing to invest in Africa?

5 The motivations of Chinese investors

Primary evidence taken from fieldwork interview surveys suggests that the increase of Chinese private investment in Africa is a result of both domestic and global factors. A number of ‘push’ factors from China and ‘pull’ factors from Africa are behind these firms’ decisions to invest in Africa. The corporate survey of Chinese private firms operating in Africa that underpins the present study 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 important 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 (Table 5.1).

15 Lu Bo, referred to by Lindsay Beck, ‘China Lacks “Knowledge of African People”’, 14 May 2007, available at: www.iol.co.za/index.php?set_id=1&click_id=68&art_id=nw 20070514094250218C406077.

Table 5.1 Reasons for investing in Africa



Source: China-Africa Project Survey

For the domestic reasons, a starting point for answering this central question is to consider the argument advanced by Dennis Pamlin and Long Baijin that, 'outward investments depend on the structure and strategy of an economy' (Pamlin and Long Baijin 2007). Since the late 1990s, China started to restructure its economy, recognising the need to upgrade its manufacturing capacity, in terms of 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 certain comparative advantages yet at the same time it was limited by many factors from growing further. Overproduction, also through many new entrants into the market, led many firms to look to establish operations overseas in new markets. Industries which had such excess production capacity were light textile, electronic appliances and machinery.[16]

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 into other manufacturing areas and build an industry park as well. 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.'[17] Since these Chinese firms have established themselves in China in very basic market conditions, what may be called an emerging economy, they have a comparative skills advantage over against Western companies when they expand operations to similar markets in Africa.

16 Author interview.
17 Comments made by a CEO who has more than ten years experience of doing business in Africa.

5.1 Chinese domestic policy and the internationalisation of private firms

Are Chinese private firms part of a grand plan of the Chinese government's policy in Africa? There is certainly evidence that there is strong link between China's domestic policy and its firms' outward investment behaviours. However, this link is unfolding in a quite distinctive and complicated way. The Chinese government has introduced a series of policies and supporting measures to encourage firms to explore and invest in Africa. These include 11 Chinese investment and trade promotion centres established in African countries intended to provide information and ancillary services for Chinese firms. Major Chinese policy banks such as the China Development Bank and the China Export and Import Bank and commercial banks such as the Chinese Construction Bank and Chinese Industry and Commerce Bank have established operations across Africa.

In the interviews conducted in China, the firms identified the going out/going global strategy, industrial structural adjustment and transfer of production over-capacity policy, and trade zones provision as the policies and practical initiatives contributing to the growth and development of the growth and development of their firms' business in Africa. Yet, this is contradicted by evidence drawn from interviews conducted in Africa with Chinese firms (including African subsidiaries of firms interviewed in China). Here the evidence was that the local Chinese managers knew little or nothing about the policy or practical support. So why is this? First let's look at China's 'going out'(going global) strategy.

'Going global' as a Chinese industrial policy strategy is part of China's proactive diplomacy. It is designed to encourage and support firms with comparative advantage to invest overseas. It goes back to 1998 and became part of the Five-Year Plan for National Economy and Social Development in 2001. 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 (M&As), gaining advanced technology, enhancing industrial research and development (IR&D), and transcending trade barriers. The 'going global' strategy is widely acknowledged to have been a vital part of the opening process of the Chinese economy that reached a new stage with the accession of China to the WTO in 2001 (Berger 2008).

The Going Global strategy includes a range of practical measures to promote overseas investment such as financial support and information dissemination. The Chinese government provides a range of state-sponsored promotion factors for Chinese private investment under its 'going global' strategy, including special and general tax incentives, credit and loans, and a favourable import and export regime. However, it must be realised that many incentives are generally of a symbolic, supportive character and do not amount to huge financial sums.

Of course it is different for major projects which will involve State Owned Enterprises (SOEs). In October 2004 the National Development and Reform Commission (NDRC) and the Export-Import Bank of China (EXIM Bank) jointly decided to provide significant support to priority overseas projects (Cai 2006: 621–54). There are other funds, which support key overseas investment projects, usually in quite open negotiations with foreign governments as part of a wider intergovernmental package.

The central government does also try to promote SMEs to go out and explore overseas markets. To date, China has on its national territory more than 40 million SMEs, which account for 99 per cent of Chinese companies, making up 60 per cent of Chinese exports.[18] This represents a very considerable economic force, but the possibilities of control and direction of such a large number of entities is inevitably limited. There is a 'Small-Medium Enterprises International Market Development Fund'. Small-Medium Enterprises whose their export volume is below US$15 million are entitled to apply to this fund, but the maximum they can get is 700,000 RMB. It is said, more than 76,000 SMEs have benefited from this fund, involving sectors such as food processing, agriculture, textiles, and electronics. The relevant decrees set out a tariff of support as a percentage of the total sum to be invested, while will come to usually a token or symbolic sum of maybe US$10,000 or less.[19] Further, there is the question, tied to the nature of government/private sector relations, of the extent to which private companies are able to avail themselves even of this facility.

It must be kept in mind, however, that not all companies were encouraged to go out. The central Government repeated stated that only those firms that met certain criteria were encouraged to 'go out' (Lu Gang 2008: 14). With the economic liberalisation that emerged through the reform era, the initial push to overseas investment focused on the SOEs. But, as Zheng argues: 'While China's overseas investments are still negligible in the global capital market, they have already encountered strong resistance in the West. One can assume that external resistance will only increase as China's overseas ventures expand.'[20] Additionally, as the private sector has emerged as the engine of China's economic growth and with the flexible character it has when compared to the state-owned sector, the Going Out strategy has experienced a subtle shift and now also places emphasis on the private sector in going global.[21] In some respects, because of their private and market-oriented character, these firms receive greater acceptance in the global capitalist economy and, as a consequence, have greater space to maneuver. In other words, the private sector should play a very active role in China's going global strategy. But in reality, 'should' and 'is' are quite different stories. Even though the Chinese government's strategy seeks to advance the national interest through the encouragement of private firms to go global, the lack of an effective implementation mechanism has left the majority of these private firms largely bereft of the instruments of government support and, in practice, have followed their own paths overseas.

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18 Small-Medium Enterprises International Market Development Fund', MOFCOM, Press Office Release, 17 January, 2007, available at: http://smeimdf.mofcom.gov.cn/ files/html/ 2007/01/17/21210902.html.

19 SME International Market Development Fund Press Release.

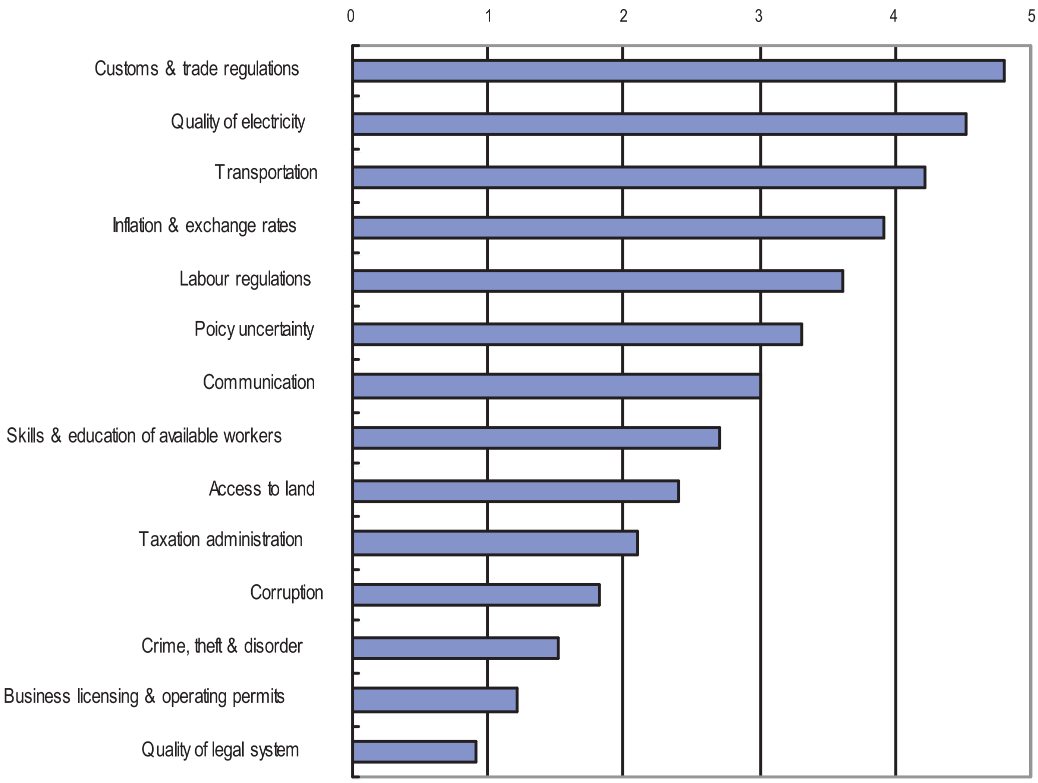
20 Yongnian Zheng, *China needs International Outlook to be World Leader,* 10 July, 2008, available at: www.nottingham.ac.uk/cpi/updates/blog_posts/10_07_2008. php.

21 Author interview with Chinese government officials, November 2007. The author has also found this view argued in several local government reports and expressed at governmental conferences.

The ferocious domestic competitiveness and continuing structural adjustment of the Chinese political economy are the context of firms' decisions to go to Africa. But are these sufficient to explain the private sector's rush to Africa? A view widely shared among Chinese entrepreneurs in Nigeria is that, 'this part of Africa is like the 80s and 90s in China; it is full of commercial opportunities.'[22] 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 Nigeria, there is even a saying among the Chinese investors: 'Despite the strong wind and wild waves, the deepwater still has fish to be found,' (*Feng Da Lang Ji, Shui Shen You Yu* 风大浪急, 水深有鱼).

Table 5.2 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 operates.

Table 5.2 Chinese business perceptions of African investment climates: most important constraints



Source: China-Africa Project Survey

22 Comments made by a Chinese CEO in Africa.

The factors which were often given a poor score in decisions to invest overseas were: access to local expertise and skills; financial incentives provided by the host government; Chinese government encouragement to Chinese companies to invest overseas. As one CEO puts it, 'that [official Chinese support] may be the case with SOEs, but not us. We heard there are some policies, but we don't know what they are about.'

Even more specific factors mitigating against investment in Africa include perceived weakness of the African investment climate such as policy uncertainty; inflation; crime, theft and disorder; anti-competitive or informal practices; the quality of the legal system; local conflict; weak infrastructure; corruption and political instability.

One of the hypotheses of the study is that Chinese firms have adopted a sanguine perspective with regard to the investment climate in Africa and can deal with the problems associated with it because of their prior experiences in China. To test this, the study drew on the findings set out in Table 5.2 to identify the factors of least concern to the Chinese enterprises in Africa (quality of legal system; business licensing; crime and disorder; corruption; tax administration; land access; worker employability). These factors can be compared to the findings of the *Doing Business Survey 2010* (World Bank 2010). In this exercise, economies are ranked on their ease of doing business, from 1–183, with first place being the best. A high ranking on the ease of doing business index means the regulatory environment is conducive to the operation of business. This index averages the country's percentile rankings on ten topics, made up of a variety of indicators, giving equal weight to each topic. The rankings cover the period June 2008 to May 2009. China is ranked 89th on its ease of doing business. Of the sub-Saharan economies, Mauritius (17), South Africa (34), Botswana (45), Namibia (66), Rwanda (67) are higher ranked than China. Closely ranked just below China are Zambia (90), Ghana (92), and Kenya (95). A further 38 sub-Saharan African economies hold various lower rankings. Of these latter economies, it is notable that the three African economies surveyed, Ghana, Nigeria and Madagascar were ranked 92, 125 and 134 respectively.

The indices that China records its lowest scores in the World Bank survey are protecting investors (93), paying taxes (125), employing workers (140), business start-up (151), construction permits (180). These indices are highly illustrative of the domestic investment climate challenges faced by Chinese private firms in their home market, reinforcing the evidence supporting the proposition that their domestic experience in China sets them in good stead for Africa. In the World Bank's rankings, for example, Ghana scored poorly on employing workers (133), business start-up (135), construction permits (135) although much better than China on indices such as property regulation (33), protecting investors (41) and tax payments (79). Nigeria's ranked indices show it to be less easy to do business there in terms of paying taxes (132), construction permits (162) and property regulation (178) but easier regarding employing workers (37) and investor protection (57). Madagascar did poorly on, employing workers (152), property regulation (152) whilst offering a more conducive basis for business start-up (12), protecting investors (57) and construction permits (107) than China. For China's private firms, then, the evidence suggests there is much in Africa's investment climate that is familiar terrain.

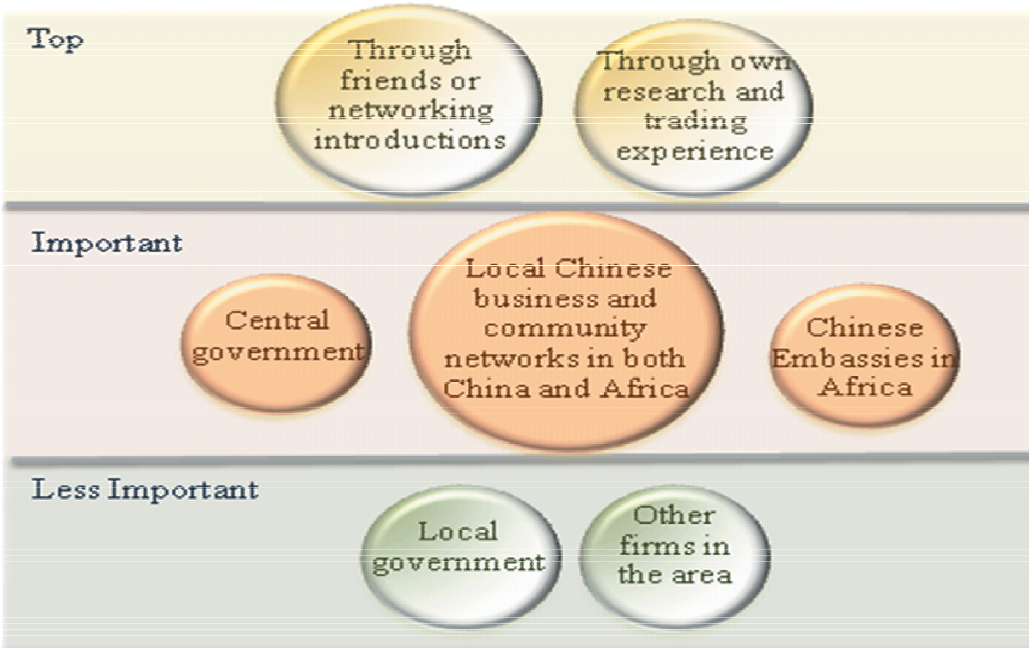
There is one further point that arises from the findings in Table 5.2. As can be seen from the Table, the most salient concern for the Chinese firms interviewed is that of 'customs and trade regulation'. These Chinese firms are setting-up in African economies to build local market share, compete more effectively with other firms and especially their rival Chinese firms and export to developing economies via Africa. However, it is also evident from the survey interviews that trading across African borders is important for a number of firms as well as exporting to Europe and North America. Here the Doing Business Survey provides supporting evidence of the potential for Chinese private firms to contribute to the promotion of intra-African regional trade based on the character of the Chinese business and investment climate. As one might expect, given China's export-led growth through the era of economic opening, internationalisation and 'going out' strategy, China ranks highly for trading across borders (44). The overwhelming number of African economies rank very low on this. Of the African economies, only Mauritius ranks highly for trading across borders (19) and, of the other economies, Senegal (57), Gambia (81) and Ghana (83) have higher rankings. Madagascar (111) and Nigeria (146) are, however, more indicative of the majority of these economies. This is indicative of a central challenge for African economic growth and development, the need to additional impetus for intra-African trade. As the 'three-jump' pattern (Figure 4.2) also indicates, Chinese firms tend to have spent a sizable amount of time trading with Africa before deciding to invest. As is evident from this study, these firms are already applying this experience and knowledge by using their African facilities as bases to trade with other African states, for example, Huawei Technologies has four regional offices to facilitate its African trans-border trade. There is a large potential to be realised here for Africa as it undertakes the processes of intra-regional trade liberalisation.

Information about Africa and the investment climates was a central factor leading to entry into African markets by these firms. Figure 5.1 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.

In ranking in order of importance 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.

This highlights a problem in the implementation of the central government's policy. Whilst at the central level there is strong enthusiasm and plays a great deal of emphasis on China-Africa relations, at the provincial and local level there is less enthusiasm and less attention to China-Africa. This kind of situation reflects two things, one is the 'going global' fund with not much allocated to firms that invest in Africa. Many local firms and enterprises do not have much knowledge or understanding of the policies relating to going out and investing in Africa. In my interviews, one CEO argued that, 'the Government in Beijing is highly motivated and fired up to push the China-Africa relationship. At the local government levels

Figure 5.1 Sources of information



Source: China-Africa Project Survey. N.B. Factors identified in the darker highlighting indicate that they were more strongly emphasised by the interviewees than those in the lighter highlighting.

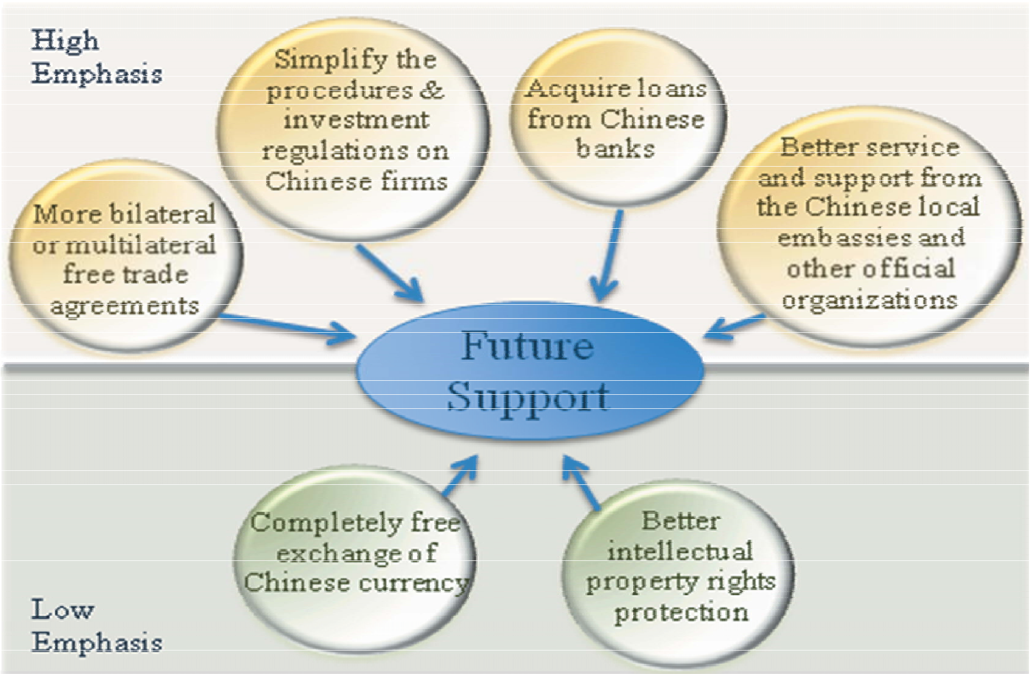
though, attitudes are much cooler and calmer towards China-Africa. We don't know whether they have policies or, if they do, what kind of policies our local government has towards this. We have learned about central government policies about China-Africa from the media, television news or newspapers. We do not know the policy or exactly how it operates in reality.'

Indeed, it was clear from the research interviews that, even in the most active provinces in China-Africa investment, there have been only a handful of training sessions organised by a very few local governments to disseminate and explain government policies related to China-Africa to local businesses. According to Chinese businessmen interviewed; 'this 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. However, one government official argued that this is because it is still in the early stages of investing in Africa and that some information meetings have been held. Another local Chinese official says something which is quite representative of the views among 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 it, 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.'

Now, to reverse perspectives, how is the Chinese public sector's role perceived and understood by Chinese investors and enterprises in Africa? What did they hope for most in terms of the Chinese Government's policy to help promote

Chinese firms to go global? As Figure 5.2 illustrates, most chose, firstly, the need for Chinese local embassies and other official organisations to provide better service and support for Chinese firms. Secondly, a push for more bilateral or multilateral free trade agreements. Thirdly, a simplification of the procedures and regulations on 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?’ Fourthly, acquire loans from the EXIM Bank, Development Bank, or other banks' overseas branches. They did not rank completely free exchange of Chinese currency or better intellectual property rights in China to protect Chinese firms' overseas interests.

Figure 5.2 Perceptions of Chinese public sector's future support



Source: China-Africa Project Survey. N.B. Factors identified in the darker highlighting indicate that they were more strongly emphasised by the interviewees than those in the lighter highlighting.

Whilst much of the conventional wisdom on Chinese investment into Africa tends to assume a zero-sum advantage in favour of Chinese investors and enterprises, there are significant challenges faced by them that need to be recognised and understood. Particularly significant among these factors is a perceived gap between policy *formulation* and policy *implementation* (i.e. between the publicly, intergovernmental, Chinese and African, stated national objectives concerning this bilateral relationship and the competitive realities of business practices facing Chinese firms). In addition there continues to be a lack of knowledge about Africa among Chinese investors, with problems of culture and communication. The reality is that there are not only winners, but also many losers. Quite often we only see the many Chinese investors going out, but in fact many of them are also coming back every year with nothing but debt.

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, as do many Western firms. Regarding their future prospects, most CEOs were very optimistic. Few answered that they did not know. In fact, the author was told: 'In Africa, In Africa, nothing is unattainable, only if you haven't imagined it. It's a golden land.'

6 Development implications for Africa

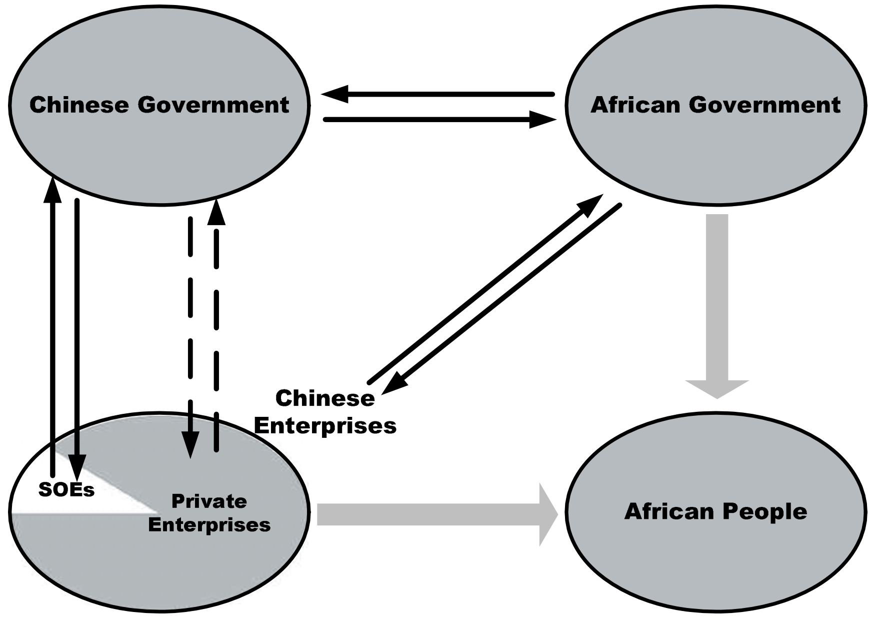
We have analysed the feature and the reasons of why Chinese firms are in Africa, so is there a 'Chinese' vision of African development grounded in China's experience? Increasingly, we see references to a 'Chinese development model', 'lessons from China to Africa', and to 'the Chinese way' of forging political and economic agreements (White 1996; Cao 2005; Pan Wei 2007; Little 2007; Karp 2008; World Bank Institute 2008; Dollar 2008). If this is so, in what way is it distinctive or novel? The current debate highlights that the alternative model offers a potentially attractive example to governments drawn to a more neo-authoritarian style, with questionable commitments to civil and human rights, political accountability, or Western-style political cultures advocating, at least in declaratory terms, values of political 'good governance'. However, China appears as a rather unitary agency and perhaps some further breakdown of internal governmental differences over development policy might add to the debate. According to one senior Chinese provincial official, China's approach is to use Chinese SOEs to develop Africa. SOEs 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 is, perhaps, an oversimplified view of a very complicated situation. There are many different Chinese actors in Africa and the role of China's private sector is increasingly significant. In terms of number, they are big. More than 88 per cent of Chinese firms invested in Africa are private firms. These firms are critical in realising the 'win-win' strategy and government objectives 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 for the implementation of our Africa policy.'

However, explaining its role in Africa requires some understanding of the role of private enterprise within China. There are few issues as contested and as difficult to grasp as the exact nature of the privatisation of the Chinese economy.

Tsai shows that the process of privatisation and economic change in China has been subtle. He argues that the approach of the business sector to change in China has been successful without resort to classical Western demands for constitutional reform. The picture in China remains one of micro-negotiation between companies and government, where the pressure for change comes both from actual company practices and from an overall retention of strategic control by the state. There is not a linear progression towards increasing privatisation, but a ‘to-ing and fro-ing’, where judgements in government circles are very pragmatic and flexible having regard to the facts on the ground.[23] This is what makes effective empirical research so necessary. It does not automatically follow that, because of a number of links between companies with private capital and the government (whether national or regional), these companies are significantly directed in their course of actions by stated government policies.

The fundamental feature of the paradigm in Figure 6.1 is that there has not yet developed a fully worked out relationship between the Chinese private business sector and the Chinese public sector in Africa. 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.[24] The two elements that are vital to the development of Africa are the relationships between the African governments and the relationships between the Chinese business sector and the African peoples.

Figure 6.1 Development implications for Africa



Source: China-Africa Project Survey

Any attempt to assess the development impact of Chinese private investment on Africa needs to address specific questions. These include: Do these firms share a sense of being part of an overall project, strategy or expectation? To what extent do Chinese businesses find it easier to deal with local contacts they already have

23 Xinhua News Service issued this headline story: *Foreign Direct Investment In China: It All Just Changed,* 6 March 2008.

24 See *Some Opinions of the State Council on Encouraging, Supporting and Guiding the Development of Private and Other Non-Public Economic Sectors,* Ministry of Civil Affairs online information, available at: www.mca.gov.cn/policy/ index.asp.

among Chinese or private African business sectors? How do Chinese business and commercial people abroad interact with local African people and environments, compared to how they interact in China? That is to say, do they relate to African culture easily or with difficulty? Are they comfortable with African ways of working or are cultural clashes frequent at the level of internal management of companies and at the level of local marketing of products? Are the Chinese able to take the long view of developing relations with particular African countries in the future as they have done in the past?

For many observers within Africa and beyond, Chinese private investment should deliver a number of benefits to African economies. However, there is a significant difference between expectations of how such investment *ought* to bring developmental gains and the extent to which Chinese investment *is* able to deliver such benefits in practice. The following analysis critiques the basis for the heavy expectations being placed upon Chinese private investment in Africa. It then evaluates the actual role of Chinese private enterprises in African industrial and socio-environmental development.

6.1 Industrial development

As we have discussed earlier, Chinese manufacturing investment into Africa is significantly driven by the ferocity of domestic competition within the Chinese market. Africa is an attractive option for sustaining corporate competitiveness. But, from some African perspectives, expectations for this inward investment are high. Hopes rest in particular upon the capacity for Chinese investment to actively drive an upgrading of Africa's role in the manufacturing value chain. Taking a lead from ideal-type FDI developmental impact models it is argued that, as China itself moves 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 access the Chinese value chains and, through these conduits, gain enhanced value-added access to global value chains in the global economy.

Ideally, Chinese private investment ought to deliver 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; offer employment opportunities; contribute to poverty-alleviation; generate a significant magnifier effect through the local economy by way of local sourcing and provision of supply management expertise; engage in technology transfers; and inculcate production, management, distribution and marketing skills and R&D knowledge. Underlying these human and enterprise capacity-building requirements is the primary expectation that Chinese private FDI will help to overcome the development trap in which African economies are locked into an enduring trade and investment relationship based on natural resources exports and manufactured imports. Thus Chinese private investment is regarded as offering a significant opportunity to diversify local economies often reliant upon natural resources exports, bring greater access to global markets for host firms thereby potentially increasing manufacturing exports and, consequently, embed the recipient economies more deeply into the global economy.

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. There are three 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 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. Chinese private investment is overwhelmingly undertaken by SMEs. 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.

More problematic for the realisation of the expectations for African industrial development are the factors of investment time horizons and local firm linkage and absorption capabilities; both of which are weak in the African context. Unlike some SOEs, these private firms are necessarily tied to local and global market conditions. The time horizons of these enterprises are defined by the imponderables of prevailing market forces.

In the main, many Chinese private enterprises establish few linkages to local firms in Africa. A significant factor influencing this is the degree to which there is an investment-friendly regime provided by a host state that encourages and facilitates FDI and actively seeks to promote a shift away from a basic import relationship to one tied to export-led industrial development strategies. As Deborah Brautigam (2008) has also 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. This is exacerbated by a shortage or lack of local business personnel with the requisite technical know-how and skills for technology transfers.[25] 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

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25 Deborah Brautigam, ‘ “Flying Geese” or “Hidden Dragon”? Chinese Business and African Industrial Development’, a draft chapter prepared for Chris Alden, Daniel Large, and Ricardo M.S. Soares de Oliveira (eds), *The Politics of Contemporary China-Africa Relations,* March 2007, available at www.american.edu/faculty/ brautigam/Brautigam.Flying%20Geese.latest.1April2007.doc. and subsequently published in 2008 as *China Returns to Africa: A Rising Power and a Continent Embrace,* London: Christopher Hurst.

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 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.

China’s multidimensional role in the global value chain is causing unprecedented shifts in the ‘world’s business landscape’. The future China-Africa relationship will be shaped more and more by shifts in comparative advantages and changes in the global value chain (Jian-Ye Wang 2007). Clearly, China’s changing role in the global value chain has profound implications for African industrial development. So a further, deeper question generated by this study is: ‘Can Chinese investment transform the ‘production frontier’ of African countries?’ Corporate testimony indicates that a closer understanding of China’s role in the global value chain and in the micro-economic experiences of Chinese private investment and of novel industry park developments is therefore necessary to provide a more sophisticated explanation of the implications of the China-Africa relationship for development in both Africa and China.

6.2 Social and environmental development

Chinese firms in Africa, like some of those from Western countries, underwrite and often themselves build schools, hospitals, roads and government or other public buildings in Africa quite separately from the extensive programme of Chinese Government-backed infrastructural initiatives. Yet, these 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 (2007) 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.’ 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 (CSR) a lower priority for Government in the past and, consequently, it has not really figured in China’s enterprise culture. 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. 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 CSR, 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.[26]

These questions of public standards and whether Chinese SMEs, driven primarily by market forces can be expected to observe them, raises questions 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.

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. Chinese enterprises could and should go further, particularly on social responsibility. But they can only go so far. 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.' He went on to make the important observation that; '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.' His comments are particularly salient with respect to Chinese private investment in Africa. But as the ADB President also stated: '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).

7 Conclusions

The widely-held assumptions regarding Chinese investments in Africa are that they are overwhelmingly concerned with the resources sector. In addition, it is believed that such investment is undertaken primarily by the large Chinese SOEs and backed by Chinese state interests rather than the dynamic forces of the market. However, the empirical evidence of Chinese private enterprises in Africa presented in this study demonstrates that, in practice, the picture is very complicated. At best, the conventional view provides only a partial explanation

26 Author's interview with UNDP Ghana Office.

and quite one-dimensional understanding of what is a much more complex and complicated reality. This is important for both conceptual and policy reasons. The flawed generalised explanation of China's role and impact in Africa increases the scope for misunderstanding or misrepresenting the actual developmental role and impact of Chinese investment and for engaging it appropriately and effectively in addressing development challenges and meeting the MDGs.

The lacuna in our knowledge of China-Africa relations concerns the need for a greater understanding of the relationship between the Chinese public authorities, mainly the Chinese government, and China's private sector. The Chinese private firms in Africa are mainly SMEs and these risk-taking entrepreneurial firms have followed their own paths to Africa. The evidence from this study supports the view that private sector investment is predominantly market-seeking. This market-seeking FDI is both *direct* (seeking markets in the country in which the investment is located) and *indirect* (particularly seeking access to markets that have preferences for sub-Saharan African goods, but also regional markets within Africa). The private sector firms that are investing in Africa are not, as yet, the leading Chinese firms.

The key motivation for Chinese private FDI into Africa is the intense market pressure they experience in the Chinese market. Whilst important, our study has shown that the primary motivation for these private firms is not their assessment of Africa's investment climate *per se*. Rather, it is domestic competition in China and the perception of competitors undertaking investment in Africa and information fed back to them from established Chinese diasporas across Africa. We have empirical evidence too that private sector FDI is not stimulated to any significant extent by the Chinese Government's 'going out' policy. There are three reasons for this. Firstly, the 'going out' policy was directed mainly towards different types of firms, particularly SOEs and the major market leaders, rather than SMEs. Secondly, there are important differences between what Beijing does and what provincial administrations do with respect to FDI promotion. Thirdly, Chinese private sector firms in Africa actually receive little effective support from the Chinese government.

The ferocious domestic competitiveness and continuing structural adjustment of the Chinese political economy provide the context of firms' decisions to go to Africa. But these are not, in themselves, sufficient to explain the private sector's rush to Africa. As we have seen, the huge market potential of Africa was listed as the most attractive factor. Individual African countries could also serve as the way to achieve access to the African sub-regional markets and the US and European market.

So, is investment climate an issue? Survey testimony from Chinese firms in Africa held that it was significant, but only as a general issue and not one that held them back from investing or operating effectively in Africa. Investment climate was also less of a factor because of a relative lack of detailed knowledge about Africa available in China before they went. Instead, it was a matter of the entrepreneurial spirit of adventurous people who drew the conclusions from a tough environment inside China; a factor more important even than the existing links with Chinese communities already in Africa. For these SMEs the investment climate was not important, they are different from SOEs and what is distinctive about them is that they have been honed by the tough market environment at home. Many interviewees held the view that the more chaotic (i.e. the less regulated) any market was, whether in China or in Africa, the better. In China, the saying is that 'out of the chaos comes the hero'. To a certain extent, many firms are used to working in gray areas – where rules are not clear or even formulated. This gives them more flexibility and, for them, this is an attractive condition. They are used to operating within informal relationships as a main feature of their dealings with other business partners and with government officials. This is a main finding of the China-Africa project survey.

One of the important findings of the present project is that a source of difficulties in China's engagement with African development is that the implementation of Chinese state policy is highly problematic. This is because of a proliferation of Chinese agencies are acting quite independently from the Chinese state. This leaves policy lagging behind, for instance with respect to the development of a doctrine and practice of corporate social responsibility. This is a key challenge not just for Africa, but for the Chinese themselves. Lack of powerful involvement of Chinese business associations with the Chinese state is crucial issue. A strong, interactive mutual relationship is required in order to be able to work together effectively.

This is a mutual learning process for both Chinese public and private sectors and also China-Africa relations more generally. 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.

Annex 1 Sectorial distribution of Chinese firms interviewed

List of sectors and industries

Agriculture
Animal feeds
Baggages & Suitcases
Banking
Beer
Bicycles and spare parts
Bricks, tiles
Ceramics and by-products
Cement
Civil Construction
Concrete, mortar and other cement products
Cocoa
Communication services
Cotton
Electrical machinery and equipments
Fertilizer
Fishing and fishing net
Furniture
Footwear
General purpose machinery
Glass and glass products
Health instrument and apparatus
Health medicines
Hoteliers
Land transportation
Leather
Metal and products
Motorbikes, and spare parts
Non-alcoholic water and soft drinks
Other building materials
Other food manufactures
Paper products and by-products
Petrol and Lubricant
Plastic and Plastic products
Pesticides and veterinary medicines
Power and Gas
Processed woods and wood products
Processed, preserved meat and by-products
Processed vegetables and animals oils and fats
Processed and Preserved fruits and vegetables
Processed seafood and by-products
Product of printing industry

Repairs of small transport means, motorbikes, personal and home appliances
Restaurant
Rice
Rubber and by-products
Soaps, detergents
Solar Power
Television
Textile
Telecommunication
Tourism
Trade

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