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

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Introduction

Conventional wisdom about China's investment in Africa holds that it is mainly resource focused, conducted by large SOEs, and driven by Chinese state interests rather than market forces. This study of the rapidly growing investment by private Chinese companies in Africa presents a different picture.

The research is based on fieldwork in eight Chinese provinces and regions, and in Ghana, Nigeria and Madagascar. Initially, Chinese companies went to Africa mainly to implement development projects. They were followed in the mid-1980s-1990s by large state-owned trading companies, and then from the mid-1990s by SOEs engaged in manufacturing, often linked to resource-based and infrastructure investments. From 2005 investment in Africa by Chinese private companies accelerated, increasingly in manufacturing, and across a wide range of sectors and countries. The research explores the main characteristics of these firms, their motivation for investment, and the development implications for Africa.

Who is investing?

The majority of Chinese private firms investing in Africa are small and medium enterprises (SMEs). They are risk takers, with a powerful work ethic, prepared to accept low initial profit margins in order to position themselves for longer term expansion. The majority come from a small number of Chinese provinces and coastal regions, notably from Zhejiang, helped by a large diaspora. Most firms start as traders, moving into manufacturing and subsequently to the establishment of industrial parks (which provide mutual support and coordinated production). Local labour is employed mainly in production, with Chinese in managerial positions. Many Chinese companies have weak linkages with local African firms, thus limiting the transfer of technology and business skills.

Why are they investing?

Chinese private investment in Africa is driven by "push" factors including intense competition and excess production capacity at home; and by "pull" factors including commercial opportunities presented by potentially large African markets. The main constraints are seen as government regulations constraining imports, poor infrastructure, weak macroeconomic management, and labour regulations. Chinese companies are less concerned than Western investors about corruption and bureaucracy. Their main sources of information about Africa come from personal networks and trading experience, as well as from central government and Chinese embassies in Africa. But while Chinese central government actively promotes overseas investment by both SOEs and private enterprises as part of a policy to strengthen industrial restructuring, in practice most private firms have followed their own paths overseas, and commercial rather than policy imperatives.

Development implications for Africa

There have been high expectations in Africa that Chinese investment could actively drive an upgrading of Africa's role in the global manufacturing value chain. Chinese private investment potentially offers a number of benefits including an additional source of investment capital, employment opportunities, a significant multiplier effect through the local economy by way of local sourcing and the provision of local management expertise, technology transfers, and the sharing of production, management, distribution and marketing skills. In practice, however, the impact has been limited by the weak response by some African governments' inward investment regimes to the new opportunities. This has been exacerbated by the shortage of local people with business and technical skills able to support the transfer of expertise. While Chinese firms are open to local sourcing, and many have stated the intention of moving up the value chain, the lack of specialised supplies, and the high cost and poor quality of many local goods means that Chinese firms continue to rely for parts on established suppliers in China.

Chinese firms have been strongly criticised for their alleged lack of corporate social responsibility over issues ranging from labour rights to environmental neglect. While Chinese firms are coming under increasing domestic pressure, especially on green issues, Chinese private firms in Africa see themselves primarily as commercial entities. The paper suggests that there is a pressing need to get them more engaged in social and development issues in Africa, and for intergovernmental collaboration through Chinese and African fora to stop individual companies actively seeking out countries with low standards.

Implications for policymakers

Despite Chinese government policy to encourage overseas investment by Chinese firms, and their perception that this offers a "win-win" strategy for Africa, links between Chinese government policy and private sector firms are in practice relatively weak. However, these relationships are currently fluid, so there are opportunities for China's public and private sectors to build constructive relationships that contribute to both Chinese and African development goals. African states can do more to maximise their own development gains, by developing a multi-dimensional response through government, private sector, unions and NGOs, to establish a constructive policy framework for foreign direct investment.

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