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Chapter 5

Preliminary Investigation on Institutions Behind the Chinese Small business Influx in Africa

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Abstract

Chinese economic presence in Africa has drawn significant public attention through wide media coverage. Despite its extreme dynamism, current report on the issue tend primarily to focus on Chinese official development assistance in large construction project in each African capital city in which Chinese government try symbolise their economic cooperation in each partner African states and also tend to focus on resource concession access. In reality, investment by Chinese small business particularly in wholesale and retail sector comprises significant volume in total figure and also has influenced purchasing behaviour of low income population in local sphere. This chapter sees influx of Chinese small business and small scale investment as a result of institutional backlog in their hosting country in Africa, virtually non-existent import controlling policy and malfunctioning immigration controlling system.

Keywords: SME, institution, Uganda, trade, investment, China in Africa, retail, wholesale

1 Introduction

Massive influx of Chinese business and small scale merchants in the new millennium Africa, have provoked controversy in journalistic and academic circle. Generally discussed motivations behind of the Chinese government promoting trade and investment to Africa are characterised as Chinese ODA presence and its expansion to Africa, state owned Chinese companies investment into concessions on petroleum, base metal, rare metal, rare earth resources. Whereas political motivations have been observed in wiping out of Taiwan and Taiwanese legacy in and particularly to establish diplomatic ties with remaining African states supporting Taiwan government as sovereign states; retain African states support to the Chinese initiated UN reform more particularly to the Security Council reform. (Yoshida, 2010)

In recent discussion on Chinese firms and Chinese merchant presence in Sub-Sahara Africa, it is estimated there are approximately 800,000 to 1 million Chinese immigrants in Africa. This significance has been reshaping the landscape in Africa. In urban space, government and ministry office blocks, parliament buildings national stadium are constructed or under construction through Chinese government ODA programme, thereby Chinese construction companies, both state owned and private companies are given contract deal.

Also, in large cities' CBD, mass of Chinese merchant are rushing in and building Chinese wholesale business zone. This brought multi tier effects in commercial property development and residential property development as a new residences and flats being built for middle class or newly arrived investors, and the investors with remittances from overseas.

Small firm investments relatively concentrate in capital cities and secondary urban centres whereas medium to large Chinese firm investment spread across the country for the mineral resources and energy resource exploration and investment. Almost 10 years pave past since Chinese government got intervene in active resource diplomacy through state or provincial owned corporations in mineral and energy development. Also it's been observed and questioned its controversy that farm land investment, mainly in concession agreement between Chinese public/ private entities and ministries in charge of land affairs in each African government are not reflecting carefully local land use and traditional land tenure. Nonetheless this farm investment created another influx of Chinese agricultural, technical, skilled and semi skilled workers in the local sphere together with Chinese traders and merchants who cater both for locals and Chinese. The Chinese presence in virtually all local, urban and rural, industrial and agricultural landscape is the consequence of the massive influx of recent couple of years.

This chapter deals hereinafter with as a preliminary investigation local scale dynamism created through Chinese small and medium scale commercial and industrial investment particularly from the viewpoint of Chinese-African economic relations, significance of the new economic actors particularly in retail and wholesale business in local sphere, and institutions behind of this change on both Chinese and African side.

2 State of Trade and Investment

Figure 1　Chinese Import and Export with African Countries, top 20 (100millon USD)

	2005		2006		2007		2008	
	import	export	import	export	import	export	import	export
Angola	65.82	3.73	109.33	8.94	128.89	12.31	223.82	29.30
South Africa	34.22	38.26	40.88	57.68	66.13	74.28	92.31	85.93
Sudan	26.14	12.94	19.43	14.10	41.32	14.83	63.29	18.49
Nigeria	5.27	23.03	2.78	28.53	5.37	37.92	5.09	65.57
Egypt	22.78	1.45	2.17	29.76	2.40	43.62	4.28	58.11
Algeria	3.64	14.05	1.43	19.47	11.40	26.89	8.49	36.85
Republic of Congo	22.78	1.45	27.91	2.41	28.31	4.19	37.28	6.12
Libya	9.42	3.60	16.94	7.04	15.47	8.59	25.89	16.23
Morocco	2.77	12.06	3.59	16.70	4.22	21.59	4.59	23.28
Eq.Guinea	14.38	0.19	25.38	0.41	16.97	0.93	22.68	2.77
Benin	1.39	9.53	0.89	14.52	1.13	19.71	1.10	23.03
Gabon	3.52	0.41	8.17	0.64	10.95	1.02	17.93	1.38
Ghana	0.96	6.73	0.80	8.03	0.53	12.13	0.93	17.34
DRC	1.76	0.50	3.68	0.69	4.58	0.93	15.83	2.30
Ethiopia	0.86	2.84	1.32	4.31	0.87	7.20	0.82	12.27
Kenya	0.18	4.57	0.24	6.21	0.28	9.21	0.35	12.16
Togo	0.32	5.38	0.22	7.04	0.26	13.74	0.31	12.00
Mauritania	0.04	0.74	4.02	1.09	5.70	1.37	10.50	1.85
Liberia	0.14	1.50	0.02	5.30	0.03	8.03	0.06	11.36
Tanzania	1.71	3.04	1.53	3.83	2.00	5.94	1.31	9.33
africa total	210.63	186.83	287.74	266.90	362.83	370.28	560.02	508.40

Source: Ministry of Commerce, Government of China
http://english.mofcom.gov.cn/statistic/statistic.html (accessed on March 6, 2010)

Chinese Export to sub Saharan Africa increased rapidly after 2001, especially 2003 on ward, continuously increased by 30% annually. This trend can also be found in trade increase between India and Africa particularly Indian export to African countries increased in 2004 to 2006. So it is showing African market growth in general. As shown in the figure 1, the increase after 2005, rapid growth is found in the trade between China and Botswana, Congo, Cameroon, Guinea, Madagascar, where increase was higher than average increase, and these are also the countries increasing more than average rate its energy and resource export to China, Angola and South Africa.

For Chinese export to African countries, where large scale market is found South Africa, Nigeria, Egypt, Algeria, growth is significant. With Egypt increased most significantly also with Equatorial

Guinea, Angola, Liberia, Zambia, Rwanda, Chad, Malawi increased its export by five fold. Generally export to the country endowed with mineral resources, are growing rapid, but even with Liberia, Rwanda, Malawi, where mineral resource investment is not significant, export increased through consumer goods trade.

When Chinese export structure to Africa compared with Indian one, Chinese trade are mainly in light industry goods, apparel, shoes and cotton yarn, whereas Indian shares more on machinery and chemical products. This is attributable mainly on to an export destined to the country where Africa Growth and Opportunity Act, AGOA, applied, where are in great need of fabric materials for their labour intensive garment industry to export without tariff and quota to the US market.

Behind of the trade expansion, the institutional factors backed up in African countries mainly, through market liberalisation after structural adjustment programme and in Chinese side, government priority policy on trade and investment promotion or ‘Go Abroad Policy’. Consequently, African consumer market through influx of Asian products got impacted significantly. For example traditional domestic garment industry in South Africa lost 59000 jobs. So the issue was quite politicised in place jobless issue is critical.

Influx of Chinese small and medium wholesale business exacerbated the market competition among city traders. Oversupply of tradable goods perceived among the traditional traders. They argue that it is difficult to compete against Chinese style business. These traditional Asian wholesalers and retailers have been also dealing with Chinese and other merchandise in the trading system but new entrants Chinese brought in their direct supply chain network and through this Chinese wholesales keep access to suppliers in much lower cost than the Asian counterpart.

This whole new trend started in 1999, Chinese government put “Trade and Investment Priority Policy”, prior to WTO accession, also in the 10 th Five Year Plan in the 2001, private sector as a whole, was liberalised to engage in external trade activities, which policy backed up by the various promotion policies, tax incentives for small and medium firms to invest in foreign trade. Through this Chinese travelling of small business workers liberalised, international deal and contact transaction had become much easier. This is one way Chinese state backed small firm influx to African market.

In this influx process, numerous Chinese consumer goods traders linked African markets to specialised industrial districts across China. Each network string itself looks very tiny and thin

Figure 2　Chinese Investment to African Countries, top 20　(10,000 USD)

	2003	2004	2005	2006	2007	2008
South Africa	886	1781	4747	4074	45441	480786
Zambia	553	223	1009	8744	11934	21397
Nigeria	2440	4552	5330	6779	39035	16256
Madagascar	68	1364	14	117	1324	6116
Algeria	247	1121	8478	9893	14592	4225
Mauritius	1027	44	204	1659	1558	3444
Gabon	—	560	208	553	331	3205
DRC	6	1191	507	3673	5727	2399
Kenya	74	268	205	18	890	2323
Tanzania	—	162	96	1254	-382	1822
Egypt	210	572	1331	885	2498	1457
Benin	209	1377	131	—	632	1456
Botswana	80	27	369	276	187	1406
Rwanda	—	—	142	299	-41	1288
SierralLeone	—	592	49	371	285	1142
Ghana	289	34	257	50	185	1099
Lybia	10	6	25	-851	4226	1054
Congo	—	51	811	1324	250	979
Ethiopia	98	43	493	2395	1328	971
Chad	—	—	271	161	75	947

Source: Ministry of Commerce, National Bureau of Statistics, State Administration of Foreign Exchange 2009. Statistical Bulletin of China's Outward Foreign Direct Investment（Chinese text）

Figure 3 Investment increase to African countries between 2003-08, top 8 destinations (increase in times since 2003),

South Africa	543
DRC	399
Angola*	216
Madagascar	90
Zambia	39
Kenya	31
Algeria	17
Namibia	12
africa ave	75
* 2003-07	

Source: Ministry of Commerce et al. 2009.

compared to the large trading house or state run companies transaction but the small firms sector as a whole, numerous firms created a thick, vital and very active trade network between Chinese industrial district and each African countries market as the traditional traders linked up Dubai and Jeddah with East African market.

3 Institutions of Influx

In addition to the trade promotion or ‘Go Abroad’ policies in China, export credit facility was expanded and export/import of small business was liberalised, other trade supporting institutions organized significantly for Chinese private sector to penetrate foreign market. Data and detailed information on export credit to African countries under Export Import Bank of China are not available so it’s difficult to figure what extent those export increase is backed up by Chinese government export credit facility. (Moss and Rose, 2006)

As for Chinese foreign investment, public and private sectors, detail data was limited for long period, but in 2009 Chinese Ministry of Commerce, National Bureau of Statistics, State Administration of Foreign Exchange, jointly published Statistical Bulletin of China’s Outward Foreign Direct Investment (対外直接投資統計公報) and revealed the detail of investment scale on investment destination country.

Chinese FDIs to Africa have increased 75 times in US dollar term between 2003 and 2008. Among these, FDI to South Africa recorded astonishing 543 times due to financial sector investment in 2007 and 2008. When South African data excluded, FDI to Africa in the same period increased 10 times. Other remarkable increase can be found on the one to Angola, except in 2008 FDI recorded negatively, direct investment between 2003 and 2007 increased 216 times. Disinvestment in the year of 2008, shared with Sudan, Equatorial Guinea, Ivory Coast, Uganda, and most disinvestment cases are found in petrol producing counties, where massive Chinese investment as Sinopec or CNOCC, CNPC once focused.

Chinese FDIs to Africa, is conceptualised and categorised by Kaplinsky and Morris into 4 pattern, as 1, central state owned entity, 2, provincially owned, 3, Chinese privately owned and 4, locally incorporated in each African countries. Recently focused energy and mineral industry sectors, most cases are state owned and quasi state, provincially managed public corporation.

On a local scale, in the livelihood of African people, significance of Chinese FDIs are mainly observed in wholesale and retail sector development by small firms. Minimum investment scale in Uganda for example, FDI is required to bring in minimum investment fund of 100,000 dollars. This fund is required to be deposited once in Bank of Uganda, central bank however now investors can also deposit it to commercial bank in Uganda.

This amount of minimum investment fund in Uganda gives impression that it's too large to start up small wholesale/retail shops in downtown Kampala or in other sense, actual investment of small retailers do not require that amount for setting up commercial outlet with a decent and reasonable stock of tradable goods from China. But many small wholesalers and retailers might own different outlets in neighbourhood under sole investment.

Also, small wholesale investors are not fulfilling this minimum requirement but they just cross border to African countries and start shops as in their home country. Problems of small investors have been raised that many cases small firms and merchants in downtown Kampala, commercial entities are not officially recorded, not institutionally supported through any Chinese government scheme, nor recorded in the Uganda Investment Authority's list of investors. That implies most cases small wholesaler and retailer investment case is actually less than 100,000 dollars and they are immigrating into Uganda as other job classification but not as investors.

This small firm sector is playing major role or one of the main actors in the Chinese FDI to African countries. In a practical sense, small commercial sector investors presumably with a primal fund of several thousand dollars are main actors inflowing in several thousand investors in each African countries. This type of small businesses are characterised as 1, self financed, 2 active outside of state/provincial institutions and regulations, 3, probability of illicit or illegality of activity, and 4 reliance to their own family network. (Kaplinsky and Morris, 2009)

Figure 4　Type of Chinese Investment in Africa

	Central State	Provincial State
State Owned	Normally accountable to state council	often loyal to provincial rather than central gov objectives
	tender for central gov funded Exim bank financing	tender for central gov funded Exim bank financing
	predominantly in resourece sector, infrastructure projects and construction	predominantly in resourece sector infrastructure project and construction
	involves formal state to state	generally some from twinning between china provinces and african gov
	generally well documented but not always transparent agreements	generally well documented but not always transparent
	Incorporated in China and Africa	**Incorporated in Africa**
Private Owned	predominantly in manufacuturing and service	predominantly in petty manufacturing and services
	largely self financed	self financed
	act independently of Chinese central gov	act independently of chinese central and provincial gov
	maybe supported by Chinese provincial gov	may not be legally incorporated
		familial contacts important

Source: Kaplinsky Raphael and Mike Morris "Chinese FDI in Sub Saharan Africa:Engaging with Large Dragons"
European Journal of development Research 24-1, 2009

4 Institutions Receiving Chinese Economic Presence in East Africa

When we observe market demand to Chinese consumable products in Kampala, Uganda, pricing of Chinese consumer goods are incomparably competitive or even much lower priced to any other alternative. Hence it is devastating existing market. However it might not be enough to explain this Chinese market penetration only by this pricing character. Because, African consumer market was already widely opened in trade liberalisation process and Asian or Lebanese business in some area already established regional trade networking system and there they have been importing Chinese and other price competitive Asian consumer goods. But notably penetrative capacity and its scale brought through influx of Chinese small traders is enormous compared to other Asian business.

In East Africa particularly since 1994 after South African democratisation, South African products started to flow in to market though South African store chain investment and their large scale outlet chains. In this process South African style, modern wholesale and retail management established region wide including supply chain management. South African wholesales and retails business are well informed about consumer behaviour of low income Black South African. For example, cosmetics and sanitary products targeting Black South African started penetration in neighbouring African market in the first place. At the same timing South African financial sector started to invest Africa regional market. Thereby regional financial network backed up this retailers' north bound market penetration.

As other existing commercial sector in East Africa and Southern Africa, there is a traditional South Asian merchant network established wholesale and retail business sector. This network dates back as British colonialism so it is deep rooted in African local commercial system. Asian retail business model in African depend on family business, family networking and import business by the proprietor themselves. Their typical business is found in medium scale general merchandise store, some are stand alone and some are established local chains stores. There Asian consumer products including Chinese, Indian and some Middle Eastern products are dealt, also there are a local corporate sector in retail business with other multiple investment including finance sector, property development and education.

Historical trajectory of retail business development in East Africa started when Asian merchant started to flow in and establish system linking South Asian retail commercial centres and Dubai Doha, Jeddah with East African commercial centres. In the next stage of commercial sector development South African chain stores found niche market to get in existing consumer market by establishing South African style of marketing which includes establishing logistical network by road transport, building large scale shopping complex estate, inviting different South African retailers to go green field investment. It is in a way vertically integrated investment whereas Chinese small business in Africa maintains individual linkage with each supplier being based in China.

Small Chinese investors tend to open similar scope of wholesale/retail outlets in nearby neighbourhood and supply on almost same type of linkage with firms in home country. It is more a horizontal division of labour, and this has been transforming small business landscape in many African cities. In Dar es Salaam, Tanzania for example, new entrants Chinese small clothing business sharing market with existing second hand clothing dealers as well as existing quality garment retailers after some market competition among them. It is characterised this direct supply linkage and competition among small business in horizontal division of labour, created penetrative capacity of those small business go invest not only to large cities but small town centres in each country in such a short period of time.

Chinese business as new entrants to the market conduct business in totally different manner from above mentioned South African and Asian business style. Exploding in its presence and scale, but individual Chinese business are small and some are micro, compared to established Asian business in East and Southern Africa. Small in individual scale but as whole Chinese business including supply chain upstream to downstream retail, in all main corner of African city system, which is very unique and new landscape. South Asian business in Africa is somehow mixed South African business style in penetrating African market in recent years by employing South African suppliers and by establishing medium sized convenient store type of investment. Chinese model are still pretty much Chinese style particularly characterised by their specialisation to certain type of goods and keeping direct contact with suppliers and manufacturers in China.

These Chinese small wholesale and retail business are transforming an industrial cluster in large cities in Africa where consumer commodity suppliers are traditionally located, for example in Eastleigh, Nairobi, Kikkuvo, Kampala and Limbe, Blantyre.

5 Institutions on Small Business Investment

In Uganda, officially Uganda Investment Authority, UIA as a one stop service provider to foreign direct investors, in charge of collection on investors' particulars. It has been organising investment incentives in corporation with Uganda Revenue Authority, licensing authority at Kampala city council, and other authorisation agency. UIA was established to cater primarily for medium to large scale FDIs and firms like as who could start in the industrial estate immediately. So there is a significant institutional gap for the small business investors' point of view. In Uganda, minimum investment is supposed be more than 100,000 dollars and it should be once deposited at the central bank, Bank of Uganda.

Other institutional backlog is a lack of comprehensive trade policy which clarifies position of small business. After economic liberalisation export promotion has been everywhere in politics, planning even in aid agencies, so export promotion is very subtle and detail formulated through the help of donor states but as for import policy, it is virtually non-existent. In the poverty eradication regime, economic policy emphasized on private sector development, proper inflation control, fiscal balance, revenue generation, financial sector development, competition enhancement, as for trade related policy, employment creation, economic growth, diversification through non-traditional export, and linkage building with global/regional economy. In the poverty eradication regime import is not dealt as serious issue even among aid agency economists.(Margaret, 2007)

Other institutional backlog can be found on property regulation that accommodating foreign small investment. In the urban commercial district, particularly wholesale and retail district, small Chinese business is agglomerating in Uganda. It is facilitating commercial property investment. This commercial property investment accommodating Chinese small business, in South Africa multi-storied wholesale retail complex are invested in Bruma, Johannesburg for example, in smaller scale, like Blantyre in Malawi, wholesales commercial streets in Limbe, commercial property has been topped up on existing single storied structure. In Uganda, this property topping-up is quite phenomenal in certain part of Kampala, CBD. There was even an incident that building under construction collapsed and it proved in 2009, building regulation is not strictly applied. This type of commercial property development is done by Ugandan property owners and Asian property leasehold owners to cater for foreign small business investors. But detail information on commercial property market for small business investment are not collected and analysed.

6 Conclusion

In this influx to Kampala caused strong reaction among local traders. Kampala City Traders Association, KACITA argue the problematic Chinese trades as Chinese are dumping less quality commodities and cheating Ugandan consumers; this second class quality commodities discourage other formal investors image to Uganda economic environment; deteriorated job loss situation and Chinese government backing up labour influx and taking job opportunity of local Ugandans; and tax averse is phenomenal but revenue authority is not strict as to local traders. KACITA proposes to limit visa issue to Chinese and to limit Chinese free access to Uganda market. (Obwona, Guloba, Nabiddo and Kilimani, 2007)

Chinese economic presence particularly impact of investment by mass small wholesale/retail business is extraordinary. Since its significant scale and its impact to existing commercial sector, presence itself is becoming a political issue as to protect local's interest and job opportunities. In actual manner this small investors' impact, character and linkage system are not discussed thoroughly in academia so that in the next research exercise, author is going to examine the significance of that scale.

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