FOREIGN DIRECT INVESTMENT OF CHINESE OWNED SMALL AND MEDIUM ENTERPRISES – MOTIVES FOR CHOOSING SOUTH AFRICA

AVA SMIT (Department of Business Management, University of the Free State)

EF NGAM (Department of Business Management, University of the Free State)

South Africa's social-economic goals are to reduce inequalities, wealth and asset gaps between rich and poor, halve unemployment by 2014 and meet the Millennium Development Goals. A possible approach to achieving these goals is by encouraging more foreign direct investment (FDI) in the small and medium enterprises (SMEs) sector as these investment injections could positively impact the South African economy. The purpose of this paper is to investigate the motives of Chinese owned SME) in the Free State province for starting a business in South Africa, focusing on whether their FDI decisions were driven by export-oriented or market-driven factors. The population for the study comprised of a mixture of Chinese SMEs from different industries. The questionnaire designed through detailed literature studies was answered by 96 entrepreneurs and the data analysed using descriptive statistics, and frequency distribution tables. The results revealed that Chinese SMEs are predominantly market-driven in their decision to invest in South Africa with only 34.4% of the respondents in manufacturing. However, the Chinese SMEs in manufacturing create four times as many jobs as those not in manufacturing and are much more involved in export activities. The paper links the initial motives for FDI of Chinese SMEs to their contribution to the South African economy.

Key phrases: FDI, SMEs, supply-based (export-oriented) versus market-driven motives

1 INTRODUCTION

In 2010 during the Soccer World Cup a Tswanian phrase, Ke Nako ('it's time'), announced that Africa's moment had come. The continent, according to Chironga, Leke, Lund and Van Wamelen (2011:117), is home to many of the world's biggest opportunities. The past decade has witnessed a continued increase in the level of investment in Africa by foreign multinational companies (MNCs). This is particularly true as in 2008, foreign direct investment (FDI) flows to developing economies rose by 17% to US$621 billion while in developed economies it fell by 29% to US$962 billion (World Investment Report 2009:3). Also, with half of the top 20 recipients of FDI being emerging economies, it shows a symbolic change in the FDI landscape. FDI is, according to Bhardwaj, Dietz and Beamish (2007:29), a long-term commitment to a business endeavour by foreign firms in a host country.

Fortunately African leaders recognise the importance of FDI as a major source of capital, which is a deep-seated paradigm shift from the inward-looking statism of the past (Luiz 2006:4). According to Kamath (2008:23), foreign capital is treated as a resource gap-filling factor in the context of capital scarcity in the developing countries. There are good reasons to believe that FDI is preferred to other types of capital and even more so for developing countries. Not only can FDI add to investible resources and capital formation, but perhaps more importantly, it is also a means of transferring production technology, skills, innovative capacity, and organisational and managerial practices between locations, as well as of accessing international marketing networks. In addition, FDI can improve overall growth and job creation by promoting competition in the domestic input market (Kyaw 2003:3).

In the last decade, China's exports to Africa have greatly exceeded its imports, as shown by a deluge of Chinese clothes and electrical home appliances flooding African markets. This has been coupled with a massive influx of Chinese people into Africa. China has changed from inward FDI to outward FDI. This expansion has grown rapidly to the point where China has become the world's fifth largest outward direct foreign investor with a total of US$48 billion by the end of 2009 (World Investment Report 2010:6). South African, Zambian and other political leaders in the region have described China's diplomacy as a form of neo-colonialism. Such sentiment can be seen in recent incidents, including xenophobic attacks on foreign small and medium enterprises (SMEs) in South Africa, an anti-China riots in Zambia and the kidnapping of a Chinese engineer in Nigeria (Shimbun 2007:5).

A study of cross-border investment flows revealed that South Africa has made the list of the top 25 most attractive destinations for global FDI. It was ranked 18th in the world in 2008 from a very low base 14 years ago (Ford 2008:1). This analysis of South Africa being a good attractive destination in the cross-border investment study was conducted among multinational enterprises (MNEs) and large companies investing in South Africa. However, SMEs usually impact more than MNEs on job creation and economic development in a country. With most studies focusing on FDI by MNEs in Africa or South Africa, very little research has been conducted about what motivated foreign SMEs to locate their businesses in South Africa.

1.1 RESEARCH PROBLEM

SMEs are the basis for entrepreneurial development and are critically important for building a country's industrial productive capacity that is flexible, resilient and interlinked. SMEs have certain advantages over big businesses and this potential is of increasing importance in the attraction of foreign investment (Svetlicic, Jaklic & Burger 2007:51). Further, many African countries are increasingly disillusioned by the Chinese SMEs flooding local markets with cheap Chinese imports (Watson 2011: 3). Therefore, looking into the type of FDI to be attracted in South Africa will be of great importance. The question whether these Chinese SMEs contribute to the pressing problems of the country (such as job creation and exporting) could be answered in part by analysing the motives of these inward FDI in emerging economies such as South Africa.

1.2 RESEARCH OBJECTIVE

This study has as main objective to investigate the motives of Chinese SMEs FDI in the Free State Province of South Africa. The study examines empirically the motives of Chinese SMEs operating in the Free State Province, focusing on whether they were driven by export-oriented (efficiency seeking or supply-based) or market-driven factors.

2 LITERATURE REVIEW

Luiz (2006:24) acknowledged that South Africa's social-economic goals are to reduce inequalities, reduce wealth and asset gaps between rich and poor, halve unemployment by 2014 and meet the Millennium Development Goals (MDGs). However, the low level of entrepreneurial activity, coupled with the high failure rate of start-up SMEs, are some of the major reasons for limited growth and job creation in most African countries. The failure to diversify their economies, the lack of competitiveness of businesses, specifically SMEs, coupled with an over-reliance on the exports of primary goods, are all contributing factors to the marginalisation of most African countries in global markets.

For policymakers around the world, the appeal in opening up to global markets is based on a simple but powerful promise: international economic integration will improve economic performance. According to Musila and Sigue (2006:586), FDI is expected to produce more jobs, enhance exports abroad and locally impact the general accumulation of human capital via knowledge spill-overs. Scott-Kennel (2007:71), however, recognises the importance of technology gaps between domestic and foreign firms to determine the level of positive spill-overs. Positive spill-overs are more easily achieved when foreign SMEs, rather than big businesses, are targeted. Thomas (2005:2) confirms the importance for Southern Africa to attract more efficient (supply-based or export-oriented) FDI and to ensure that the benefits from such FDI accrue to the local economy, in particular creating export opportunities for SMEs. What is needed in African countries is an external environment that will end the isolation of SMEs and put them on the road to increase partnering and networks, hence upgrading their export skills and competitiveness (Rutashobya & Jaensson 2004:159-161).

2.1 MOTIVES FOR FDI

The motivation to internationalise is a key factor in firms' FDI internationalisation. Many issues account or motivate firms to expand internationally or carry out FDI. The primary motive could be to improve the growth of the firm, to maximise returns and minimise cost in purchase, production and sales. Another motive could be strategic positioning by gaining access to international competencies, technology, labour and capital (Wilson 2007:47). The motives for FDI vary from country to country and it is greatly determined by the investing environment of the host country likewise the characteristics of the investing company and management. Most of the FDIs attracted to Africa have been as a result of its abundant natural resources and/or the size of the domestic market.

UNCTAD (1999:19-25) identified four different motives for FDI: natural resources, market oriented, efficiency enhancing and strategic asset seeking FDI. The motive with resource-seeking FDI is to seek primary resources and cheap labour and is the oldest form of MNEs involvement in developing countries. This kind of motive for FDI is often a precondition for the production of primary commodities for foreign markets, especially in developing countries, and generates a stream of exports of natural resources that would not have otherwise occurred. Market-seeking FDI motive depends on the expectation of new sales opportunities or market growth in the host country. Efficiency-seeking FDI tries to utilise the specific comparative advantages of an economy. Lastly, strategic-asset-seeking FDI seeks to gain an important stake in the market over the long-run. It is an investment led by long-term strategic considerations.

However, FDI in less developed countries and developed countries are typically motivated differently. Newly industrialising economy firms tend to invest in less developed countries when they have efficiency-seeking or resource-seeking motivations (supply-based or export-oriented) while in developed countries they invest as a result of having strategic asset-seeking and market-seeking motivations (Makino, Lau & Yeh 2002:407). Sethi, Guisinger, Phelan and Berg (2003:315) argued that United States MNEs are making increasing FDI in developing countries in order to benefit from increased efficiency (supply-based and export-driven), achieved through decreased production costs and economies of scale (Chen, Chen & Ku 2004:322).

2.2 EXPORT-ORIENTED VERSUS MARKET-DRIVEN FDI

The focus in this article is primarily on export-oriented (supply-based) and market-driven FDI. The aim of the export-oriented type is to acquire particular resources at a lower cost than at home. Export-oriented FDI involves dispersing the different stages of the production process geographically based on labour intensities, while market-driven FDI means building plants in several countries to serve local markets or to export directly to the host country to serve the local market (Noorbakhsh, Paloni & Youssef 2001:1595). The export-oriented motive often targets the relatively low cost of labour and is very common in developing countries where cost of labour is cheap and it is more profitable to produce in these countries and export abroad. This has been a characteristic of some Japanese investment in Asia, United States investment in Mexico, Central America and Asia, and European investment in Central and Eastern Europe. More recently, as real wages have risen over time in some of the Asian countries that were first to industrialise with an outward oriented strategy, labour-seeking investment has moved on to other lower-wage Asian countries (UNCTAD 1999:21). Export-oriented FDI could therefore address two very important needs in Africa by focusing on job creation and exports. However, attracting good export-oriented FDI with advanced technology will require a good stock of human capital or skilled labour and good infrastructure in the host country. A reliable foreign exchange rate will be necessary too for a good export-oriented FDI.

Market-driven FDI, on the other hand, depends on the expectation of new sales opportunities. Market-driven investment is often influenced by strategic considerations too. Such investments usually create additional imports of inputs such as machinery and intermediate goods/final goods from the home country. Generally, market-seeking investment in manufacturing is a gross substitute for exporting from the home country, and its existence is often due to import barriers in host countries (Pinho 2007:728). Market-seeking investments may have a multiplier effect on domestic demand and production, which could lead to significant indirect increases in imports (UNCTAD 1999:19).

Te Velde (2001:9) suggested that export-oriented FDI in the manufacturing sector has a more advantageous impact on the economic development than FDI in natural-resources or market-driven FDI. The direct employment effects of FDI are often used as indicators to determine how successful it is to economic development. Buckley and Meng (2005:113) acknowledge that FDI which are in the manufacturing sector is the best kind because they are capable of reducing unemployment, increase currency exchange through exporting, provide new technology and have a more positive impact on productivity and economic development of the host country.

With regard to the motives for China's FDI, Salidjanova (2011:1) established that one of the primary motives for China investment in Africa is to seek its natural resources. In fact, China's rapid economic growth over the past decades has fuelled what some say is an almost insatiable demand for raw materials and other inputs in many sectors. China also invests in Africa for market-seeking reasons because its domestic market is oversupplied and very competitive and thus need to find new overseas investments, raise brand awareness in Africa, as Africa still has a huge market and a growing population (Zadek, Xiaohong, Zhaoxi, Tao, Yan, Yu, Forstater & Morgan 2009:17-18). This is evident in Chinese SMEs as they compete by selling products which are simple, undifferentiated and matured in most African countries.

The consequences of Chinese market-seeking motives in Africa is confirmed by a study by Ademola, Bankole and Adewuyi (2009:496-497), citing examples of countries such as Ghana, South Africa, Cameroon, Kenya and Madagascar that suffered from reduced production and employment owing to competition from China's import and thus resulting too many businesses closing down. An example is evident in South African textile industry where between 23 000 and 85 000 jobs were lost. Therefore, for Africa to achieve fast economic growth through FDI, like the growth experienced by China, they will have to welcome more export-oriented FDI in the manufacturing sector. If Africa, and more specifically South Africa, applies the above strategies used by China to attract 'good' export-oriented FDI, then it will be able to attract the right type of FDI that will bring development and high economic growth. However, Musila and Sigu (2006:577) notes that the bulk of FDI in South Africa is natural resource-seeking and market-seeking, because of the presence of superior technology, business knowledge and financial strength.

Thus, although developing countries have become more proactive in promoting themselves as viable investment destinations, this does not guarantee the right type of FDI (Gama 2004:61). Although there are various classifications of FDI, it could basically be described by two very different motives: supply-based or **export-oriented** (efficiency-seeking) and **market-driven** FDI. These different motives for FDI could also result, with various levels of success, in addressing the specific needs of the host country, for example job creation and exporting.

3 METHODOLOGY

The primary purpose of this paper was to collect data on what motivated Chinese owned SMEs in the Free State Province to investment in South Africa. This study used a quantitative research design. Self-administered questionnaires were used to obtain data from a mixture of Chinese SMEs from different industries, focusing on the towns/cities with the biggest population in the Free State. A pilot study was conducted, whereby questionnaires were pre-tested and the results were used to redesign and eliminate questions that where blurred. Simple random sampling method and a non-probability snowball sampling method was used to obtain information regarding Chinese SMEs in the province because it was the most practical procedure to use given the fact that accurate records on the location, number and size (in terms of employment and financial measures) of Chinese SMEs were not available in the databases of the Free State and other SMEs support mechanisms in the country. The questionnaire comprised of five sections focusing predominantly on how the Chinese SMEs experience the external environment, their motives for starting a business in South Africa, their perception of xenophobia, the information sources/networks used to consider locating in South Africa and demographical information.

Of the 148 questionnaires initially distributed, 96 questionnaires were used, giving a valid response rate of 64.9% of the Chinese SMEs who were initially contacted to participate. Exploratory factor analysis was used to refine the research problem and enhance the validity of the research. In addition, the statistical analyses include descriptive statistics, T-tests and frequency tables.

3.1 RESULTS

Profile of Respondents

The 96 respondents were well representative of all the major municipalities in the Free State. Referring to Table 1, 34.4% of the respondents are in manufacturing while 38.5% are in retail and wholesale. The remaining (Other) Chinese SMEs are mainly in services, construction and even agriculture. Given the size of the sample, diversity in location and types of businesses, it can be concluded that the sample is representative of the population of Chinese SMEs in the Free State.

There is also an almost even split between respondents being in business for 6 or less years versus those being in operation for longer than 6 years. In terms of the size of their businesses, 40.6% employed less than 10 people, while 38.5% had more than 20 employees and 5 respondents employing more than a 100 people. On the average the Chinese SMEs have been operating their businesses for 8 years and have 25 employees, indicating sustainability as well as their ability to grow their businesses to a reasonable size. The fact that the respondents employ on the average 25 people justifies government's focus on FDI to address the unemployment problem in South Africa.

Table 1: Demographics and Profile of the Chinese SMEs in the Free State

Business Sectors	**Number**	**Percentage**
Manufacturing	33	34.4%
Retail / Wholesale	37	38.5%
Other	26	27.1%
Total	**96**	**100.0%**
Years in Operation		
0 - 6 years	50	52.1%
7 years and longer	46	47.9%
Average years in Operation		**8.0 years**
Number of Employees		
0 - 10	39	40.6%
11 - 20	20	20.8%
21 and more	37	38.5%
Average no. of Employees		**25.0 employees**
Import / Export Activities*		
Import	42	43.8%
Export	16	16.7%
Both Import and Export	12	12.5%
Other Issues*		
Operated a Business in China before	38	39.6%

Business Sectors	Number	Percentage
Have South African Partners	42	43.8%
The Market of Chinese SMEs		
More than 90% SA Customers	70	72.9%
Between 60% - 90% SA Customers	13	13.5%
Less than 60% SA Customers	13	13.5%

** Separate questions – do not add up to 100%*

Table 1 also indicates that almost 40% of the respondents obtained business experience managing their own business in China previously. More importantly, 43.8% have South African partners, creating a spill-over effect for South Africans in terms of both business and management experience. Regarding import and export activities (Table 1), 43.8% of the respondents import but only 16.7% are involved in export activities. Of the 16 SMEs who export, 12 respondents are also involved in importing. A possible explanation for the 12 respondents with both import and export activities could be that these Chinese SMEs are using South Africa as a gateway to Africa. The fact that the respondents are also much more involved in imports than in exports clearly indicates that the initial motivation for FDI from Chinese SMEs in South Africa is more market-driven than supply-based or export-oriented. Almost 73% of the respondents indicated that more than 90% of their customers are South Africans with an average of 87.4% of their sales to local customers.

The market-driven focus of the Chinese SMEs is also confirmed by the fact that 65.6% of the respondents are in wholesale, retail or other businesses and only 34.4% of the respondents are in manufacturing. It is reasonable to assume that South Africa would prefer more supply-based or export-oriented FDI, focusing on relatively cheap labour and an abundance of raw materials with the intent to manufacture and export. Not only will this create much needed employment in South Africa, but it could also benefit technology transfer and the balance of payments via exports. To assess the relative contribution of FDI in manufacturing, the demographics and profile of the **manufacturing** versus the **non-manufacturing** (Other) respondents are compared in the next table.

Table 2 clearly indicates that the respondents in manufacturing have more mature businesses than the others (10.58 as compared to 6.65 years). More importantly, the manufacturing Chinese SMEs employ substantially more people (50.06) as opposed to the 'Other' SMEs (11.86). Both in terms of size and maturity, the differences are significant (sig. < 0.05). This confirms the importance of attracting manufacturing rather than non-manufacturing FDI to South Africa. The typical manufacturing SME employ more than 4 times as many people as compared to the 'Other' respondents, thus making substantial positive contributions to the unemployment problem in the country. n terms of prior business experience (42.4% versus 38.1%), more respondents in manufacturing operated a business in China before as compared to the 'Other' respondents. What is also interesting to note is the fact that the respondents in manufacturing is less likely to have South African partners (39.4% versus 46.0%). However, the differences regarding both prior experience and having South Africa partners amongst the Chinese SMEs are not significant.

Table 2: Manufacturing versus Non-Manufacturing (Other) Chinese SMEs

	Total	Manufacture	Other	Sig.
Total	**96**	**33**	**63**	
Years in Operation				
0 - 6 years	50	8	42	
Percentage	52.1%	24.2%	66.7%	
7 years and longer	46	25	21	
Percentage	47.9%	75.8%	33.3%	
Average years	**8.00**	**10.58**	**6.65**	**0.001**
Number of Employees				
0 - 15	51	3	48	
Percentage	53.1%	9.1%	76.2%	
16 and more	45	30	15	
Percentage	46.9%	90.9%	23.8%	

	Total	Manufacture	Other	Sig.
Average employees	**24.99**	**50.06**	**11.86**	**0.000**
Import versus Export Activities				
Total	96	33	63	
Import	42	23	19	0.000
Percentage	43.8%	69.7%	30.2%	
Export	16	15	1	0.000
Percentage	16.7%	45.5%	1.6%	
Other Issues				
Operated a Business in China before	38	14	24	0.422
Percentage	39.6%	42.4%	38.1%	
Have South African Partners	42	13	29	0.343
Percentage	43.8%	39.4%	46.0%	

More compelling is the fact that the respondents in manufacturing are significantly more inclined to be involved in import activities (69.7% versus 30.2% for 'Other'). This could be regarded as potentially negative, given the impact on the balance of payments of a country. However, the fact that 45.5% of the respondents in manufacturing also export versus only 1.6% of the 'Other' respondents, compensate for the relatively high levels of importing amongst manufacturing SMEs. The benefits of attracting manufacturing FDI to any African country are quite clear. The typical Chinese SME in manufacturing not only creates substantially more employment, it also seems to be more mature businesses with a much greater emphasis on exports.

Problems Experienced

In Table 3, three questions were asked regarding the problems experienced by Chinese SMEs in South Africa. It was important to establish the impact of Black Economic Empowerment (BEE), crime and xenophobia on the Chinese SMEs in the Free State. The BEE policy promotes black ownership in South Africa, but could potentially impact negatively on foreign SMEs (Von Broembsen, Wood & Herrington 2005:11). The results indicate that almost 20% of the Chinese SMEs experienced businesses losses because of the BEE policy in South Africa, with more than 30% of respondents in manufacturing as opposed to only 14.3% of the 'Other' respondents. More than 86% of the Chinese respondents indicated their businesses suffered losses from crime. More than 11% of the respondents claim they have been exposed to xenophobic attacks (18.2% of the respondents in manufacturing).

Table 3: Problems Experienced by Chinese SMEs

	Number	**Percentage**
Lost Business due to BEE Policy	19	19.8%
Business suffered from Crime	83	86.5%
Business experienced Xenophobic attacks	11	11.5%
Would Respondents Start a Business in SA again?		
Yes	63	65.6%
No	33	34.4%
Reasons Why Respondents would not Starting Business in SA again		
Crime	17	17.7%
Labour union	9	9.4%
Labour strikes	5	5.2%
Cost of Labour	2	6%
Total	**33**	**100%**

To assess how satisfied the Chinese SMEs are in terms of their decision to start a business in South Africa, the question was asked whether they would take the same decision. More than a third indicated that they regret the decision of starting a business in South Africa, which is quite concerning. Almost 52% cited crime as the single most important reason why they would not start a business again in South Africa, with 48.5% citing labour related issues as their major concern. What is even more alarming is that 66.7% of the respondents in manufacturing and 87.5% of those involved in exporting indicated that, if they could revisit their initial FDI decision today, they would not have started their businesses again in South Africa as oppose to 17.5% of the 'Other' respondents. This clearly indicates that the supply-based Chinese SMEs are much more negative regarding their FDI decision in South Africa.

Table 4 focuses on what motivated the Chinese SMEs to start their businesses in South Africa initially. The means from the Manufacturing versus the 'Other' respondents were also compared and in only five of the statements significant differences were found. The first six statements refer to general conditions in South Africa. Regarding the *infrastructure*, *political stability* and *sound economic policy in South Africa*, the respondents were predominantly positive (mean values higher than 4.00). In terms of all three these statements, the respondents in manufacturing were more positive, with a significant difference regarding the 'economic policy' in South Africa (4.58 versus 3.84).

Regarding the *requirements to start a business* (3.30) and *government regulations on foreign businesses* (2.75), the Chinese SMEs' responses were quite negative. The respondents regarded the *culture of the South Africans* (2.74) also very negative, which could be influenced by the resent xenophobic incidences in the country. It is also interesting to note that *advice from friends and family members in South Africa* (4.63) was an important motivation for the Chinese respondents to locate their businesses in South Africa with a significantly higher response from the 'Other' group (4.87 versus 4.15). This confirms the importance of keeping existing immigrants satisfied to attract more FDI, because existing foreign SMEs are the best marketers of a country.

Table 4: Motivation why Chinese Started their SMEs in South Africa

Motivation for Starting Business in South Africa	Mean (7 point Likert scale)			Sig.
	Total	Manufac-turing	Other	
Sound economic policy	4.08	4.58	3.83	**0.037***
The political system is stable	4.39	4.48	4.33	0.695
Good infrastructure	4.78	5.09	4.62	0.129

Motivation for Starting Business in South Africa	Mean (7 point Likert scale)			Sig.
	Total	Manufac-turing	Other	
Easy to start a business in SA	3.30	3.03	3.44	0.188
'Soft' regulations on foreign businesses	2.75	2.85	2.70	0.641
Culture of the people in SA	2.74	2.73	2.75	0.954
Advice from friends and family members in SA	4.63	4.15	4.87	**0.025***
Easy access to local markets	4.81	4.24	5.11	**0.003***
Large available local market	4.92	4.85	4.95	0.760
Little competition in the market	3.81	3.64	3.90	0.411
Availability of cheap labour	3.66	4.33	3.30	**0.005***
Availability of natural resources	2.71	2.82	2.65	0.616
Gateway to Africa	3.93	4.58	3.59	**0.002***
Low cost of doing business in SA	3.59	3.67	3.56	0.710
SA government provides export promotion initiatives	2.76	2.52	2.89	0.241

The respondents gave *easy access to local markets* (4.81) and the *size of the local market* (4.92) the highest scores as reasons for locating in South Africa. Both these reasons indicate that the Chinese respondents were predominantly market-driven in deciding to come to South Africa. In both cases the 'Other' businesses were more positive than the respondents in manufacturing, with a significantly more positive response regarding 'easy access to local markets' for the 'Other' group (5.11 versus 4.24). This also confirms that the 'Other' group was more motivated by market-driven factors to initially start their businesses in South Africa than the manufacturing group. *Availability of cheap labour* (3.66) and *natural resources* (2.71), as well as *low cost of doing business in South Africa* (3.59) refer more to the supply-based motive. Although the low mean values of *natural resources* are surprising, it could be deduced that availability of natural resources is usually a bigger drive/motive for MNCs rather than SMEs to start a business in a foreign country.

In all three the supply-base motives, the respondents in manufacturing were more positive than the 'Other' group, with the *availability of cheap labour* a significant difference (4.33 versus 3.30). It could therefore be deduced that the respondents in manufacturing were more motivated by supply-based factors than the 'Other' group. *Gateway to Africa* (3.93) and *South African government provides export promotion initiatives* (2.76) refer basically to export-driven motives. It is quite clear that the Chinese SMEs are very negative regarding government's efforts to support exports in South Africa. Regarding *gateway to Africa*, the Chinese SMEs in manufacturing is significantly more positive than the 'Other' group (4.58 versus 3.59), indicating that the respondents in manufacturing are also, relatively to the 'Other' group, more motivated by export-orientated factors in deciding where to spend their FDI.

3.2 DISCUSSION

The motive for FDI can basically be divided into supply-based (export-oriented) and market-driven, depending on the specific investment environment of the host country. All FDI are not equally beneficial to the host country, but it could be concluded that foreign SMEs focusing on exports could potentially be better for African countries in terms of job creation and economic growth.

From the results on Chinese SMEs in the Free State, the following deductions can be made. FDI focusing on SMEs do contribute significantly to the unemployment problem in South Africa by creating, on average, 25 jobs per business. These Chinese SMEs also have mature businesses, being on the average for eight years in business. They do potentially contribute to skills transfer with 43.8% having South African partners. However, the Chinese SMEs were predominantly market-driven (as opposed to supply-based/export-oriented) in their decision to direct their FDI to South Africa, given that, on the average, 87.4% of their customers were local, only 34.4% of the Chinese SMEs were in manufacturing, 43.8% were importing and only 16.7% were involved in export activities. Their high involvement in imports has been evident in the threat posed by the high competition in Chinese imports in South Africa's textile industry leading to many factories closing down with major job losses (Ademola et al. 2009:496).

The non-manufacturing (more market-driven) Chinese SMEs typically had substantially less employees (11.86) than those in manufacturing (50.06). Only 1 non-manufacturing Chinese SME exported, while 45.6% of the manufacturing SMEs were involved in exporting. It can thus be concluded that the manufacturing Chinese SMEs operate more mature businesses, employ substantially more people, and is significantly more involved in export activities than the non-manufacturing SMEs.

Almost two-thirds of the respondents are satisfied with their decision to start their businesses in South Africa. Those not satisfied cited crime and labour related issues as the major problems they experience. This result confirms to a study by Malan (2007:18) that revealed that South Africa was ranked 99th out of 121 countries in the world in terms of unacceptably high level of crime and thus seen to have a negative impact on FDI, businesses and the quality of life in South Africa. Add to it the relative dissatisfaction of the respondents regarding *availability of cheap labour*, *low cost of doing business in South Africa* and *government provides export initiatives* and it explains why South Africa is not attracting more supply-based or export-oriented FDI, but rather market-driven SMEs. This confirms to a study by Zadek et al. (2009:17-18) which established that China's motives for market-driven FDI is because its domestic market is oversupplied and very competitive and thus need to find new overseas investments.

4 CONCLUSION

South Africa is a country with huge potential, but also faces significant problems, such as the need for economic growth and very high levels of unemployment. Musila and Sigue (2006:578) identify a direct positive link between ability of the African countries to attract FDI and their economic growth and prosperity. It can thus be concluded that Chinese SMEs in manufacturing who were predominantly motivated by export-oriented factors contribute significantly more to the South African economy in terms of job creation and export opportunities than those who were market-driven.

Furthermore, South Africa is failing in terms of specific incentives to attract more export-oriented FDI. In terms of general conditions (economic policy, political stability, infrastructure) South Africa seems to be performing reasonable well, but regarding specific FDI motives, such as *easy to start a business*, *regulations for foreign businesses*, *promoting exports* and *culture of South Africans*, the Chinese SMEs were more negative to very negative. Also, market-driven motives, such as *easy access to local markets* and *market size* are substantially more important than supply-based or export-oriented motives such as availability of *cheap labour* or *natural resources* for Chinese SMEs to start their businesses in South Africa. Even more alarming is the fact that the manufacturing Chinese SMEs are significantly more negative about their decision to initially locate in South Africa than the non-manufacturing or market-driven respondents.

If South Africa is serious about economic growth and the problem of unemployment, it is critical that government acknowledges that FDI is good for job creation and exports, but the focus should be to create predominantly an environment conducive for export-oriented motives of FDI. Government should focus on crime and the rigid labour environment, as well as specific export incentives, if they want to attract the right kind of FDI in South Africa.

This study compared the profile of Chinese SMEs in the Free State to their initial motives for starting their businesses in South Africa. However, it seems as if Africa has lost its appetite for Chinese SMEs. An assessment of the contribution Chinese SMEs make in Africa, be it negative or positive, is critical. Most of the Chinese SMEs in this study were market-driven, not in manufacturing, focusing on local customers and the question whether it is worth shedding jobs for low consumer goods by Chinese SMEs warrants further research. It can, however, be concluded that Chinese SMEs in manufacturing who were predominantly motivated by **supply-based** or **export-oriented** factors contribute significantly more to the South African economy in terms of job creation and export opportunities than those who were market-driven.

REFERENCES

ADEMOLA O, BANKOLE AS & ADEWUYI AO. 2009. China-Africa trade Relations: Insight from AERC Scoping Studies, European Journal of Development Research, 21(4):485-505.

BHARDWAJ A, DIETZ J & BEAMISH W. 2007. Host country cultural influences on foreign direct investment. Management International Review, 47(1):29-50.

BUCKLEY PJ & MENG C. 2005. The strategy of foreign invested manufacturing enterprises in China: Export orientated and market orientated FDI revisited. Journal of Chinese Economic and Business Studies, 3(2):111-131.

CHEN TJ, CHEN H, & KU YH. 2004. Foreign direct investment and local linkages. Journal of International Business Studies, 35:320-333.

CHIRONGA M, LEKE A, LUND S & VAN WAMELEN A. 2011. Cracking the Next Growth Market: Africa, Harvard Business Review, 117-122, May.

FORD N. 2008. African Business. [Internet: www.bnet.com; downloaded on 2009-06-22].

GAMA J. 2004. Foreign direct investment in South Africa. Department of Mercantile Law. University of Pretoria.

KAMATH GB. 2008. Impact of foreign direct investment in India. The Icfai Business School, Mangalore, India. The Icfai University Press.

KYAW S. 2003. Foreign direct investment to developing countries in the globalised world. Paper Presented at the DSA Conference. University of Strathclyde, Glasgow.

LUIZ J. 2006. Managing business in Africa: Practical Management theory for an emerging market. Cape Town: Oxford University Press.

MAKINO S, LAU CM, & YEH RS. 2002. Asset-Exploitation versus Asset-Seeking: Implications for Location Choice of Foreign Direct Investment from Newly Industrialized Economies. Journal of International Business Studies, 33(3):403-421.

MALAN P. 2007. Geweld maak SA soos oorlogsland. Rapport, 3 June. p18.

MUSILA JW & SIGUE SP. 2006. Accelerating foreign direct investment flow to Africa: From policy statements to successful strategies. Managerial Finance, 32(7):577-593.

NOORBAKHSH F, PALONI A & YOUSSEF A. 2001. Human Capital and FDI Inflows to Developing Countries: New Empirical Evidence. World Development, 29(9):1593-1610.

PINHO JC. 2007. The Impact of Ownership Location-Specific Advantages and Managerial Characteristics on SME Foreign Entry Mode Choice. International Marketing Review, 24(6):715-734.

RUTASHOBYA L & JAENSSON JE. 2004. Small firms' internationalization for development in Tanzania: Exploring the network phenomenon. International Journal of Social Economics, 31(1/2):159-172.

SALIDJANOVA N. 2011. Going Out: China's Outward Foreign Direct Investment. USCC Staff Research Report. US – China Economic & Security Review Commission. 30 March.

SCOTT-KENNEL R. 2007. Foreign direct investment and local linkages: An empirical investigation. Management International Review, 47(1):51-77.

SETHI D, GUISINGER SE, PHELAN SE & BERG DM. 2003. Trends in foreign direct investment flows: a theoretical and empirical analysis. Journal of International Business Studies, 34:315-326.

SHIMBUN Y. 2007. African nations wary of China's aid. Newspaper Source, 19 Feb. [Internet: www.yomiuri.co.jp/index-e.htm/; downloaded on 2010-01-23].

SVETLICIC M, JAKLIC A & BURGER A. 2007. Internationalization of Small and Medium-Size Enterprises from Selected Central European Economies. Eastern European Economics, 45(4)36–65.

TE VELDE DW. 2001. Policies towards foreign direct investment in developing countries; Emerging best-practices and outstanding issues. London: Overseas Development Institute.

THOMAS RH. 2005. FDI and SME linkages – The case of Mozal I and II. IDRC Private Sector Development Task Force Conference, 7-8 April 2005.

UNCTAD. 1999. World Investment Report 1999: Foreign Direct Investment and the Challenges for Development. United Nations Publication, New York, Geneva.

VON BROEMBSEN M, WOOD E & HERRINGTON M. 2005. Global Entrepreneurship Monitor (GEM) South African Report 2005.

WATSON L. 2011. SA Mark Verswelg. Sake-Rapport, 24 July. p3.

WILSON, K. 2007. Encouraging the Internationalisation of SMEs (Chapter 2), in POTTER J & PROTO A. (edited). Promoting Entrepreneurship in South East Europe. LEED Programme. Organisation for Economic Co-operation and Development (OECD). pp. 43-66.

WORLD INVESTMENT REPORT. 2009. Transnational Corporations, Agricultural Production and Development. [Internet: www.unctad.org/wir; downloaded on 2010-08-23].

WORLD INVESTMENT REPORT. 2010. Investing in a low-carbon economy. 20th Anniversary Edition. United Nation Conference on Trade and Development (UNCTAD). [Internet: /www.unctad.org/en/docs/wir2010overview_en.pdf; downloaded on 2010-08-23].

ZADEK S, XIAOHONG C, ZHAOXI L, TAO J, YAN Z, YU K, FORSTATER M, & MORGAN G. 2009. Responsible Business in Africa: Chinese Business Leaders' Perspectives on Performance and Enhancement Opportunities by Accountability and the Enterprise Research Institute, Development Research Centre of the State Council of P.R. China (DRC-ERI), November 2009. Corporate Social Responsibility Initiative Working Paper No. 54. Cambridge, MA: John F. Kennedy, School of Government, Harvard University.