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Chinese Investments in Africa's SME Sector: a case study of Zambia

Chanda Mutale
chanda.mutale.697@student.lu.se

Abstract: This paper investigates Chinese investments in Africa's SME sector through a case study of Zambia. It analyses this growing trend by looking at the nature and effects of Chinese investments in the SME sector and their potential for fostering new knowledge that can lead to increased entrepreneurial activity and ultimate economic growth. It is a contribution to the empirical and theoretical understanding of this feature of Chinese investments in Africa in that it employs the Knowledge Spillover Theory of Entrepreneurship to understand how SME Chinese investments affect the local entrepreneurs. The study analyses this in the context of the existing policy framework in Zambia and the absorptive capacity of the Zambian entrepreneurs. The main finding of the study is that Chinese investments in the SME sector are potential sources of new knowledge but the spillover of this knowledge is very minimal because of certain inherent features of these investments, inadequate policy direction from the Zambian government and the limited absorptive capacity of the Zambian entrepreneurs. It highlights these challenges as issues that need to be corrected in order to maximize the benefits of Chinese investments in the SME sector.

Key words: China in Africa, Small and Medium Enterprises, Zambia, Knowledge Spillover, Absorptive capacity

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List of Abbreviations

ALRN- African Labour Research Network

CEEC- Citizens Economic Empowerment Commission

CSO-Central Statistical Office

E.U –European Union

FDI-Foreign Direct investments

GEM- Global Entrepreneurship Monitor

ILO- International Labour Organisation

KTSE-Knowledge Spillover Theory of Entrepreneurship

MCTI- Ministry of Commerce, Trade and Industry

MSME- Micro, Small and Medium Enterprises

OECD- Organisation for Economic Cooperation and Development

PACRA-Patents and Companies Registration Authority

SIDO- Small Industrial Development Organisation

SME-Small and Medium Enterprises

SOE- State Owned Enterprise

TAZARA-Tanzania Zambia Railway Authority

UNDP-United Nations Development Programme

ZDA- Zambia Development Agency

1. Introduction

The last decade has put to rest the doubts and questions about whether China's interest in Africa is a short term affair or something that the Chinese have planned to undertake on long term basis. It is becoming clearer that perhaps this is a permanent engagement that is intricately interwoven into their development agenda. The number and size of investments that China has undertaken in Africa show that their plan is to stay on for as long as possible. This can be confirmed by the number of high level Sino-Africa meetings that have religiously been undertaken between the two to show how committed the Chinese government is to this and the lengths they are willing to go to ensure that the status quo remains as it is. However, one question that is still debatable and still causing a stir in both academic and journalistic discussions is the nature of Chinese investments in Africa and their specific outcomes. This debate has been relentless with a main focus on the capital investments by Chinese state owned enterprises among many scholars. But while all this has been going on, Chinese private investments have also been making inroads into the African Small and Medium Enterprises (SME) sector. Even though this aspect of Chinese investments in Africa has been given very little attention, SMEs constitute up to 90% of African enterprises and employ up to 50 % of the labour force on average (Thiam, 2007). As such, any developments taking place in this sector are bound to have a significant impact on the overall economic structure of the continent and affect its developmental process in either a positive or negative way. Thus this thesis will investigate the nature of the growing Chinese investments in Africa taking Zambia as a case study.

It is logical to think of SMEs as possible drivers of economic development as this has already been proved in some of the emerging Asian economies. Despite the fact that the importance of a vibrant SME sector as a driver of economic growth has been acknowledged by most African governments, very few have come up with concrete policies to fully integrate this sector into their main economic development strategies. And while there has been little attention paid to the increasing influx of Chinese investments in the African SME sector, the fact is that this is a present and increasing phenomenon on the African economic landscape.

In order to analyse the impact of Chinese investments in the SME sector, the study will use the Knowledge Spill over Theory of Entrepreneurship (KSTE) which was initiated by Audretsch (1995) and further elaborated upon by other scholars like Acs, Audretsch, Braunerhjelm, and Carlsson, (2004). Audretsch (1995) in his book *Innovation and Industry Evolution* had stirred up a discussion around small and entrepreneurial firms as agents of innovation that foster growth and create wealth. This discussion evolved into an independent field of academic research that we today refer to as KSTE drawing on academics from a wide array of fields. The main thrust of his argument was that economic growth and technological progress are not only based on efforts of large incumbent firms but also on SMEs and entrepreneurial ventures. Acs, Audretsch and Lehmann (2013) later argued that the creation of a new venture results from a response to opportunities from knowledge created by but not commercially exploited by incumbent firms. This understanding of new venture formation will be extended to analyse how knowledge can spillover and be used by both the incumbent Chinese investors and also Zambian entrepreneurs that start new ventures.

Section 1 will continue through with addressing the objectives of the study, limitations and its significance. Section 2 will then present a literature review followed by an overview of Zambia in section 3. The methodology section is dealt with in section 4 and based on this background the theoretical framework is discussed in section 5. Section 6 will present an analysis of the findings which will lead us to a discussion of these in section 7. The final section will tie it up together with the conclusions and policy implications.

1.1 Objectives and research question

The objective of this study is to investigate the nature of Chinese investments in the SME sector in Africa taking Zambia as a case study. It is an attempt to understand to what extent Chinese investments in the SME sector can foster economic growth through their interaction with the local entrepreneurs as knowledge spills over from the incumbent Chinese firms to the incumbent or new local SMEs that pick new skills and processes that lead to new ventures or new lines of production within existing firms. The study is anchored upon attempting to answer the research question;

What is the nature of Chinese investments in Zambia's SME sector? And also the sub questions:

a. Which sectors are the Chinese Investments in the SME sector flowing to?

b. To what extent do these investments foster a transfer of knowledge and skills that can be beneficial to the local SMEs?

These questions will therefore guide the structure of the research in line with the chosen methodology of a case study whose findings will be analysed in order to draw some conclusions from the study.

1.2 Limitations

This study is limited to Chinese investments in the SME sector which will be analysed in conjunction with their counterpart local Zambian entrepreneurs. It is also limited to those geographically located in the capital city Lusaka, mainly because this is where most of the economic activity is conducted and also due limitation of time and research resources. The study will mainly focus on registered and active SMEs and will not include SMEs operating in the mining sector as it a completely differently organised sector which merits an independent analysis.

1.3 Significance of the study

China's unrelenting presence in Africa has become a topic of serious debate and controversy; this is despite the fact that the presence of the Chinese on the continent is not a new phenomenon. It is correct to say that in the last decade alone, so much has been written about Chinese investments in Africa to the point that it is almost a tired topic. However, the main focus of the bigger part of the research on the Chinese investments in Africa has been skewed towards analyses of macroeconomic and competitive effects of these investments. The research on China-Africa relations has also been dominated by Western analysts backed by the media portraying China as a rising economic giant that is hungry for Africa's natural resources with little or no regard for environmental or human rights issues. One area of research on this topic, though, that is conspicuous by way of its absence is the investigation of the impact of Chinese investments on the Small and Medium Enterprises (SME) sector of African economies on which of the majority of population depends for employment and income generation. This study therefore provides an opportunity to understand this important but relatively under researched dimension of Chinese investments in Africa.

While some studies have been conducted to shed light on the nature of Chinese investments in Africa with some touching on the labour aspect and others briefly on the SME sector, very few have attempted to analyse this phenomenon in a theoretical context. Thus through a case study of Zambia and using the KSTE, this study opens up an avenue of assessing the influence and contribution of Chinese investments in the SME sector as a tool for improving entrepreneurial activity through transfer of knowledge and skills. This entrepreneurial activity could ultimately contribute to economic development.

2. Literature review

2.1 The importance of SMEs to economic development

The notion of SME entrepreneurship development is not new, from as early as the 1940s the significance of SMEs to national economic development was recognised in economies like the US where targeted approaches like grants, special taxes, subsidized credit and SME support agencies were implemented (OECD,2004). By the 1970s SMEs where celebrated even more as drivers of economic growth as their increase in number coincided with development in most economies (Nestorovska, 2004). It has become evident from recent experience that the role of SMEs in economic development through their contribution to GDP and employment in emerging countries cannot be over emphasized. Studies have shown that the SME sector contributes at least 45% employment and no less than 33% of GDP in developing countries, these figures are even higher when the informal SMEs are taken into account, and for the developed countries these figures are even significantly higher (Saleem, n.d).

Despite the fact that the development community has long considered the private sector as an essential tool for economic development, SMEs have continued to play an essential but rather unrecognised role in the private sector growth. Most of the attention promoting the private sector has gone to large corporate entities. Interestingly though, a number of studies place the composition of SMEs in the private sector of developing countries at over 90% of all firms outside the agricultural sector(OECD,2004;Kauffmann,2004; Gatt, 2012). With SMEs constituting such a visibly high component of the private sector in the economies of developing countries, there is indeed need to put in place policies and strategies that will contribute to the improvement and growth of the sector and even more so for improved knowledge of what benefits foreign players can bring to it.

The SME sector is not only seen as valuable to economic development because of its sheer size in comparison to the larger players in the market but also because of some of its particular characteristics. A strong SME sector is said to bolster a country's resilience by broadening and diversifying the domestic economy. In this way it is seen to reduce vulnerability to sector specific shocks and fluctuations in the international private capital flows (Dalberg, 2011). In the same vein, SMEs serve as an impetus for economic diversification through their development of new and unsaturated sectors of the economy; they provide a platform for expanding outside the domestic boarders and entering intra regional and international markets (Gatt, 2012). Beyond this, SMEs are seen to have a socio-economic impact because they help in the increase of employment, use of local knowledge skills and entrepreneurial abilities of several people in a country. They ultimately play a social inclusion role as they increase the breadth of stockholding and representation in an economy. And further still, they are also a key instrument in poverty reduction efforts given the number of people who benefit from SME income generating activities (OECD,2004;Gatt,2012;Tandesse,2009). Primarily, this assertion stems from the observation that SMEs are spread all over the country and ensure some form of equitable distribution of income earning opportunities. Increased SME growth has also been cited as having a direct effect on GDP growth due to increased output ,value add and profits and the resultant multiplier effect in the economy via the increased economic activity of employees and suppliers(OECD,2004).

However, despite the fact that SMEs comprise a large portion of private sector businesses in Africa, their existence is characterised by low productivity. According to Tadesse (2009), SMEs account for a bulk of the firms in Sub Sahara Africa yet they contribute very little to GDP due to their low levels of productivity. Saleem (n.d) estimates that SMEs contribute an average of 33% to GDP in Africa but this is despite the observation that they constitute an average of 90% of business entities. Clearly the contribution of the SME sector to African economies is not proportionate to its weight in the total number of businesses. Given this situation, there is need for consented effort to increase the productivity of this sector for it to make meaningful contribution to economic development. Foreign investments can be one way that the productivity of SMEs can be improved.

FDI has indeed shifted from being confined to large multinational investments and state owned enterprises investing in developing economies like those of Africa to a situation where even private individuals are investing their own capital in SMEs in Africa. Private individuals are investing their capital in Africa either by way of relocating their small enterprises from their home countries to the African market or raising capital from private sources in their countries and opening up small businesses in Africa (van der Westhuizen,2013).These types of investments have a more direct impact on African societies because they are investing in a sector where they are in direct cooperation and competition with the local people majority of whose livelihoods depend on doing business in the SME sector.

Chinese investments in the African SME sector can thus be a welcome development if they are coordinated in a way that encourages skills transfers, opens up access to wider markets and in sectors that promote growth, and conducted in a way that does not undermine the activities of the indigenous population. But to be able to foster any kind of meaningful knowledge transfers between the Chinese and local SMEs, there must be some form of linkages that exist between them as a channel through which ideas and knowledge can flow.

Already there has been much talk and debate about the nature of Chinese investments in Africa's SME sector. And while there have been many contradictory opinions on the issues, very little effort has gone into conducting an empirical research to highlight how exactly the Chinese investments are influencing the SME sector. Zambia with over 500 registered Chinese businesses presents a suitable case for understanding the nature of these Chinese investments in the SME sector and how they affect the local SMEs (Bastholm & Kragelund, 2009). Because the SME sector constitutes a profoundly huge component of the businesses in Zambia, it can be inferred that an improvement or deterioration of this sector can have a direct impact on the overall economy. Given this understanding, this study will endeavour to determine the nature of Chinese investments in the Zambian SME sector as source of new skills and knowledge that promote growth of the SME sector through creation of new ventures, new markets and new product lines within existing or newly set up enterprises as a result of knowledge spills over from the existing Chinese firms.

2.2 Sino-Africa Relations

The trajectory of Chinese involvement in Africa has evolved from the 1960 to 1970s relations that were based on shared anti capitalist ideologies of Marx and Mao, and also the Chinese's desperate effort to counter Soviet influence. However with the turn to more liberalisation and integration into the global economy by China, its relationship shifted from ideological support to economic cooperation (Prah, 2007). And indeed the numbers are telling on how drastically the economic relationship between China and Africa has changed. FDI flows from China to Sub Sahara Africa from 1990 to 1997 amounted to US$ 120 million in 2002 China-Africa trade reached $29.5 billion, in 2004 there was an increase of 59% from that of 2003 (Draper and le Pere,2005). And just as the numbers show the growing ties between China and Africa, the diversity in views about the nature of this relationship also show how complex it has become. Scholars who have contributed to this debate have been categorised as either having a pro or anti China stance or those that have taken a neutral one. In actual sense though, it is their views that can be categorised as individual scholars can still express two or more different views on this topic.

A number of scholars have written in China's defence, pointing out that the nature of Sino-Africa relations has been such that China has provided Africa with the much needed foreign direct investments, even in areas where western capital will dare not venture. Additionally, China's economic growth has opened up several market avenues for African raw materials. (Ayodele & Sotola,2014,Duarte,2012,Moyo,2009). Moyo (2009) in her book *Dead Aid* has particularly narrowed down on the significance of Chinese FDI to Africa and has raised controversy by comparing the benefits that have accrued to African countries through their engagement with the Chinese to the rather , in her opinion disappointing achievements of donor aid from the Western countries.

Assertions of China's imperialistic agenda in Africa have been contested as exaggerated and based on media hype. Berndsen and Pennington (2008) cited in Baah and Jauch,(eds.2009) have pointed out that as at 2007, only 3% of China's overall FDI were destined for Africa, and compared to 2500 Chinese companies in Singapore, Africa only had about 800. The view that China's investments in Africa have had a bias towards resource rich countries has also been challenged by scholars who point out that over the years, Chinese FDI to Africa has diversified to other sectors like textiles, agro-processing, power generation ,road construction , tourism and telecommunication (Moyo,2009). The nature of China's economic intervention in Africa has also been described as one characterized by equality and mutual respect for the sovereignty of recipient countries. As compared to loans from Western institutions and governments, loans from China are seen to be packaged with fewer conditions, sometimes interest free and far much easier to restructure (Ayodele & Sotola, 2014). Additionally, Chinese loans are found to be directed more towards income generating projects that make the recipient countries more self reliant and not perpetually dependant on China (Konings, 2007). African leaders have also sought refuge with Chinese aid and loans because China is less strict with conditionalities like good governance and fiscal discipline. And in the face of limited sources of capital for long term capital projects, China's export credit facility has provided African governments with alternative sources of finance which have helped them to diversify trading partners for countries that have tended to remain glued with old colonial trading patterns (Moss & Rose, 2006 cited in Ayodele & Sotola, 2014).

Further, proponents of the positive effects that the rise of China has had on Africa advise that instead of looking at the narrow view of the impact of China in individual countries, we should adopt a broader view of what China's development has done for Africa. China's participation on the global market is credited with assisting African economies with accruing economic gains from the cheaper Chinese goods and from the ever increasing Chinese competitiveness on the international market. Lafargue (2005) has advanced the view that China's growing demand for raw materials has contributed to the rise in prices of African exports, he has argued that the presence of China on the global market has reversed the long decline of commodity prices and has in this way increased the earnings of African countries engaged in the export of these products.

However, there has also been a backlash from those opposed to the nature of Chinese investments in Africa. A renowned academic on Sino-Africa relations Prof Kwesi Prah at the height of the debate on Chinese engagement in Africa described the China's strategy towards Africa as " enlightened self interest dressed in a Marxist garb" (ALRN,2008 cited in eds. Baah &Jauch, 2009). China's presence in Africa is seen by many as a function of China's need for energy sources and raw materials to fuel its accelerated economic development. Baah and Jauch (eds.2009) have pointed out that China's growing demand for energy to feed its booming economy has led it to seek oil supplies from African countries like Sudan, Chad, Nigeria, Angola, Algeria, Equatorial Guinea and the DRC. China is said to have accounted for close to 40% of total growth in the global demand for oil in the last decade.

Away from the investments in the extractive industries, China has also been able to find a market for low value consumer goods in Africa, despite it being a rather small one. Most of these goods are said to be manufactured through loss making SOEs and traded by Chinese import companies which sell them through a growing informal network of trading posts throughout the urban and rural areas of Africa (eds.Baah & Jauch ,2009). But it is not only the perceived African market that is driving Chinese investments in traditional sectors. Alden (2005) points out the fact that the Chinese are also investing in African industries geared towards markets in the USA and Europe, the major motivation behind these investments is seen to be the special provisions of the United State's African Growth and Opportunity Act (AGOA) and also the EUs Coutanou Agreement. Thus many of the Chinese investments in sectors not related to resource extraction like agriculture and textiles and other joint ventures are seen as having the ultimate and overall aim of benefitting Chinese producers by way of getting access to the Western markets at concessional rates.

Another major concern of the proponents of China's negative influence on the African continent is to do with perception of China's political and business models as contributing little to the enhancement of local capacity on the continent. Some have gone on to point out that China's relationship with Africa is a kind of subtle imperialism because it for example imports most of the material used in the construction sector and leaves little room for forward and backward linkages in the host countries in order to promote local economic development (eds.Baah & Jauch,2009). In addition to this, Chinese companies are also seen to undermine the potential for local job creation, skills transfer and human resource development by importing Chinese labourers for jobs that can be done even by locals (Tjonneland, Brandzaeg, Kolas and Le Pere, 2006).

However, the debate has at times been analysed from a balanced point of view, bringing up both the benefits and the potential disadvantages of the Chinese presence in Africa. For example, Baah and Jauch (eds.2009) cite how Ghanaians are now able to afford brand new clothes as opposed to the situation where most depended on second hand clothes imported from the West and this is now possible because of the import of cheap Chinese clothes. But they are also quick to point out that the fact that the import of cheaper Chinese clothes has pushed many textile industries in Africa out of the market. A case in point is the closure of Mulungushi Textiles in Zambia in 2007 which employed more than 2000 people most of whom were women. The textile company closed partly due to great competition from imported Chinese textiles but ironically, it was a company which had received Chinese FDI after its first closure (eds.Baah & Jauch,2009). The closure of Mulungushi Textiles had a knock on effect for other people working in related sectors like the shops and also cotton farmers. This narrative of local businesses being pushed out because of Chinese imports is repeated in several African countries across a broad array of industries.

Another balanced point of view has been that although China's presence on the global market has driven up the price of raw materials from Africa, there has been a downside to this. China has been cited for using instruments like excessively low tariffs to attract more raw materials from Africa. The overall impact has been that these same raw materials have been used to produce cheaper end products which in turn out- compete the African products on the international market, the furniture industry has been a widely cited example (Kaplinisky, 2008). This is of course understandable because China has an obvious comparative advantage when it comes to labour costs though others have pointed out that this is also in part due to the very deplorable labour conditions and low wages in China which most African countries cannot compete with (eds.Baah & Jauch,2009).

Alden (2005) acknowledges the great role that China has played in Africa's infrastructure development, an area where Western intervention seems to have dried up. But he critically classifies most of the Chinese investment in this sector as symbolic diplomacy. He explains this as an attempt by China to promote national representation abroad and this has played an important part in China's evolving relations with Africa. A great feature of this symbolic diplomacy can be seen with the construction of large prestige projects linked to institutional interests in African states. He points out evidence of this in the construction of foreign ministry buildings in Uganda and Djibouti, construction of stadiums in Mali, Djibouti, and the Central African Republic, in other instances even houses of parliament. This kind of approach keeps the Chinese in a position of privilege with most African governments.

There seems to be a shift in the pattern of China –Africa trade to areas other than natural resources from Africa and traditional finished goods from China which supports proponents of a balanced view on Sino-Africa relations. China has also started to venture into other areas like arms deals and military technical assistance with countries like Ethiopia, Zimbabwe Eritrea, Nigeria and also Sudan where a lot of controversy was raised (Ayodele & Sotola, 2014). Generally, it seems that even though a greater portion of the Chinese investments in Africa come through the state owned enterprises, investments from the Chinese private sector have also been growing at an unprecedented pace (Gu, 2009). The rise of private Chinese capital in Africa can also be evidenced from the observation that even though financial assistance goes mostly to state owned enterprises, a lot of capital has been made available to private investors through the state owned Exim Bank which in 2005 alone had disbursed in excess of 15 billion dollars to Chinese private investors (Hinds, 2012).

The growing presence of private Chinese investments in Africa evokes an even more interesting feature of the nature of Chinese investment on the continent, and that is the rapid growth of Chinese traders in many African cities and towns. This phenomenon constitutes a fundamental part of the central theme of this research. In the absence of reliable and broad based statistics, it is difficult to say much about this trend, but based on reported observations and the scanty statistics, it is clear that this is a feature of Sino-Africa relations that deserves amplified attention. Dobler (2005) has reported on the growing Chinese community in Namibia where official statistics place them at around 3000 but this figure could be significantly higher. In Lusaka, the capital of Zambia, the number of Chinese is said to have increased from 3000 to over 30,000 in a space of 10 years, in South Africa the number is said to be over 160,000 living in and around Johannesburg, but estimates for all Chinese including in rural areas are around 200 000 and 300, 000 (Kaplinsky etal 2007).

2.3 Chinese Investments in Africa's SME Sector

Wherever a discussion of Chinese investments in Africa comes up, it is mostly with reference to big infrastructure deals between the Chinese and African governments. The headlines are rarely dominated by reports about small private companies investing in the continent despite the fact that the investments by small and medium Chinese companies in Africa are on the rise. Gu (2009) has pointed out that unlike Chinese SOEs, the roles and significance of private investments and entrepreneurial activity have been under researched and that the current conventional wisdom is that the Chinese government backs rapid Chinese investments in Africa. He argues that the since 2005, the private sector rather than government ministries is the engine of economic exchange between China and Africa.

Further, a report by the UN indicates that Chinese companies now operating in Africa are mostly SMEs, by 2000 some 500 Chinese projects were known in Africa and only 30 % of them had investments of over US$ 10 million, thus generally qualifying the remaining 70% as SME (UNDP, 2007). Estimates pertaining to the number of Chinese businesses in Africa vary significantly, for example, in 2006 the Chinese EXIM bank estimated that there where about 800 Chinese companies operating in Africa (Mlachila & Takebe,2011) and the bank had approximated that 85% of these were privately owned. However, based on evidence from interviews with Chinese Embassies and Chinese business communities in Africa conducted by Gu (2009) during the period 2007 to 2008 indicated that China had more than 2000 enterprises in Africa. He elaborates the extent to which the figures are contradictory by highlighting the response of a senior Chinese official who stated that; “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 they are more than 28,000.”

According to van der Westhuizen (2013), only until 15 years ago, almost all Chinese investment in Africa was government aid related, and that data from the Chinese Ministry of Commerce shows that of the 1586 known investment projects in Africa at the end of 2011, 55% where registered as private, but this number could as well be three times more as most private investments do not go through the official registration system. Indeed despite the large extent to which the figures assigned to the number of private investments in Africa vary, it is evident that there is a steady increase of Chinese investments being classified as private and operating in the SME sector. The trend is also easy to observe from scenarios in African countries like Namibia where smaller private Chinese construction companies are competing with Namibian firms for contracts and in Tanzania where out of the 147 Chinese companies, only 22 had a portfolio of more than US$1 million making a majority of them SMEs(Dobler,2008).

The Chinese central government has been promoting the investments aspirations of SMEs wishing to invest outside through the Small-Medium Enterprises International Market Development fund by making available investment amounts up to US$ 100,000 and as at 2007, more than 76,000 SMEs had had access to this fund. These kinds of figures reveal the fact that the relative ease of entry of SME companies is anything to go by, then a large number of Chinese investments on the continent should fall in the SME category.

According to a 2013 World Bank report by Xiaofang Shen titled “Private Chinese Investment in Africa: Myths and Realities” ,36% of private sector investments are in manufacturing and 22% in service sector compared to the state owned enterprises which had 35% in construction and 25% in mining. The report further revealed how little SOEs are engaged in manufacturing, as little as 6%; and how small the private involvement is in the construction sector, a paltry 5%. In the mining sector, however, private participation seems to catch up with their SOE peers, reaching 16% of the total by end of 2011.

It seems though that even with the SOEs there has been a shift towards investments in telecoms, manufacturing and service sector. Still private companies especially the SMEs have become the most dynamic investors in these sectors with the potential to form industrial clusters in most developing countries. But besides the more structured medium sized Chinese investments that have been seen to be participating in the African service and manufacturing SME sector, there are also smaller scale entrepreneurs who operate in trade services and light manufacturing. These clearly operate independently of the Chinese state agenda and are at the heart of marketing Chinese products in Africa and have been at the centre of tensions among the trade unions and business associations for displacing locals and the poor quality of their goods (Mohan &Tan-Mullins,2009).

The presence of the Chinese players in the African SME sector has not come without its own controversy. The Chinese ,despite employing local labour are still cited for implementing labour practices akin to the Chinese situation, low salaries, lack of security, lack of safety norms at work, poor leave regulations and temporary contracts, and the kind of training given to Africans is seen as not adequate or concerned with boosting African countries technology level (van der Westhuizen,2013). Mlachila and Takebe (2011) assert that there are weak linkages between Chinese SME investments and local firms especially in the construction sector as compared to manufacturing because for construction projects it is often reported that Chinese firms prefer to bring in their own workers and hence rely little on local labour. This view can be challenged though as some other studies have shown that on most construction projects, the Chinese employ a significant size of African labour (eds.Baah &Jauch,2009). The qualification would be that perhaps this is less so with SME sector construction companies which also rely on sub contracts hence employ fewer people and could prefer more Chinese than local labour.

3 Zambia: An Overview

This section discusses in very brief terms an overview of the Zambian situation as regards its economic transition, the development of the SME sector from a historical perspective and its relations with China. The aim of the section is to provide some background and put the two countries in the right context for the issues that will be discussed in this study.

3.1 Economic transition

Zambia is a land locked country surrounded by nine countries and has a population of 13.5 million as per the 2010 Census of Population and Housing (CSO, 2012). After independence Zambia had one of the highest GDP per capita in the region riding on the back of high global copper prices (Rakner, 2003). Under the one party rule of its first president Kenneth Kaunda the country took a socialist orientation and most of the economy was nationalised between 1968 and 1971. However post 1970, the Zambian economy took a dive as falling copper prices in 1974 and the oil price shock of 1979 took a toll on it (Mutesa, 2010). After 27 years of ruling, the one party state of Kaunda gave way to multiparty elections under pressure from the international community local resentment due to an ailing economy. The newly elected government of Fredrick Chiluba of the MMD presided over a period of economic reform between 1991 and 1995 which saw the privatisation of several government parastatals and expenditure cuts which led to massive layoffs and ultimate unemployment (Kopiniski, Polus &Taylor, 2011). It is in this period that most Zambians turned to the private sector and started opening up their own small businesses.

The Zambian economy has continued to face cyclical up and down growth cycles tied to the global copper prices, this is despite the fact that successive Zambian governments have tried to diversify the economy away from copper dependency. In 2004 copper prices started to rise hitting a record high in 2006 and 2007 this allowed for an annual growth rate averaging 6% but this has been difficult to sustain as copper prices have started to plummet again (ILO, 2013). It is such limitations on economic management imposed by the over dependence on copper that have motivated the Zambian government to look into other sectors like the SME to diversify the economy.

3.2 The Zambian SME sector

Efforts to build a vibrant SME sector in Zambia can be traced to as far back as 1981 when the then government attempted to loop in the contributions of the sector to the national economy through the Small Industries Development Organisation (SIDO) Act (MCTI, 2007). This initiative was later incorporated into the Fourth National Development Plan (1988-1993). The initiatives did not achieve much as this was done in a socialist setup in which emphasis was placed on collective enterprise as opposed to individual ownership. The post 1991 reform era provided an opportunity to rethink the approach taken towards fostering a vibrant SME sector, the Industrial, Commercial and Trade Policy was unveiled in 1994 and this was followed by the enactment of the Small Enterprises Development Act of 1996 which replaced the SIDO Act of 1981(MCTI, 2007).

The opening up of the economy to foreign investors also meant that there was suddenly an increase in competition in all sectors including the SME sector. This meant that the ill prepared Zambian entrepreneurs were pushed out of the market due to competition from higher quality and lower price products coming from foreign entrepreneurs. The Zambian government thus set out to put in place new policies that would grow the SME sector and also make it more inclusive to accommodate the local players.

Despite all the successes that have been achieved in terms of putting up policies and legislation to improve the SME sector, small scale entrepreneurs continue to face a host of problems. Access to finance is the most pronounced, but it not the major or only problem. Problems of lack of relevant skills, limited markets and government support are still rife, but recently complaints of unfair competition arising from the presence of foreign players in particular sectors of the economy which have traditionally been seen as the preserve of Zambians have raised a lot of controversy.

The presence of Chinese investors in the SME sector has become a reference point for this as seen with culmination of such resentment into violent protests. (eds.Baah & Jauch, 2009).Zambia thus presents an interesting reference point for the study of the nature of Chinese investments in the SME sector in Africa.

3.3 Zambia –China Relations

Zambia gained independence in 1964 and has had diplomatic relations with China since then. A number of projects have since been carried out in Zambia with the aid of the Chinese government. One of the most monumental and notable projects that has been carried out with the aid of the Chinese government is Tanzania Zambia Railway Authority(TAZARA), a rail line stretching 1,860 kilometres linking the port city of Dar Es Salaam in Tanzania and Kapiri-Mposhi a town close to the Copper belt in Zambia. China has thus gained its reputation among successive Zambian governments as an all weather friend. Relations between Zambia and China have significantly shifted from being based on strong ideological ties to a more commercially based partnership. These relations have also been shaped by developments on the global scene with China emerging as the world's top copper consumer and Zambia as a major copper producer.

In terms of FDI, Zambia has remained among the top three destinations for Chinese investments in Africa (Lafargue, 2005). Chinese investments in Zambia are not only in mining but extend to all sectors of the economy. The inflow of Chinese investments is said to have created a substantial number of jobs for the Zambian economy but it is difficult to accurately compile how many jobs Chinese investments have created. It is also difficult to estimate the actual size of Chinese investments in Zambia because investment legislation, the ZDA Act of 2006 does not stipulate a mandatory requirement for registration of foreign investment. This short come in the legislation has resulted in the proliferation of SME sector Chinese investments in Lusaka. Most Zambian entreprenuers have expressed resentment towards this type of Chinese investments claiming that they are taking away business from them.

4. Methodology

Given the limitations associated with data on Chinese investments in the SME sector, the study will be carried out as qualitative exploratory research. Thus the preferred research method for this research is the case study. According to Yin (2003), a case study is an empirical inquiry that investigates a contemporary phenomenon within its real life context. This is even more applicable when the boundaries between phenomenon and context are not clearly evident. This approach therefore fits in fairly well with the topic under investigation. The choice of Zambia as a case study for Chinese investments in the SME sector also provides a unique representative opportunity of how Chinese investments on the African continent are evolving given the long standing relationship between the two countries.

In order to attain an unbiased view of the nature of Chinese investments in the Zambian SME sector, the study is based on a broad array of sources. The approach of consulting various sources for data was done in order to achieve a high level of triangulation so as to confirm general views or probe further for those that show a high level of inconsistency. Secondary data was obtained through a thorough desk study of relevant literature relating to the subject throughout the course of the research. Both academic and journalistic articles and information from the Chinese and the Zambian governments accessible through the internet were used. The study also incorporated interviews with stakeholders in the Zambian SME sector and this is a critical component of the primary data as there is generally a scarcity of information on SME investments. Additional data was also obtained from the Zambia Development Agency where some time was spent reviewing documents at their resource centre.

Conducting interviews was seen as the most appropriate technique to gather data on nature of Chinese investments in Zambia and how they are interacting with the Zambian counterparts. The interviews were conducted with representatives from Chinese SME business who are either the proprietors or senior employees but for most incidences, informants proved more corporative. On the Zambian side, representatives of Zambian SME businesses were interviewed and most of them were the business owners. The study also involved conducting interviews with officials from Zambian and Chinese government. The interviews were carried out between 2nd April and 4th May in Lusaka Zambia. A total of 30 interviews were conducted and a list of the companies and institutions that participated in the study is included in appendix no 1.

The participating businesses in this study were not selected based on a statistical sample to represent the whole SME sector. They were instead based on suggestions from bank officials and inquiries from the Zambia Chamber of Small Medium Businesses. A snowballing technique of referrals was also used to get contacts for business owners that would be willing to participate in the study. The final decision to include them in the study was based on their profile as representative of an active Chinese or Zambian SME business and also their availability at the time of the research. The criteria also involved a conscious effort to interview at least one representative the four sub sectors; Agriculture, trading, manufacturing and service industry which included construction. A total of 36 individuals were contacted only 6 declined to participate in the study.

A series of semi structured questions was used to get relevant information pertaining to the study but the nature of the questions slightly varied depending on whether the respondent was a business owner or government official or representative of a particular institution. The samples of the questions used can be seen in appendix no.2. A number of participants sought anonymity because they feared their responses could affect their business relations, hence for uniformity and out of courtesy all names have been with held. The names of the participating firms are available but for some the official positions of the participants have been left out.

4.1 Data reliability considerations

One of the most significant challenges faced with data collection was the language barrier between the researcher and Chinese SME business owners. Although this was overcome by getting sketchy translations from the employees of the Chinese investors, it was in some instances difficult to ascertain the accuracy of the information. It was also helpful though that some responses could be verified from observation as the interviews were all conducted on site at the participants offices. Admittedly too, the two government departments charged with the documentation of foreign investments in the SME sector are not properly structured to perform this function; as such most of their data does not provide a truly representative picture. It is for this reason that the study incorporated an in depth literature review and interviews from across different sectors of the economy.

As will be shown in the analysis section of this study, the research interviews produced a number of divergent views as regards Chinese investments in the SME sector. While this poses a challenge of coming up with a concrete conclusive position, It also provided an opportunity to triangulate information from different sources. A reasonable level of triangulation was achieved by interviewing participants from various sections of the SME sector and other government and non government institutions. In this way the study achieved a better understanding of how Chinese investments have affected local businesses in different ways. It should also be pointed out that it is an inherent feature of conducting research interviews that informants could be biased, misrepresent facts or be unduly influenced by the researcher (Yin, 2003). But to mitigate against this and improve the accuracy of facts, the information provided is assessed in comparison to what has so far been researched on. Further, the participants in the study especially government officials have been offered to read through the completed thesis.

5. Theoretical Framework

5.1 Overview of the Knowledge Spillover Theory of Entrepreneurship

The theoretical framework of the study hinges on the Knowledge Spillover Theory of Entrepreneurship (KSTE) as advanced by Audretsch (1995) and later developed upon by a variety of scholars from fields spanning across various disciplines of study. Chinese investments are in this study investigated as being potential sources of knowledge spillover that will result in acquisition of skills and ideas that indigenous Zambians can use to start new ventures .The theory will help us understand if this is the case.

Over the past decade the KSTE has evolved into a broad field of research that encompasses aspects of economics, entrepreneurship and management. But in its most basic rendition, the KTSE posits that the creation of a new venture is a response to knowledge generated but not commercially exploited by incumbent firms and research institutions. This line of thought is based on the view that incumbent firms are often unable or unwilling to recognize the potential value of these opportunities because they would rather not implement new products or processes that are not consistent with their core competencies and technological trajectories (Ghio,Guerini,Lehmann and Lamastra,2014).It is this new knowledge which is assumed to spillover from the incumbent firms that have not commercialised it, that is then leveraged upon by perspective entrepreneurs to create a new venture.

Prior to the consolidation of the theory, Audretsch argued(1995) that economic growth and technological progress are not only based on the efforts of large and incumbent firms, as proposed by policy makers and the academic mainstream at that time, but also due to SMEs and entrepreneurial ventures. This line of thought which views entrepreneurship as a channel through which new knowledge is commercialised is grounded in the works of Schumpeter (1934) who recognized the importance of the entrepreneur as a contributor to economic development through his or her exploitation of opportunities. Schumpeter, however, ignored the aspect of where opportunities come from. Romer (1990), whose work has focused on long term economic growth, recognised the role of knowledge as the primary source of technological and commercial opportunities and ultimately of economic growth but he ignored the entrepreneur. KSTE goes more into investigating the questions “Where do entrepreneurial opportunities come from?” and, “Why are knowledge spillovers important for the theory of entrepreneurship?”

In essence therefore, the KSTE is centred on the premise that by saving as a conduit for knowledge spillover, entrepreneurship is the missing link between investments in new knowledge and economic growth. We can put the theory in the context of our study. Given that Chinese investments bring with them new knowledge which is as result of investments in knowledge back in China, we then assume that this knowledge benefits not only these firms but also creates opportunities for third party firms. These third party firms are usually new ventures that capitalise on the knowledge from the incumbent firm. Thus in this case, the creation of new knowledge (in China) leads to new opportunities (in Zambia) through knowledge spillovers. In this way, the KSTE somewhat explains the relationship between entrepreneurship and economic growth because it is through entrepreneurship that these spillovers are commercialised. The sections that follow explain how the KSTE ties in entrepreneurship, businesses linkages and absorptive capacity to explain how new knowledge contributes to new venture formation.

5.2 Knowledge Spillovers and Entrepreneurship

The KSTE posits that entrepreneurial opportunities arise from new knowledge and ideas that are not fully commercialized by the organisation actually investing in the production of that knowledge (Ghio, et al, 2014). The uncommercialised knowledge thus creates an opportunity for an economic agent who could be an employee of the firm, an outsider or another existing firm. This statement needs to be qualified. By uncommercialised knowledge we refer not only to knowledge which is not used for commercial activity but also to that which is used but leaves an opportunity for further commercialisation because there is still existing demand or a market which can be serviced by other economic agents who are not necessarily the originators of such knowledge. Understanding the process by which this uncommercialised knowledge becomes an entrepreneurial opportunity is central to understanding the KSTE as a mechanism through which new ventures come to be. Acs et al (2004) contend that new knowledge is associated with high uncertainty, asymmetry and transaction costs which cause people to place different values on it in terms of whether it will prove profitable or not. Because of these conditions, decision making hierarchies can reach the decision not to pursue the new knowledge or idea generated by the firm. This is even more so if this new knowledge is not in line with their core competences or technological trajectories. These inherent conditions of new knowledge coupled with an array of institutions, rules and regulations impose what Acs et al (2004) refer to as the knowledge filter.

The knowledge filter is seen as the gap between knowledge and what Arrow (1962) referred to as economic knowledge or knowledge that is put to commercial use. The knowledge filter is therefore a medium through which knowledge becomes uncommercialised and ultimately creates “leftover” knowledge. It is this “unused” knowledge which in turn creates an entrepreneurial opportunity for other economic agents who may attach a higher value to it, either because it is in line with their core business or they have the competence or more market knowledge to enable them to use it. Hence divergence in valuation of new ideas can lead to start up of new firms in an effort by economic agents to appropriate the value of new knowledge.

In essence then, entrepreneurship is the conduit, albeit not the only one, by which knowledge created by incumbent organisations spills over to economic agents who create new organisations. It is correct also to say that though new firms come up as a result of the knowledge that spills from incumbent firms, the spillovers actually happen because of the economic agents (entrepreneurs) who capitalise on these opportunities created by the knowledge filter, otherwise this knowledge would not spillover (Acs etal,2004). However, for these spillovers to happen there needs to be some kind of interaction between the firms bearing this new knowledge and those that can potentially benefit from it. Thus in order understand the KSTE in its entirety, we need to appreciate the role of business linkages as an integral part of the KSTE framework.

5.3 The role of business linkages

The KSTE incorporates the importance of linkages between the incumbent firm and the economic agents that the new knowledge spills over to in order to facilitate the formation of new ventures or new product lines within existing firms. Business linkages between the two are a channel through which these spillovers take place. Knowledge spillovers can result from incumbent foreign firms having backward linkages with local firms. Backward linkages according to Sayek and Koymen (2009) are the relation between domestic firms and foreign firms when the domestic firm operates as the main input supplier of the sector the multinational firm operates in. Dunning (1992) postulates that backward linkages are the extent to which components, services and materials are sourced within the local economy. Backward linkages are seen to create spillovers through direct transfer of technology to local suppliers by training or technical assistance so as to increase supplier productivity (Sayek and Koymen, 2009). But even more crucially, ideas and knowledge may flow through this kind of interaction between incumbent knowledge generating firms and would be entrepreneurs working in the local firm. Other types of linkages like forward and horizontal linkages have been discussed by other scholars, but the purpose of this section is just to acknowledge their role in the KSTE.

The KSTE will not hold in a situation where there are no linkages between the knowledge bearing and the receipt firms, but even in a scenario where the linkages are strong, the extent of these spillovers will depend on the capacity of the recipient firms to absorb and adopt this knowledge. The concept of absorptive capacity is thus discussed below in order to fit it in the KSTE framework as is illustrated in figure 1.

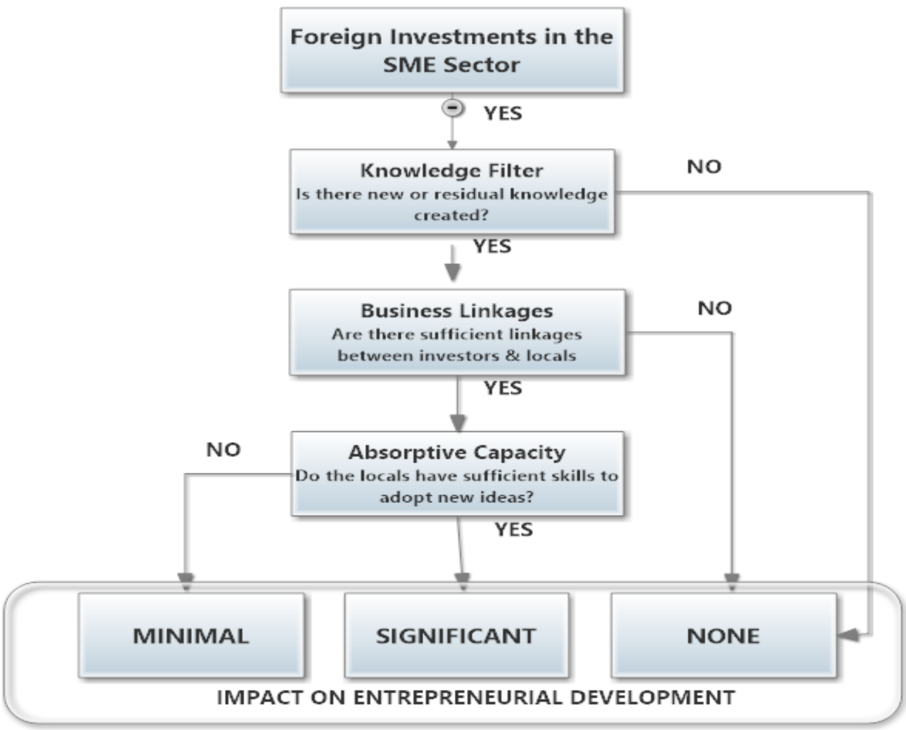
5.4 Absorptive Capacity

The functionality of the KSTE is hugely dependent on an acceptable level of absorptive capacity on the part of the knowledge recipients. The spillover mechanism through entrepreneurship will not automatically lead to new firms and not all opportunities left uncommercialised will result in commercialised spillovers via entrepreneurship (Audrestch & Keibach,2005). Audrestch and Keibach (2005) draw on the classical example of how investments in knowledge both the USSR and her Eastern Europe allies generated a lot of new knowledge which did not necessarily lead to new entrepreneurial activities. In the context of this study, we also focus on the absorptive capacity of individual agents and firms operating in the vicinity where these spillovers from incumbent firms are taking place. This approach is motivated by the view that the local entrepreneurs should have at least reasonable degree of technical and business competence in order to take advantage of these spillovers. Otherwise, if the knowledge gap between the firms spilling over this knowledge and the local entrepreneurs is too wide, it is much harder to convert these spillovers into opportunities.

Lengumwa (2014) holds that the ability of local firms particularly SMEs to benefit from spillovers from multinational enterprises is dependent on their absorptive capacity; which in general terms he defines as a firm’s ability to deal with external knowledge. Cohen and Levinthal (1994) defined absorptive capacity as a firm’s ability to identify, assimilate and exploit knowledge from the environment. In (2002) Zahra and George expanded the definition to include that absorptive capacity can either be potential or realised. Potential absorptive capacity is embodied in acquisition and assimilation capabilities while realised absorptive capacity has to do with transformation and exploitation capabilities. They further contend that both components of the absorptive capacity are a necessary condition for improving a firm's ability to benefit from spillovers but firms are not able to exploit knowledge unless they first acquire and assimilate it.

When fitted into the overall framework of the KSTE, it is easy to see that the absorptive capacity of local firms will greatly determine to what extent new knowledge will be used to create new ventures or new products. This is illustrated in figure 1 below. And as Lall and Narula (2004), have put it, where absorptive capacity is lacking in domestic firms, they may, instead of reaping technological benefits from foreign investments, be crowded out by them. In this case the possibility of fostering new ventures through spillovers is only minimal.

Figure 1: The KSTE framework



Source : Author's construction based on the KSTE

The figure above summarises the KSTE as used in our theoretical framework. It shows as per the KSTE, spillovers will not occur if the foreign investments do not foster new knowledge and also that a lack of absorptive capacity will lead to minimal spillover effects.

5.5 Parameters of analysis

From the various aspects of the KSTE that have been discussed in this section, it is clear that when used as a theoretical framework, the theory takes into account issues from both the investors' and recipients' side. In this case, the scope of the research is thus required not only to focus on the nature of Chinese investments in the SME sector, but also critically asses the policy environment in Zambia as regards FDI in the SME sector and promotion of entrepreneurial activities. Therefore, in order to comprehensively analyse the effectiveness of Chinese investments in the SME sector as a source of knowledge spillovers ,a possible catalyst to the expansion of entrepreneurship opportunities and consequent economic growth, the study will focus on three major aspects which are;

a. The nature of Chinese investments in the SME sector;

- Does the nature of the investments foster spillovers ,
- To what extent these investments contribute to new knowledge,
- Do the Chinese investments allow room for business linkages with local firms.

b. The policy environment in Zambia regarding FDI in the SME sector and promotion of entrepreneurship,

- Is there a deliberate policy to direct and monitor FDI towards sub sectors of the SME sector that can quickly benefit from the possible knowledge spillovers

c. The level of absorptive capacity of the current and potential Zambian entrepreneurs in the SME sector.

- The general literacy levels of Zambian entrepreneurs,
- The extent to which Zambian entrepreneurs have technical and managerial experience to run a firm.

6 Analysis

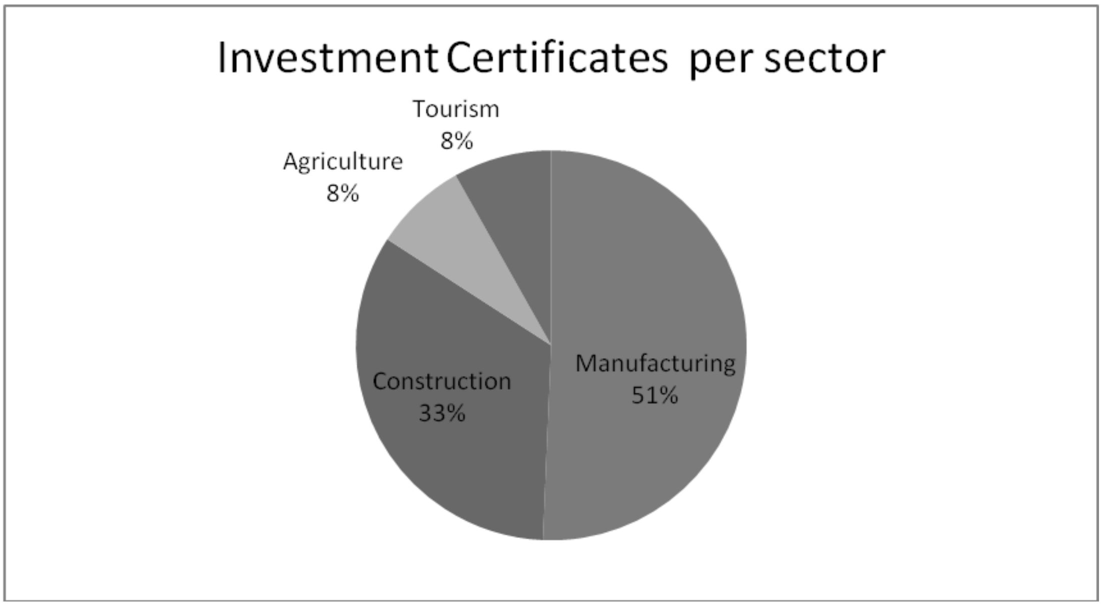
In order to conduct a thorough but targeted analysis of the research findings, this section will focus on the three areas of analysis as outlined in the theoretical framework section. These areas of focus are; the nature of Chinese investments in the SME sector in Zambia, the policy environment in Zambia as regards investments in the SME sector and the state of the Zambian entrepreneurial community in terms of the absorptive capacity. The material to be analysed will be official documents from the Zambian government, publications closely related to the subject and interviews that were carried out with different stakeholders.

6.1 The nature of Chinese investments

There have been stories in both the journalistic and academic world about how the Chinese are buying off land and taking over the SME sector in Africa and to some extent even undermining African agriculture and enterprise (van Dijk (ed.) 2009). Zambia is not an exception. The nature of the Chinese investments in the Zambian SME sector has been a source of controversy in terms of opinions regarding their nature across different sections of the Zambian society. Unfortunately these opinions are filled with as much fiction as they are filled with fact. To start with, it is very difficult to accurately state the number of Chinese investments in Zambia's SME sector, despite the fact that this is a very hotly debated issue. In an interview with a representative of the Chinese embassy (Interviewee no.11), when asked how many Chinese SMEs where operating in the Zambian sector, his response was simply many. It is estimated that at least 500 Chinese companies exist in Zambia (Bastholm & Kragelund, 2009), and this includes those in the mining sector, but a fair estimate of how many of these are SME is not known. When asked how many Chinese companies are operating in Zambia, an official from the Patents and Companies Registration Agency (interviewee no. 9) could not confirm this but estimated that at least 70% of all registered Chinese companies are in the SME category. It is a significant finding of this study that Chinese investments in general and in the SME sector in particular are poorly documented. And in this case the application of the KSTE will prove helpful as it can help us analyse the qualitative aspect of these investments in the context of their ability to foster new knowledge.

Data from the Zambia Development Agency (ZDA) and also research done by other scholars (Spilsbury, 2012) shows that beyond the mining sector, Chinese investments in Zambia span over almost all sectors. According to the data based on ZDA investments certificates issued out to Chinese investors in Lusaka outside the mining sector between 2007 and first quarter of 2015, for the four sectors, manufacturing, construction,agriculture and tourism, more than half of these investments where in the manufacturing sector as shown in figure 2.

Figure 2.



Source: constructed from ZDA data on issued investment certificates in Lusaka,2007-2015 (April)

This is in line with the nature of overall Chinese investments in Africa. This view was seconded by the representative of the Chinese embassy during the field work interviews (interviewee no.9). However, a majority of government officials and also almost all Zambian interviewees who participated in the study were of the opinion that the majority of the Chinese investments in the SME sector are concentrated in trading. This is a rather interesting finding because trading as an investment category, does not even appear on the list of categories for certificates issued by ZDA. The implications of this are that either Chinese activities as far as trading is concerned are not being monitored or the Zambian government does not consider this to be a problem. An official at ZDA (interviewee no.17) responded to this discrepancy by stating that because investments in the SME sector are below the investment certificate threshold, they are seldom captured. In other words, this is a confirmation that no one is really closely monitoring Chinese investments in the SME sector.

The proliferation of Chinese investments in trading sector poses a challenge in that a majority of the Zambian entrepreneurs are in this sector and also in terms of fostering knowledge spillovers, trading does not offer much as far as new knowledge and skills that can lead to new ventures are concerned. This aspect of the Chinese investments in the SME sector seen in the context of the KSTE implies that no new knowledge is generated and consequently no spillovers are taking place. As van Dijk ed. (2009) has put it, Chinese investments in Zambia can help build local capacity, but otherwise they can result in direct competition with local firms. This comment also closely relates to an observation made by Dipak Patel who was the Zambian minister of commerce when he commented that "Does Zambia need Chinese investors who sell clothes, shoes, food, chickens and eggs in our markets when the indigenous people can?" (Alden 2007 cited in Spilsbury 2012). Such concerns were still commonplace among Zambian traders as was confirmed by a veteran Zambian trader at Lusaka's Kamwala market (Interviewee no.8).

Given our limited understanding of the nature of Chinese investments in the SME sector, it would be prudent to also analyse some specific effects of these investments. In this way we will be able to gain a firm understanding of how the nature of these investments has affected the Zambian entrepreneurial community. This aspect of the analysis discussed in the following paragraphs will help understand some specific types of spillovers in relation to the KSTE.

6.1.1 Effects of Chinese Investments in the SME sector

Despite the general outcry about the disruptive nature of Chinese investments in the trading sub sector of the SME sector, the actual effects do vary. The field research revealed that the effect on the trading sector has not been uniform. Some sectors are affected more than others. Interviewee no. 6, a cosmetics retailer was of the view that the presence of the Chinese did not directly impact her business. Interviewee no.29 who has been in the pharmacy business for over 10 years intimated that he was recently compelled to close down an outlet in a highly populated compound in Lusaka because of competition from the sprawling Chinese doctors. Another trader dealing in children's clothes and toys indicated that despite the stiff competition from the Chinese retailers, she has managed to keep up because she has adopted the Chinese strategy of going to source the merchandise from Chinese factories in China (Interviewee no.30). The KSTE adequately addresses all three outcomes outlined above. In instances where no knowledge is generated there is no effect as seen in cosmetics sales, but in terms of the pharmaceutical business, new knowledge can be said to be present from the Chinese competitors but there are no linkages to foster the spillover. This is based on the assumption that interviewee no.29 has the capacity to adopt new ideas given his experience. Similarly, it can be said of interviewee no. 30 that her initial sourcing of products from local Chinese suppliers is a business linkage and her ability capitalise on new knowledge of manufacturers who sale at wholesale in China also depended on her level of absorptive capacity.

Though the trading sector comes out as the most widely cited of all sectors, the Chinese in the SME sector are also investing in other sub sectors like manufacturing, agriculture and the service sector especially hospitality. Generally the Chinese in manufacturing display a higher level of technical competence as compared to their Zambian competitors, most of the Chinese manufacturing activities are concentrated in the food processing, drinks especially and light manufacturing like building blocks and metal fabrication. These are sectors where Zambians have generally felt pushed out of the market because the Chinese have a stronger capital base and technical knowhow. Clearly, these are also enterprises that encourage a lot of new knowledge but the challenge is that businesses linkages are limited, and the capacity to adapt is generally lacking so little of this knowledge is actually transferred. A drinks manufacturer in Lusaka's industrial area explained how a Chinese business entered his line of business only a few months after he started, but they had an added advantage because they imported all their ingredients and packaging material directly from China (Interviewee no. 18). This is a classic case of where even in the presence of adequate capacity; linkages to facilitate new knowledge transfer are inadequate because of the exclusive nature of Chinese investments.

Complaints about small scale Chinese investors in the agricultural sector have also being rife. Chinese in Zambia engage in small and medium scale agriculture but not anything to the extent that would cause alarm in terms of land grabbing. There, however, have being specific incidents concerning the rather unconventional practices that the Chinese use to lower their production costs when it comes to activities like chicken rearing. A Zambian business lady who prior was engaged in the chicken and egg business for export to the D.R Congo market narrated how she has had to withdraw from the business because the Chinese have taken over the supply side (Interviewee 6) .She explained that the Chinese manufacture even their own packaging trays for eggs right on their farms using old newspapers whereas Zambians have to buy these. The tray manufacturing represents new knowledge from a foreign investor and the fact that this Zambian lady was able to source some eggs from the Chinese is evidence of some linkages. But the critical issue of capacity comes up because potentially this new knowledge of tray manufacturing could lead to a new venture, but only if there is capacity. A Zambian employee at a Chinese chicken farm also explained that the Chinese manufacture their own chicken feed using chemicals that are not legal, and also that they had a system of selling chickens that had died of disease or infection to conniving restaurant and food shop owners in the shanty areas of Lusaka(Interviewee 27). There is thus a general consensus among the Zambian farmers in the SME sector that it is such practices that allow the Chinese to sell their produce at 10% to 20% lower than the market prices. The KSTE posits that new knowledge can potentially lead to new ventures, but some new knowledge maybe inappropriate due to local legislation and this will not lead to new ventures or may even disadvantage already existing ones.

However, another narration explains how the Chinese manage to achieve lower production costs. According to interviewee no. 7, who specialises in pig production, the Chinese also have their own special price when they are buying feed for their livestock from the large livestock feed companies. In this way they are able to lower production costs and sell at cheaper prices than most Zambian producers. But upon critical analysis, it is easy to see that because the Chinese pool their resources together, they are able to get preferential pricing and this is not necessarily illegal or unethical in any way. Obviously, this is not new knowledge but a better way of organising resources, locals may however lack the capacity to do the same because of their limited financial muscle. A Bank of China employee (interviewee no. 2) said as regards Chinese investments in the small and medium agricultural sector, it was the Chinese that generally invigorated the Zambians' passions into business scale chicken production on small holding farms and also the growing of winter maize. Prior to the entrance of the Chinese in this business, Zambians where passive and only large scale commercial farmers were into it. He was however quick to mention that Zambians have not learnt this by any formal skills transmission from the Chinese but rather by imitating from observing at a distance because the Chinese are very secretive with their knowledge. In other words, in the context of the KSTE, the interviewee was explaining the generation of new knowledge albeit exclusive in nature and also the presence of very weak linkages between the Chinese and Zambian businesses.

Chinese investments are seen to be thriving in the restaurant, lodging and also construction businesses. The Chinese restaurants are presumed to be mainly focused towards serving the Chinese residents of Lusaka but they also cater for Zambians. The two Zambians interviewed from the hospitality sector (interviewee no. 14 & 26) did not think that they have learned anything from the Chinese or being affected by them. However, an interviewee from the University of Zambia Institute of Economic and Social Research commented that the rather huge number of Chinese restaurants is somehow indicative of the possibility that these businesses are just used as a front for other undeclared businesses that the Chinese are engaged in (Interviewee no. 24). It appears then that the hospitality sector fosters little in terms of new knowledge for SME sector Chinese investments.

The Chinese SME construction companies generally out-compete the Zambian players; this is hugely due to higher competency levels. In an interview with two Zambian construction firm owners, the interviewees indicated frustration with the fact that where as the Chinese businesses had good skills they also had financial support from the Chinese government through the Bank of China(Interviewees no. 3 and 4,). As such, they were always in a better position to be more competitive in terms of pricing. In interviewee's no. 3 opinion, even when a Zambian firm is subcontracted by the Chinese there is very little in terms of transfer of skills, "the Chinese expect you to come with skills and own equipment and in this way it is very difficult for Zambian firms to learn anything from the Chinese because most lack the equipment to even allow them to work with the Chinese in the first place." The KSTE framework assumes that strong business linkages will led to more spillovers. But in this case we see that increased capacity can actually improve linkages as investors will be more willing to do business with capable locals. Chinese employers have in most instances complained about the workmanship of the Zambian employees and their poor work ethic (Interviewee no. 21 and 23).

Despite the fact that Chinese investments bring with them new knowledge, it is not obviously clear that this knowledge is spilling over. The exclusive nature of Chinese investments in the SME sector seems to leave very little room that can foster linkages between the Chinese and Zambian entrepreneurs and this means that even the rate at which spillovers take place will ultimately be very low. Interviewees from both a Zambian SME association (interviewee no.20) and a Chinese business association (interviewee no.10) confirmed that there is no platform that facilitates the meeting of the two business groups. As far as the KSTE can explain this situation, it is an issue of weak business linkages.

In order to fully understand the extent to which these new Chinese investments can (or cannot) foster new ventures through transmission of new knowledge, we must look beyond their nature and understand the policy framework which they operate in. This is important because to a large extent it is the prevailing policies that determine what the Chinese can and cannot do. And, it is even more important in the context of the KSTE because the theory hinges on generation of new knowledge by established firms, but in the case of Zambia this new knowledge arises from foreign investments that establish businesses in the country. The next section will examine two Acts of Parliament and a policy that have a bearing on the nature of investments in the SME sector.

6.2 The Zambian policy framework on entrepreneurship and foreign investments in the SME Sector.

The Zambian government has put up a number of measures to control and influence the nature of foreign investments in the SME sector and these have also been accompanied by efforts to increase local participation. It is to these initiatives that we must look to understand why Chinese investments have turned out the way they have as their actions are to a large extent determined by what the policy prescriptions can allow them to do.

There have been two recent Acts of parliament and an SME policy that seek to address the dual task of controlling the nature of investments in the SME sector and creating a conducive environment for domestic firms. These efforts represent an attempt to attract investments that will foster spillovers and enable the locals to capitalise on these opportunities. In this section will therefore consider how and to what extent they have influenced Chinese investments in the SME sector. Hence the three aspects of the policy environment that will be analysed are; the Zambia Development Agency Act, the Citizens Economic Empowerment Act, and the Micro Small and Medium Enterprises policy.

6.2.1 The ZDA Act

The Zambia Development Agency Act of 2006 was enacted to primarily foster economic growth and development by promoting trade and investment in Zambia through an efficient, effective and coordinated private sector led economic development strategy. The Act thus established the Zambia Development Agency with a mandate to promote entrepreneurship and through government support of SMEs, green field investments and promotion of joint ventures with foreign investors (ZDA Act, 2006). The ZDA Act has a specific provision of support to the SME sector where it states that the ZDA board will promote and facilitate the promotion of SMEs by among other things; providing market support, registering SME organisations and also developing and upgrading appropriate production technology for SMEs. What is conspicuously absent though on these provisions is that the Act is silent on issues to do with linking SMEs to foreign investors especially in terms of knowledge or technology transfer.

The Act does however in broad terms provide for channelling of foreign investments into priority sectors by issuing investment licences which carry varying types of incentives depending on the amount of money that one invests. Under the ZDA Act, additional services like assistance with acquiring land for the investors and smoothening immigration procedures are also catered for but without specific reference to how this plays into promotion of spillovers. The Act also stipulates other conditions to be considered for issuance of investment licences, for example the likelihood of technology transfers, but this is not a strict requirement.

Seen in this light, the Act neither completely ring fences the foreign investment flows to create an environment in which the SME sector can benefit from the new knowledge in terms of spillovers, nor does it channel the flows into priority areas that will easily foster knowledge transfer. Further, it is possible to see from an analysis of the Act that it does not at all incorporate any specifically structured SME and foreign investments partnering sector and yet in other countries like Botswana it is mandatory for foreign investors to partner with a local before investing in the SME sector. The extent to which there are very few joint ventures and partnerships between the Chinese and Zambians is evident from the ZDA data on issued investment certificates to Chinese nationals, of the 330 certificates issued for Lusaka between 2007 and first quarter of 2015, only 16 had Zambian partners. This problem of low indigenous participation in the SME sector promoted government to come up with the CEEC which will discuss next.

6.2.2 The CEEC Act

In 2006 the Zambian parliament enacted the Citizens Economic Empowerment Act to establish the Citizens Economic Empowerment Commission (CEEC) and the CEEC Fund. The overall objective of the Act is to, through the commission, promote the economic empowerment of targeted citizens; citizen empowered companies, citizen influenced companies and citizen owned companies (CEEC Act, 2006). It is hoped that with this approach the commission will encourage effective ownership and meaningful participation of targeted citizens, especially providing a more level playing field for those that may have been previously disadvantaged on account of gender or other social customs and statutory provisions. The commission has adopted a number of mechanisms to achieve these stated objectives. Among the strategies employed by the commission to enhance citizen empowerment are;

- Enhancement of partnerships and joint ventures local and foreign investors
- Preferential procurement for Zambian or citizen influenced firms on government institutions
- Reservation of specific areas of commerce and trade for Zambian citizens only, and
- Provision of Financial support through interest bearing loans to citizens.

Though the commission since its inception has made great strides in helping with the economic empowerment of citizens, its existence has been riddled with allegations of corruption and favouritism (Lusaka Times, 6th Feb, 2012). And like the approach taken by the ZDA, the commission too does not seem to have a streamlined approach to SME development and foreign investment linkages. For example, it clearly states that its main mandate is that of promoting equality. The approach of giving citizen controlled or influenced companies a kind of head start as compared to foreign firms in a way puts them in direct competition instead of cooperation. This is because Zambian firms may be awarded contracts not on merit but preference and instead remain stagnated in terms of capacity. Encouraging partnerships with foreign firms would have the overall impact of increasing the capacity of locals. Further, the approach of initiating reserved sectors for Zambian firms if not carried out with caution may instead have the overall effect of sealing off the possibility of knowledge spillovers and technical knowhow in these sectors from other foreign players

Thus the CEEC Act too as possible policy mechanism to channel foreign investments in the SME sector towards the provision of knowledge spillovers and enhancement of linkages has not lived up to the expectation of increasing local participation. It in essence is more of a piece of legislation that purely seeks to control the long standing problem of income inequality but without adequately addressing the aspect of income generation itself. The problems discussed above have a lot to do with the prior policy vacuum that Zambia had concerning the SME sector. The MSME policy was implemented as a way to correct this.

6.2.3 The Micro Small and Medium Enterprises Policy

Zambia did not have a Micro Small and Medium Enterprises (MSME) policy until 2008. The rationale for this policy is to create a national vision and leadership for deliberate development of the MSME sector and to facilitate creation and implementation of relevant and effective sector legislation and regulatory framework (MSME Policy, 2008). From its stated policy objectives outlined below, the MSME policy has a more holistic approach to increasing the levels of entrepreneurship in Zambia, but the missing link between new knowledge and increased entrepreneurial activity is still obvious.

The MSME Policy aims at achieving the following development objectives:-

- To facilitate creation and development of viable Micro Small and Medium Enterprises that contributes 30% towards annual employment creation and 20% towards Gross Domestic Product by the year 2018.

- To facilitate an increase of 10% towards utilisation and value addition of local raw materials in identified regional areas by the year 2018.

- To strengthening forward linkages between MSMEs and large scale companies by facilitating an annual increase of 10% in subcontracting of MSME by large scale companies.

- To improve productivity in the MSME sector by 10% by the year 2018.

- To enhance Local Economic Development thereby stimulating broad based economic growth by establishing five (5) Business Incubators and five (5) Industrial Parks in identified locations by the year 2018.

Strengthening collaboration with foreign players in the SME sector to encourage knowledge transfers is not a specific objective, and as such there is no planned mechanism in the policy on how to go about this. The policy does though point out three major focus areas for achieving its objectives and these are; increasing capacity, increasing access to opportunities finance and infrastructure, and improving the operating environment for SMEs. The aspect of upgrading the innovation and technical capacity of the SMEs is addressed in the policy and while it takes into consideration how to generate and utilise local knowledge, it does not take into consideration the potential of knowledge spillovers from foreign investors in the sector.

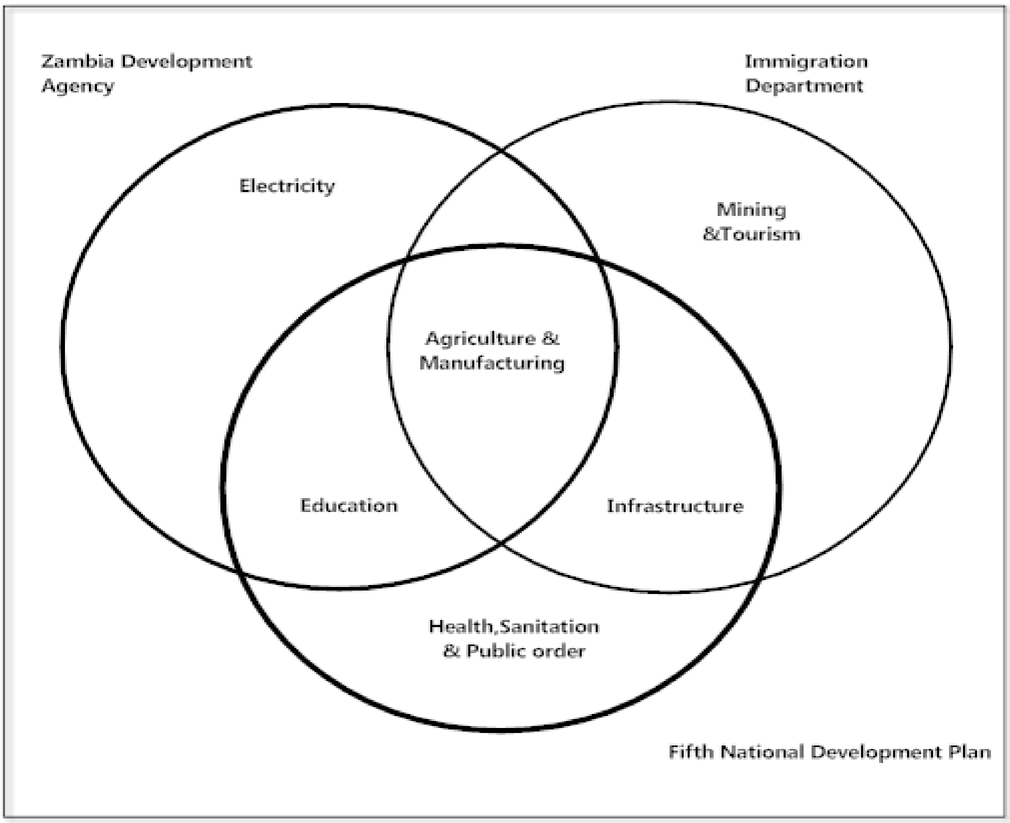
6.3 The policy framework in practice

Policy pronouncements are one thing and what really happens on the ground is another. So to be able to get a more balanced analysis of how these policies are working, we will consider some of the perspectives offered by experts in the field. Based on interviews carried out with officials from ZDA, Ministry of Trade Commerce and Industry, PACRA, CEEC, and Development Bank of Zambia, the overall impression is that government is aware of the existing problems in the SME sector in as far as grievances about Chinese players are concerned.

A senior PACRA official (interviewee no.9) explained that the problem in the SME sector is a historical one because the Zambian economy was quickly opened up to foreign investors in all sectors without first slowly building the capacity of the local entrepreneurs. And that it is because of this that most of them have found themselves pushed out of the market. He pointed out also that part of the problem was to do with the Zambian entrepreneurs themselves. Some Zambian business men and women have gone into the vice of fronting on behalf of foreign entrepreneurs especially the Chinese. Two financial institutions representatives(interviewee no.15 & 22) also raised the issue of how certain pronouncements like the one requiring that at least 20% of any government construction contract value should be subcontracted to a local firm are not effective. Interviewee no. 22 explained that this requirement is weakly monitored leading to a situation where Zambian firms are given the subcontract but then in turn sell it back to another Chinese subcontractor. Most of them are compelled to do this so that they can at least go away with something given their lack of capacity to execute the contract.

Mwanawina (2008) has pointed out in his study that there is disharmony in identification of priority areas among government departments and as such, even when issues of foreign investment are considered, we do not expect to find a structured approach. In his analysis of three government departments' focus areas, SME development in relation to foreign investments does not feature strongly either. The ZDA, Immigration department and the Ministry of Finance and National Planning through its National Development Plans only converge on few aspects in their approach towards foreign investments. This view could be biased to some extent as he only looks at the overall priority areas and does not go into specifics. He however gives a rough indication of difference in approaches in as far as policy priorities are concerned.

Figure 3. Priority Areas of Three Government Departments



Source Mwanawina 2008

He further points out the weaknesses in the immigration policy an investor can come in then easily change their status due to weak monitoring mechanisms, and even the investment permit minimum was raised from $ 50,000 to $250,000 in 2006 to stem off petty investors, the situation has continued on a downward spiral. The policy on immigration as regards investors hence remains porous and does not adequately address the aspect of controlling what kind of investors come into the country so as to aid overall economic development through knowledge spillovers.

So far, what the analysis of the study's findings has shown is that as explained through the KSTE, much of the problem lies with Zambians limited absorptive capacity. It is for this reason that we must also analyse the aspect of the Zambians' ability to commercialise new knowledge.

6.4 The Zambian business environment and entrepreneurial absorptive capacity

Having looked at the how the nature of the Chinese investments and their effects are influenced by the prevailing policy environment, it is important that we also turn to the capacity of the Zambians to utilize the new knowledge. The absorptive capacity which is defined as a firm's ability to recognise the value of new external information, assimilate it and apply it for commercial ends (Cohen and Levinthal, 1989) is also influenced by the environment in which businesses are expected to be formed. This section will consider these two aspects in the context of the Zambian entrepreneurs so as to offer a brief analysis of the factors that could influence the convention of knowledge from Chinese investments in the SME sector into new business ventures.

It is important to mention that until the early 1990s; Zambia was running a state managed socialist style economy (MCTI, 2008). As such, there was very little entrepreneurial activity going on in the private sector. This has been seen as a major aspect of understanding the overall entrepreneurial capacity of the Zambian population. The 2008 MSME policy acknowledges this in clear terms;

> The culture of entrepreneurship and business practice still is not well developed among Zambian citizens. This could be related to a cultural mind set of dependency and a low propensity for risk taking. This has resulted in low levels of entrepreneurial ability and business management competency among most MSMEs. These low levels of entrepreneurial skill and management competency have limited the ability of most MSMEs to grow beyond establishment phase...

To analyse this in the context of our theoretical framework, spillovers are expected to be converted into new ventures by entrepreneurial minds both existing and potential. However, in the absence of entrepreneurs who can commercialise these ideas, the ideas will simply remain uncommercialised and not lead to any new venture. In other words, even in the presence of Chinese investments that foster knowledge spillovers in the SME sector, new ventures will not materialise based on this new knowledge.

A recent survey by the Global Entrepreneurship Monitor (GEM) gives a more optimistic view of the entrepreneurship situation in Zambia. According the GEM (2013) survey highlights report, in a study involving 69 countries; Zambia emerged at the top with the highest proportion of the adult population engaged in business activities for the second time in a role. The report indicates that 42% of the Zambian adults are involved in a new enterprise. Going by the report, it seems that Zambians are increasingly looking to the private sector as a source of livelihood. These new ventures also appear to be skewed towards the hospitality and retail sector, representing 63 %(GEM, 2013) this is in tandem with general composition of the Zambian SME sector.

On the flipside, the report also reviews a more sombre aspect of the Zambian entrepreneurial situation. At 20%, Zambia has one of the highest business discontinuance or closure rates in the world; this beats the Sub Saharan average of 16% and the North African and Middle East rate of 6%. The high rate of discontinuance can be linked to several factors, a lack of relevant skills to manage a growing business could be one of them and going by the findings of the field work of this research, ever increasing competition could be another (Interviewees,3,4,5,8 and 9). The GEM data also revealed that 46% of the new Zambian entrepreneurs were driven into business as a result of an identified opportunity as opposed to doing it out of desperation. This is a positive indication that there is an ability to identify new opportunities by the prospective Zambian entrepreneurs. It is therefore incumbent upon government to promote policies through which knowledge generating investments flow into the SME sector so as to open up more opportunities. Government should also accelerate skills training in terms of business management and be able to make information on new opportunities readily available.

It is a fundamental problem of the Zambian economy that the formal sector contributes far much more to GDP than the informal economy which in actual fact encompasses the most significant part of the labour force (ILO, 2013). The implications of this are that the larger part of the productive sector is dominated by a part of the population that has low productivity. And if we are to consider what this part of the low productivity end of the population is engaged in, it is mostly agriculture and small private businesses. This lack of skills and knowledge to increase productivity levels can be attributed to a weak educational system. And this is not a new problem; the educational structure of the entire adult population reflects the output of a dysfunctional educational system over a long period of time. The 2010 Zambian census revealed that with national literacy levels estimated at 70%; 47.8% of these completed 7 years of education, 37.3% completed secondary school and only 14.6% completed tertiary education(CSO,2012). Clearly, little or no formal education effectively prevents the bulk of the Zambian population from moving out of the low productivity activities like subsistence farming and petty trading.

Overall the general picture is that of a low absorptive capacity given the low literacy levels and a lope sided economy characterised by a majority of the population engaged in low productivity activities. This can also be seen from the relatively high rate of discontinuance among new Zambian businesses, an indication that they are not able to entirely absorb new knowledge to sustainably run new businesses. One even more significant but often underplayed aspect of the barriers to transfer of knowledge between Chinese and Zambian entrepreneurs is that of language.

Although most Chinese investors have minimal English language skills, these are not sufficient to allow for in depth interaction that can facilitate knowledge transfers. None of the Zambian business owners interviewed for this study could speak any Chinese.

7. Discussion

This section will present a discussion of the study's findings drawing from the various aspects of the analysis conducted in the preceding sections. The discussion will evolve around the parameters of the nature of the Chinese investments, the effects of these investments, the Zambian policy frame and the absorptive capacity. The discussion will put the findings that have been analysed in the context of Chinese investments in the SME sector as potential sources of knowledge spillovers as advanced in the KSTE.

7.1 Chinese Investments and Spillovers

Based on a review of Chinese investments in Africa and analysis of interviews regarding perceptions on the nature of Chinese investments in Zambia, it is fair to comment that Chinese investments do in a significant way act as a conduit for new knowledge. The inflow of new knowledge into China via FDI has created a base for new entrepreneurial activity that has lifted a significant portion of the Chinese people out of poverty. It is this same new knowledge that is now leaving China and flowing into developing economies.

As the study has shown, Chinese investments in the SME sector tend to be exclusive in nature. As per the research interviews, there is no neutral platform at which the Chinese and Zambian entrepreneurs meet for exchange of ideas. Both Zambian and Chinese business association representatives interviewed indicated that neither had any business to do with the other (interviewee no. 10 and 20). This is further exacerbated by the fact that Chinese companies are seen to import not only there technical and managerial component of their labour but also most of their production input. This scenario creates very slim possibilities for linkages, this goes against the consideration that there needs to be some kind of linkages between the new or incumbent Chinese firms bearing new knowledge with the potential or existing Zambian entrepreneurs to facilitate spillovers. In such a situation, even when Chinese investments in the SME sector are seen as bearers of new knowledge, very little of this knowledge is actually spilling over.

The nature of Chinese investments in the SME sector is such that even though more of them are perceived as investing in the manufacturing sector, the reality on the ground indicates that most are venturing into trading. The reasons for this could be diverse, but one of the most obvious ones could be to do with the fact that this is one of the most weakly regulated subsectors in the SME sector. Scholars like Kernen (2010) have shown that Chinese are attracted to this sector because the kind of investments that go into this are for the short term and used specifically to raise money so as to move on to other activities or other countries. If the bulk of Chinese SME investments are in a sector like trading, this further reduces the chances of reaping significant spillovers that can lead to new entrepreneurial activity.

Even though some scholars (Moyo 2012 and Alden 2007) have urged that increased Chinese imports lower production costs and improve the standard of living, others have shown that this is not the case. Kaplinsky (2008) argues that cheap imports come at a price for local producers, who often find themselves „readily displaced". In fact, Zambia is a classic example of how Chinese textile imports killed off a textile manufacturing industry, which was ironically running on Chinese investments (Jaunch & Baah, 2009). The nature of Chinese investments in the SME sector leaves much to be desired if they are to be seen as an avenue through which new knowledge can be harnessed for increased entrepreneurial activity. This is not withstanding the fact that Chinese investments do facilitate new knowledge, but they allow little linkages through which this new knowledge can be transmitted and are inclined towards a sector that provides very little in terms of increased productive entrepreneurial activity.

To some extent the nature of Chinese investments can be influenced by the motives of the particular investors, and this will affect the kind of spillovers generated. In turn, this will also affect the kind of effects that the investments will have on the local entrepreneurs. But as has already been established, this whole process is largely influenced by the policy environment in which these investments occur.

7.2 Policy environment

While there is evidence of government effort to develop the SME sector and bring it to a state where it effectively contributes to economic development, the overall picture is that there is little in terms of implementation. But even beyond this, all the major policy documents concerning SME development seem to lack a clear deliberate policy directly linking SME development to knowledge spillovers arising from SME sector foreign investments. What comes out clearly though is that the Zambian government has adopted a policy of entrepreneurship development that is more focused towards employment creation in areas that were previously disadvantaged. This can be seen in the configuration of the CEEC which is structured more towards “empowerment” but the earlier approach of dishing out money to small businesses to allow them execute government contracts or to simply expand their businesses proved almost disastrous as most did not pay back the loans (interviewee no. 19).

It appears also that there is no government department that is specifically focused on with dealing with the development of SMEs in the country. The Zambia Development agency is essentially an amalgamation of 5 institutions: The Export Board of Zambia, Zambia Investment Centre, Zambia Export Processing Zones Authority, Small Enterprises Development Board of Zambia and the Zambia Privatisation Agency (Mwanawina, 2008). And because of its composition it would be the best institution to deal with the development of the SME sector through knowledge spillovers from foreign investments in the sector. But it seems though from the operations of the ZDA and the sentiments gathered during the study interviews, that the ZDA is fixated on looking at the bigger investments in sectors like mining and large scale manufacturing and construction.

The fact that all major policy pronouncements do not seem to put the issue of Chinese investments into perspective posses two grave dangers; Firstly, in the social context, the perceived attitude of apathy towards the issue by government may lead to social unrest as the population gets convinced that the Chinese are taking over their livelihoods with the aid of government. This may lead to xenophobic sentiments as witnessed in South Africa. Secondly, in the economic context, if this resentment of Chinese investments goes unchecked and leads to unfavourable conditions for Chinese investors, it will have a long term negative economic impact on the country given the importance of Chinese investments to the Zambian economy. However, we always have to bear in mind that the actual transformation of knowledge into viable businesses ventures hinges on the presence of capable entrepreneurs.

7.3 The Zambian entrepreneurial environment

The proliferation of new small businesses in Zambia has mostly being attributed to the downward trend of the economy especially after the privatisation of government parastatals. But as recent research has shown, Zambians are also going into business largely because they are recognising new business opportunities which they are taking advantage of (GEM,2013). However, the finding that the Zambian business environment also bears one of the highest business failure rates is indicative of deeper rooted problems, low literacy levels could be one of them.

Though there has been a lot of focus on the problem of access to finance faced by SMEs, this has been overemphasized to the extent that it shadows the real problems. A PACRA official pointed out that part of the problem has been that the financial system has not addressed the needs of the SME sector (interviewee no.9). He indicated that the Zambian government through PACRA is implementing a collateral registry system similar to what is pertaining in Ghana which will allow SMEs to have easier access to finance. This will greatly improve the situation for small business but as pointed out by a manager at the Development Bank of Zambia (interviewee no.13), the greater part of fixing this problem lays more in increasing financial literacy among Zambian entrepreneurs.

A vibrant SME sector will not only provide a fertile environment into which knowledge spillovers can flow from Chinese investments, but also ties into the overall economic development of the country. The mining industry in Zambia provides a domestic market of at least $2.5 billion in terms of goods and services annually (ILO, 2013). But because of a weak SME sector, the local foreign owned companies account for over 80% of this business while the Zambian SMEs only account for 4.4% and continue to lag behind their competitors in terms of skills and operational capacity. The rest of the business goes to foreign companies located outside. It is of utmost importance that the Zambian government creates an environment in which SMEs can thrives and benefit from knowledge spillovers through interactions with foreign SMEs.

With the incremental size of Chinese investments in the SME sector, it is even more important that the Zambian SME sector is positioned to benefit even more by increasing the skill levels of the Zambian entrepreneurs. As a developmental strategy, Zambia has a great opportunity to benefit from the anticipated 100 million jobs that China will transfer to developing countries (Lin,2011) in the years to come as it moves up the structural transformation ladder . Increasing Chinese language skills in the country could also prove beneficial in the long run.

8. Conclusions and Policy Implications

The main thrust of this study has been to investigate the nature of Chinese investments in the SME sector in Africa taking Zambia as a case study. Given the inherent challenges associated with Chinese investments in the SME sector; that is scanty documentation and unreliable statistics, the study has taken an approach that uses an assessment of knowledge contribution to understand this complex topic. By analysing the research question in the context of the KSTE, the study has incorporated aspects of not only the nature of Chinese investments but also the policy issues that affect the outcomes of the investments and also the absorptive capacity of the intended beneficiaries of new knowledge arising from these investments.

In sum, the main findings of this study are that;

1. The Chinese investments in the SME sector are potential sources of new knowledge spillover, but the spillover of this knowledge is very limited due to the exclusive and secretive nature of Chinese investments in this sector.

The Chinese are primarily investing in the trading subsector of the SME sector, which in turn accords very little opportunity in terms of fostering new knowledge.

2. The policy environment in Zambia does not deliberately channel foreign investments in the SME sector towards areas that will encourage knowledge spillovers and there is little control of what types of investments come in. This is despite the existence of several policies designed to address this issue, it appears to be more of a problem of poor coordination and implementation.

3. The absorptive capacity of the Zambian entrepreneurial community is rather very limited hence creating a too wide knowledge gap between the bearers of new knowledge and the potential beneficiaries of this knowledge. This can be seen in the extent to which entrepreneurs can identify new opportunities but cannot grow them into viable new businesses.

All these aspects of the study's findings point to the need for more concerted government effort in redefining and directing the relevant policies that will ensure that Chinese investments in SME sector become more beneficial to the small scale Zambian entrepreneurs. In this way, Chinese investments will more positively contribute to increased economic activity at the local level which will in turn improve the overall economy. Otherwise the impact of these investments will remain very minimal as this study has shown.

8.1 Policy Implications

The findings of the study show that there is need for strengthened policy implementation for the already existing policies that have been put up to address issues to do with improving the SME sector. However in terms of linking the SME sector to foreign investments, there is need for a rethink that addresses the linking of local entrepreneurial activities to new knowledge that is generated from foreign investments. Given the high competition for foreign investments from other developing countries, there is need for a targeted approach towards particular types of investments for particular sectors. And in the case of benefiting the SME sector through Chinese investments, there is need for a policy framework that attracts Chinese investments that have a greater potential to lead to spillovers that local entrepreneurs can exploit. This calls for measures like the accelerated implementation of regulations like the reserved sectors in which foreign players can only have a limited role. Government also needs to specifically consider the requirement for mandatory partnerships with the locals in particular sections of the SME sector.

Entrepreneurship policies that encourage creation of business ventures through provision of resources and access to knowledge spillovers are important in developing a sector with an enhanced absorptive capacity. But even more important than this, government should work towards creating a favourable environment for the establishment and operation of formal SMEs. Institutions like ZDA and PACRA need to increase their capacity in terms of documenting the nature of foreign investments in the SME sector, currently this function is almost nonexistent even worse still for Chinese investments. More also needs to be done to improve business regulations, reduce the burden of permits and also multiple licensing requirements so as not to deter would be genuine investors.

In line with an improved entrepreneurship environment, there is need to build technical and managerial skills among the Zambian entrepreneurs. While this can be done through seminars and workshops in the short term, a more long term solution is to fix the educational system. There is need to improve the literacy levels in the country through more inclusive educational policies. To significantly reduce the knowledge gap between the foreign investors and the Zambian entrepreneurs, government needs to deliberately embed technical and entrepreneurial training into the curriculum from as early as high school through to tertiary education.

Perhaps the most profound policy implication that can be drawn out of this study is that, Zambia, like most African countries, needs to come up with its own “China policy” just the same way as China has an Africa policy. This will help to fit in all kinds of Chinese investments into a particular context, African countries do not just need to open up a race to the bottom in order to benefit from every and any kind of Chinese investment. African countries need to have their own long term development agenda put in place and based on this, map out what role they want the SME sector to play. In this way they will better understand how to direct and regulate Chinese investments that they want to contribute to the development of this sector. Chinese investments in the SME sector can be beneficial and foster a lot of spillovers if there are stronger supervision mechanisms implemented on the African side. The Chinese government should not be expected to do this on behalf of the African countries.

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Appendix 1: List of Interviewees

Zambian SMEs		
Interviewee Code	**Designation and Institution**	**Date**
Interviewee no. 1	Accountant, Fens Enterprises Ltd	6th April,2015
Interviewee no.2	Bank officer, Bank of China	6th April,2015
Interviewee no.3	DM Squared Ltd*	7th April,2015
Interviewee no.4	Atkinson Construction Ltd*	7th April,2015
Interviewee no.5	Director, Mona Enterprises ltd	7th April,2015
Interviewee no. 6	Proprietor,Visocha Enterprises	7th April,2015
Interviewee no. 7	Director, Zaritu Investments Ltd	9th April,2015
Interviewee no.8	Director,Esmark General Dealers	9th April,2015
Interviewee no.14	Operations Manager, Crystal Gardens Lodge	13th,April,2015
Interviewee no.18	Director, Morning Beverages Ltd	15th April,2015
Interviewee no. 26	Operations Manger , ZICIZA Restuarant	23rd April,2015
Interviewee no.29	Director, Netcare Pharmacy Ltd	28th April,2015
Interviewee no. 30	Director, Flower Torts Baby Shop	28th April,2015
Chinese SMEs		
Interviewee Code	**Designation and Institution**	**Date**
Interviewee no.12	Director , Assorted Goods Ltd	13th April,2015
Interviewee no.16	Supervisor, Guo Restuarant	14th ,April,2015
Interviewee no. 21	Finance/H.R Manager, Wonderful Industry Zambia Co. Ltd	20th April,2015
Interviewee no. 27	Farm worker, Kufran Farm	24th April,2015
Interviewee no. 28	Factory worker, Ufresh Ltd	27th April,2015
Zambian Government Institutions		
Interviewee Code	**Designation and Institution**	**Date**
Interviewee no.9	Senior Companies Inspector, Patent and Companies Registration Agency	9th April,2015
Interviewee no.13	SME& Agric Manger, Development Bank of Zambia	13th,April,2015
Interviewee no.17	Enterprise Development Manager, Zambia Development Agency	15th April,2015
Interviewee no.19	Enterprise Development Manager , Citizen Economic Empowerment Commission	17th April,2015
Interviewee no. 23	Principal Economist, Ministry of Commerce Trade and Industry	20th April,2015
Zambian non Government Institutions		
Interviewee Code	**Designation and Institution**	**Date**
Interviewee no.15	Corporate Communications Director, Focus Financial Services	14th ,April,2015
Interviewee no. 20	Zambia Chamber of Small and Medium Business Associations*	17th April,2015
Interviewee no. 22	SME Banker, Banc ABC	20th April,2015
Interviewee no. 24	Research Fellow. Institute of Economic and	22nd April,2015

	Social Research	
Chinese Institutions		
Interviewee Code	**Designation and Institution**	**Date**
Interviewee no.10	Investment Recruitment Executive, Zambia China Economic and Trade Zone	10th April,2015
Interviewee no. 11	Attaché' Economic and Commercial Chancellors Office , Chinese Embassy	10th April,2015
Interviewee no. 25	Assistant Manager, China Heinan (Z)Ltd(Major retail shops leasing company)	22nd April,2015

*Designation withheld

Appendix 2:

Interview Guideline for Zambian SMEs

1. Introduction.

a) What is your name?

b) What is your title?

c) How long have you been working in Zambian SME sector?

d) How long have you been working for your company?

e) Do you have a tertiary qualification?

f) Can you speak Chinese?

2. Company profile.

a) What is the registered name of your company?

b) Which is your main line of business?

c) What is the ownership-structure of the firm?

3. Background.

a) When was this firm started?

b) How did the firm first enter the Zambian SME Sector?

c) Which were the main reasons behind the decision to invest/start the company?

d) Who made the decision to start the company?

e) Did you receive any governmental assistance when starting the company?

f) How was the investment environment in Zambia at the time of the initial investment? i) How, in your opinion, has the Zambian SME sector developed since you started, is it getting better or not?

5. Operations and competitive advantages.

a) Who are your main clients? i) Has this changed since the company was started? ii) If yes; how has this changed

b) Who are your main competitors? i) Has this changed since company was started? ii) If yes; how has this changed?

c) What are your competitive advantages? i) Has this changed since the initial investment? ii) If yes; how has this changed?

d) What are your approximate profit margins? i) Have they changed since the firm started?

e) From where does the firm buy equipment and material or goods for resale?

f) Which banks and lending institutions does the firm use for loans if any?

g) Does your firm sub-contract or get subcontracted?

6. Relation to and perceptions of Chinese construction firms.

a) How would you describe the Zambian SME market at the time of the Chinese SMEs market entry, was it as competitive as now?

b) In your perception, did the Chinese firms' entry in Zambia affect the SME market to any notable extent? i) If yes; how did they affect the market? ii) Did the entry of the Chinese firms affect the business situation of your firm to any notable extent? iii) How, if in any way, have the Chinese SME firms benefitted the Zambian SME sector?

c) Do the Chinese have any competitive advantages over you?

d) Have you had any cooperation with any of the Chinese construction firms? i) If yes; what was the nature of this cooperation?

d) How do you compare your pricing to that of the Chinese firms?

e) Have you learned anything from the Chinese SMEs through, business interaction, imitation or joint workshops?

7. Employment features.

a) How many workers does the firm employ?

b) Do you employ any expatriates?

c) How many workers does the firm employ as casual workers or on short-term contracts?

f) Is there in your perception any difference between the wages and labour conditions at Chinese and other SMEs? i) If yes; what makes you think so?

g) Have you employed anyone who previously worked in a Chinese firm?

Interview Guideline for Chinese SMEs

1. Introduction

a) What is your name?

b) What is your title?

c) How long have you been working in Zambia?

d) How long have you been working for this company?

e) Do you understand any Zambian language?

2. Company profile

a) What is the formal name of your company?

b) What type of company is this,? i) Is it a limited, sole proprietor or partnership?

c) Are there some partial owners or a parent company in China?

d) Which is the firm's main line of business?

e) Has the firm invested or opened branches in other foreign countries?

3. Nature of investment in Zambia

a) When was this firm started in Zambia?

b) How did the firm first setup in the Zambian market? i) Has your line of business changed since setting up ?Has your company been involved in any joint-venture in Zambia?

4. Background .

a) Why did the business decide to invest abroad?

b) Which were the main reasons behind the decision to invest/start the company in Zambia?

c) Can you tell me about the background of the firm and the investment made in Zambia?

f) Did you get any help from the Zambian or Chinese government when starting?

i) If yes; how were they involved?

i) Do you think the business has improved since you started in Zambia?

h) Was the business opportunity better in China compared to Zambia when you first started

5. Operations.

a) Who are your main clients?

i) Has the number of clients increased since you started?

ii) If yes; how and why do you think this has changed?

b) Who are your main competitors?

c) Does your firm sub-contract to any Chinese, Zambian, or other firm? What % is Zambian?

d) Do you sell or offer services on credit to Zambian clientele?

e) Are you a member of any Zambian SME association?

6. Advantages.

a) What do you consider to be the firm's main competitive advantages?

b) Do you consider your firm to have much in common with other Chinese firms in terms of competitive advantages? i) If there is any difference, do the local and other competitors have any advantages over Chinese firms?

c) Have your profit margins increased since you started business?

d) Where do you buy the raw material or goods for resale?

e) Do you bank with any local banks?

f) Have you received any financial assistance from the Chinese government or Financial institutions?

h) Does your firm have any significant cooperation with any other firms, Chinese or other?

i) Does the company cooperate with, receive assistance from or have continuous contact with any of the Chinese institutions (Embassy, ZCCZ, ACCZ) present in Zambia?

7. Employment features.

a) How many expatriate and Zambian workers does the firm employ?

b) Has your firm had any trouble receiving employment permits for expatriate workers? i) How has this affected the firm's choice of employing expatriate workers?

b) How many workers does the firm employ as casual workers or on short-term contracts?

c) How long is a typical contract for an expatriate or a local worker?

d) What benefits and allowances are local and expatriate employees of the firm entitled to e.g leave medical care etc?

e) Do you conduct any kind of training for the local workers you employ?

f) Do you have any Zambians employed in a senior position or technical role?

Interview Guideline for Government and non Government Institutions (Both Chinese and Zambian)

1. Introduction.

a) What is your name?

b) What is your title in this firm/organization?

c) How long have you been working in Zambia within this field of work?

d) How long have you been working for this firm/organization?

2. Introduction to firm/organization.

a) What does your organisation do, do you have a government mandate?

b) What function do you perform in this firm?

3. Chinese Investments in the SME sector.

a) How do you think the Zambian SME sector has changed in the past years?

b) What have been the most significant changes in the period?

c) How has the presence of foreign players in the SME sector evolved over time?

f) In your perception, the presence of Chinese investors in the SME sector affected business for the locals to any notable extent?

i) If yes; how have they affected the market? ii) In your opinion, how, if in anyway, have the Chinese SMEs harmed or benefitted the Zambian SME sector and the economy at large?

g) which sectors do you think the majority of Chinese investments in the SME sector are flowing to?