SMALL AND MEDIUM ENTERPRISES (SMES), THE HEART OF CHINESE ECONOMIC DEVELOPMENT: WHAT CAN AFRICAN GOVERNMENTS LEARN?

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ABSTRACT

The last few decades have witnessed the meteoric rise of China as a world economic champion in terms of development, growth and impact, a move that seems to destabilize the economic and political dominance of the Western countries. However, the Chinese economic growth is not an accident but is a well-orchestrated plan meant to transform the country and its business enterprises. From a state controlled socialist economy, China has adopted open door policy, market oriented approach and political changes meant to navigate the country into a global market leader. At the heart of Chinese economic development is the Small Medium Enterprises (SMEs) sector. Recognising the central role played by SMEs, the Chinese Government integrated SMEs agenda in its national and social development strategic planning leading to development of numerous legislations and policies meant to promote and boost SMEs growth. Currently SME businesses are spread in all major sectors from manufacturing, constructions, agriculture to service industries. Some laws implemented to promote SMEs include eradicating barriers to growth, establishing equal level playing ground rules for all businesses, promoting scientific and technological innovations, and creation of conducive competitive atmosphere. As a strategy to ensure local and regional growth of SMEs, the government classified the businesses in terms of their absolute advantage. The move has seen categorisation of development into four main categories, namely township and village-based enterprises, private enterprises, state-owned businesses (SOEs) and joint-ventures. It is this strategy that has seen industries rise in all major regions resulting to development and employment creation across China. Comparing the Chinese Government's role in supporting SMEs and African governments shows a sad reality. Although SMEs in Africa accounts for 95% of all businesses, 50% of GDP and 60% of employment, their rate of failure range from 50% to 90%. Unlike China, African governments have been accused of making it difficult for SMEs operations. With little or no incentives, SMEs have to contend with heavy taxes, high cost of production, lack of finances and poor legal and legislation structures. This paper presents Chinese Government as a model of how African countries can promote SMEs to steer development and transformation of their economies. The paper recommends that African governments prioritise SMEs as key pillars of economic and social development of individual countries and the continent as whole.

Keywords: Technology, reforms, taxation, town-village-based enterprises.

INTRODUCTION

The last three decades have witnessed China becomes the world economic champion in terms of development, growth and impact. Compared to other world economies, Chinese economic development has proved to be unique and distinctive with small and medium enterprises (SMEs) forming the foundation of this "economic miracle" (Li & Matlay, 2006). The entry of China to the world economy has destabilized the economic and political monopoly of the

Western countries that must now recognise and acknowledge the economic giant. While the world is still amazed at how China has emerged as a superpower within a short time, to the Chinese Authorities, this is not an accident but a well-orchestrated plan meant to transform and gain advantage of millions of small and medium enterprises in the country (Chen, 2006). Through well organised reform structures and economic reforms, China has succeeded doing what many countries have desired to achieve for decades. This exploration paper aims to examine how China has been able to make such a huge impact on both its economy and the globl economy by paying special attention to SMEs, an entity greatly neglected by many African governments (Muriithi, 2017). The paper also aims to recommend the Chinese model of development for SMEs as appropriate for African countries.

LITERATURE REVIEW

Contribution of SMEs in China

The growth of Chinese SMEs has been rapid and progressive following its adoption of "open-door" policy and movement to a socialist market economy in 1978. The radical change was not just economical but also replaced the historical state-controlled model and ideology (Anderson, Li, Harrison & Robson, 2003; Davies, 1995). With a more than 3000 years history, the open door policy and market oriented economy and political changes marked a series of changes meant to prepare the country to enter the global market (Tseng, Ip & Ng, 1999). With these deliberate changes, the last three decade has witnessed to total transformation of small businesses operations. From a position of no private-owned business in 1979, this has changed to 11.7 million SMEs and 44.4 million self-employed entrepreneurs in 2013. The SMEs businesses are spread in all major sectors with service sector accounting for 60.2%, 18.5% in manufacturing, 5% in construction industry and 3.2% in agricultural related industries (OECD, 2016). With this transformation, SMEs have become a major driving force and determinant of economic growth of the Chinese economy (Li, 2002; OECD, 2016). The change was a result of special attention to the growth of SMEs by the Chinese government aimed at investing and promoting SMEs as key economic drivers. These businesses accounted for 97% of all registered corporations and were a major stimulator of economic development in terms of economic growth, creating employment, increasing exports, promoting science and technology innovation and tax revenue for the government (National Bureau of statistics, NBS, 2003; OECD, 2016).

Economic Growth: In terms of economic growth, SMEs created 75% of incremental industrial output values in China since the 1990s. They have also dominated various industrial sectors ranging from food, paper making and paper printing (70%), garment tannery, recreation and sport, metal works and plastic industries (80%) and wood and furniture industries (90%) (NBS, 2001). Chen (2006) further observes that SMEs have also had an influence in the retailing and wholesale industries where they account for about 33% of business. In fact, SMEs businesses are said to generate at least 60% of China's gross domestic product (GDP).

Employment: Another major role that SMEs have played is that of employment. According to Chinese National Statistical Bureau (2003), the sector had created 79% of new jobs in China distributed in areas such as industrial sector (85%), retaining (90%) and construction industries (65%). More notable is the growth of the private owned businesses which have boosted employment especially from lay-offs from state owned enterprises. For instance, between 1998 and 2003, the private businesses absorbed about 19 million state-owned laid-offs making them a major driving force in employment and job creation (Chen, 2006). The sector is able to generate 82% of employment opportunities in China.

Foreign trade: The role of SMEs in foreign trade has been recognized as very significant. By 2003, China export was valued at US$ 430 billion making the country to be ranked fourth in world trade (China Custom Statistics, 2003). The major products from SMEs included garments, textile and toys, handcrafts, metal goods, shoes and other light industrial products (Chen, 2006).

Science and technology: SMEs in China have played a key role in technology and innovation development. They are also credited for technology and innovation spread and applications. Toward this end, the Chinese government has invested heavily to ensure sector development and sustainability. For instance, by 2003, there were over: 100 high-tech enterprise incubators, 20 enterprise parks for students returning from abroad, 40 service centres for SMEs, 30 university science parks and 500 productivity promotion centres (Torch Program, 2003). The technology and innovation driven SMEs are located in government established zones such as Zhongguancun in Beijing, Waigaoqiao in Shanghi and Shenzhen thereby making coordination, management and support easier and focused (Chen, 2006).

Chinese SMEs historical development

The current SMEs development and growth can be traced to the last three decades of Chinese development and reform initiated by Chinese leader, Deng Xiaoping. It is also a period where the government reduced state control enterprises while promoting entrepreneurial driven economy (Tan, 1996). Although the current development of SMEs is traced to the 1970s, SMEs and entrepreneurship did exist prior to this period. SMEs and entrepreneurs driving them existed but only on a small scale and mostly in the black market outlets (Liao & Sohmen, 2001). However, the current development of SMEs to the current state can be divided into four main phases, name 1978-1992; 1992-2002; 2002-2014; 2016-2020).

1978-1992 Period: This first phase is associated with SMEs expansion in terms of numbers and scale. The Chinese government took it upon itself to encourage and support of township, collective and self-employment enterprises. With this support, there was rapid expansion of SMEs leading to significant economic development and improvement of people standard of living (Chen, 2006).

1992-2002 Period: The period 1992 and 2002 is attributed to government effort to reform state-owned SMEs and development and promotion of non-public entities. With the goal of reducing state-owned SMEs, the government developed measures aimed at reforming state-owned enterprises and encouraging growth of non-state owned businesses. As such, measures included restructuring, merger and acquisition, joint-ventures, partnership and sell-offs, all meant to open and encourage self-driven spirit and remove government control from enterprise development. The private-owned enterprises were also supported through creation of socialist market economy which facilitated their development and growth.

2002 -2014: To further give SMEs a central role in the Chinese economy, the Chinese government promulgated SMEs promotional law. The law implementation focused on:

- improving policies and measures geared toward SMEs development;
- eradicating barriers hindering SMEs growth and development;
- establishing equal level playing ground rules for SMEs, whether private or public owned;
- promoting scientific and technological innovations;
- optimizing industrial structures to ease SMEs operations;
- enhancing the overall quality of SMEs products and services; and

- Creating competitive atmosphere for SMEs in China.
  (Chen, 2006).

The results of Chinese government establishing laws aimed at creating and conducive atmosphere for SMEs operations has paid greatly. The SMEs have not only grown faster than anywhere in the world, but have also increased in numbers, size, profitability and tax contribution to the economy. The success of SMEs during this period is attributed to two main factors, township enterprises and growth of non-public enterprises (Chen, 2006). Firstly, the development on township enterprises expedited the transfer of rural surplus workforce to non-agricultural sectors. The result of this was increase in income for farmers and creation of a strong foundation for reforms and development. Secondly, the government recognized the importance of private-owned enterprises as source of economic development compared to declining state-owned enterprise dominance. The private-owned businesses were seen as right and favourable supplement for the existing socialist economy. This led the government to further amend the constitution in 2004 so as to fully legalize non-public economy within socialist market economy. The amendment opened room and motivation to private-owned enterprises leading to impetus development and growth of private enterprises (Chen, 2006; Li & Matlay, 2006). In 2014, the commercial registration system was further reformed leading to shortened registration procedures. There was also adjustment to requirements for establishing an operation site for new businesses. To this end, businesses people were free to select suitable locations for their businesses resulting to increase in the number of companies registered to 12.9 million in 2014, growth of 14.2%. The government also continue to put more emphasis on entrepreneurial education and start-up businesses innovation (OECD, 2016).

2016-2020: There are various structural economic reforms planned for China as outlined in the 13th Five Year Plan (2016-2020). The plan provides guidance to expected structural economic reforms. Some of the pointers to business growth include proposed financial sector reforms aimed at promoting private sector and enhancing its participation in the economy, for instance, having the banking sector provide financial services to SMEs. The plan also pays attention to promotion of competition and fiscal reforms. Other reforms are in areas of custom procedures for imports and exports in terms of restricted, prohibited products, intellectual property (IP) protection and competition policy enforcement (OECD, 2016).

Chinese policies and incentives to boost SMEs

For SMEs to have a break-through and become pillars of development for a country, favourable policies and incentives must be put in place. With a goal to strategically make SMEs its development pillar, Chinese government integrated SMEs agenda in its national and social development strategic planning (Chen, 2006). And to effect the desired changes, several legislations and policies were amended or developed (Chen, 2006, OECD, 2016). Chen (2006) and OECD (2016) have summarised the policies and incentives as follow:

1. *Preferential taxation policies:* To ease burden of SMEs and enable them prosper in the midst of difficulties, the government developed a series of preferential taxation policies which greatly boosted the sector. Among the policies developed are:
   a) Specific tax policies for small enterprises: To address taxes hindering SMEs development and growth, the government reduced the income tax rate from 33% to only 18% for businesses with annual profit of less than US$ 3,600 and to 27% for those will annual profit of approximately US$ 112,000. Similarly the government reduced value-added tax (VAT) from 6% to 4% for businesses with annual sales of less than US$ 0.2 million. For township SMEs, the government

gave them a 10% discount on their payable income tax to compensate them for social welfare work done.

b) Taxation policies to promote employment: For new SMEs agencies able to find jobs for urban residents, the urgencies were exempted from business tax for three years. If such agencies were able to acquire 30% of all jobs they sort, then they received 50% discount for two years. Service businesses, commercial and trading businesses were also exempted from urban maintenance and construction tax. Other favourable tax benefited businesses that existed before the new tax policies were developed and aimed to encourage their operations and growth.
c) Tax policies for high-tech enterprises: To encourage high-tech enterprises operations, the government established state-level industrial zones. For businesses operating in these zones, they were exempted from enterprise income tax from inception while at the same time enjoying a 15% preferential income tax rate.
d) Taxation policies for service industries: Service enterprises involved businesses like transportation, posts and telecommunications, information, consultations and technology. These businesses did not pay tax for one year and thereafter received 50% discount on income tax in their second year. There were also different taxation policies to enterprises involved in education such as universities and schools, welfare enterprises and other entities located in poor and underdeveloped areas.
e) Development in tax improvement: Since 2006, more development in tax improvement and businesses registrations have improved. In 2014, the government reformed the commercial registration system and shortened business registration procedures. The law greatly enhanced businesses registration and operations with more small businesses and entrepreneur ventures taking advantage of the new reforms. The result has been more SMEs registrations with 10,600 new companies being registered daily (OECD, 2016).

2. *Fiscal policies:* With the opening and reforming of the Chinese economy in the 1990s, the government through the Ministry of Finance (MoF) has continually increased fiscal funding to boost SMEs. The government has also set numerous funds all meant to benefit the SMEs sector in terms of development and growth. Similarly in 1999, MoF setup Innovation Fund for Technology-based SMEs with the goal of promoting technological innovations. The commitment and results were evident with 4,900 innovation programmes worth US$ 361 million being funded by 2003. In the same pace, MoF setup the Commercialisation Fund for Agricultural Research Findings. The purpose of the fund was to enable transfer of sophisticated and practical high tech technologies to the agricultural enterprises. By 2003, the government spent US$ 120 million in promoting agricultural research and development of high-tech agricultural related enterprises. Further assistance to SMEs comes from local governments informs of credit guarantees, subsidies and marketing exploration.

3. *Financial and credit policies:* The government through the MoF and People’s Bank of China (PBC) have established favourable terms of credit for SMEs to facilitated credit financing. For instance, the People’s Bank of China (PBC) has developed loan guidance on credit supports, credit structures and measures to improve SMEs business environment. MoF has also issued rules on risk management of credit guarantee institutions and also set regulatory policies in favour of SMEs thereby promoting their growth.

The summary of key economic reform policies between 1979 and 1995 are summarised in Table 1 below.

Table 1: Key Economic Reform Policies Promulgated by the Chinese Government

Data	**Policy**
1979	Joint Ventures Law; Price Liberalisation of Farm Products
1980	Fiscal Autonomy of Local Government; Creation of Special Economic Zones; Private Income Tax
1981	Individual Enterprises Encouraged in Urban Centers
1982	Price Liberalisation of Industrial Products; Patent and Trademarks Laws
1983	SOEs Taxed instead of Profit sharing; Collective Enterprises Encouraged; People's Bank of China Begins to Assume Functions to a Central Bank
1984	Fourteen Coastal Cities Opened Up to Overseas Investment; Director-Responsibility System TVEs Created
1986	Labour Contract System Introduced
1988	SOE Contract Responsibility System; Regulations on Private Enterprises Published; Enterprises and Bankruptcy Law Passed
1989	New Regulations on Mergers; Joint-Stock Companies; Commercialisation of Banks
1990	Copyright Law
1991	Delegation of Direct Foreign Trade Right to SOEs' Pension and Housing reform; Establishment of Shanghai and Shenzhen Stock Markets
1992	Deng's \Southern Tour; Patent and Trademark Law Revised; New Operating Mechanism and Autonomous Rights to SOEs
1993	Principle of "Socialist Market Economy" Replaces "Socialist Commodity Economy"; Decision of the Third Plenum of Establishing Morden Enterprise System; New Competition Law; New Accounting Standards Introduced
1994	Foreign Exchange Reform; Fiscal and Tax Reform; Implementation of Company Law
1995	New Commercial Banking Law; People's Bank of China Law; Provisional Regulations Guiding Foreign Investment; Insurance Law
2013	Reform strategy on the economic institutions system—adoption of broader policies to support SMEs financing through reduction of financing costs, facilitating access to bank lending, encourage innovative financial products and online financing
2014	Reformed commercial registration system and shortened registration procedure

(Source: Anderson et al., 2003:313; OECD, 2016)

The policies and incentives set by the Chinese government were deliberate and well-thought-out. According to Malik (1997), the State Council announced in 1984 it planned to implement a comprehensive plan aimed to reduce state controlled economy. The plan was to have the state manage macro economy while individuals control micro economy in China. The results has been enormous development of the SMEs sector into formidable industries that not only offer employment to the citizens, the industries are major contributors to the country GDP through local productions and export. Chow and Fund (1996) observed that small businesses and entrepreneurship have boomed and significantly contributed to the national economy. According to Malik (1997:185), upon the government permitting SMEs operations, the "traditional entrepreneurial spirit sprang up in almost every corner of China." With much determination, the entrepreneurial businesses adopted strategies that distinguished them from large enterprises and SOEs. The SMEs strategies worked as demonstrated by their rapid growth in almost all sectors.

Form of Businesses

The current Chinese businesses and entrepreneurship developed in stages and from different sources. The pattern of development and origin can be grouped into four main categories,

ISSN 2056-5992

namely township and village-based enterprises, private enterprises, state-owned businesses (SOEs) and joint-ventures (Li & Matlay, 2006).

Township and village-based enterprises (TVEs): This form of business enterprise was dominant in the 1980s and was supported by the local government. The form of business is seen as important contributors to re-emergence of the Chinese entrepreneurship culture (Li, 2002). With economic reform starting in the rural areas before moving to urban areas, the TVEs dominated the Chinese entrepreneurship during the 1980s and contributed significantly to the economy (Li & Matlay, 2006). To ensure their success, the local governments promoted and facilitated entrepreneurship growth with positive incentives and tax exempts while at the same time developing the TVEs to be stable businesses (Song & Du, 1990; Oi, 1992). The significant role played by the government attracted different interpretation with terms such as state corporatism, local government entrepreneurship, development state and governmental entrepreneurship being used to describe the phenomenon (Oi, 1995; Hubbard, 1995; Cook, 1999; Cheah, 2000).

Private-enterprises: The private enterprises can be grouped into two categories. There were small family-based businesses composed of less than six employees and private businesses composed of six or more employees.

State-owned enterprises: During the reform period, most of these enterprises were taken by individual entrepreneurs either through subcontracting or management buy-out.
Joint-ventures: By nature, joint ventures were small businesses which did not follow in the above categories. They group was also made up of shareholding cooperatives meant to grow and expand businesses in terms of size, profitability and investment.

One product, One town Concept
The concept of one product, one town has had a revolutionary impact on SMEs growth and local economic growth. With this concept, similar products are developed in the region with favourable environment. This means that all industries and related sub-industries are located in the same region. The towns are characterised by specialisation, market oriented productions, and centralised coordination where the local government playing critical role of creating conducive working environments. Some examples of one product as highlighted by Liu (2008), one town include the following:

Guanlin: The town of Gualin in Yixing City specialises in cable manufacturing. The town has more than 200 cable enterprises. The production of cable accounts for 78% of the total industry and forms one-third of the economic output of the Yixing City. Other industries within the cable value chain include auxiliary materials, cable coils and metal rolls.

Shengze: This town is also known as the "silk town." With its history dating to the time of Ming and Qing Dynasties, the town is among the four towns collectively known as silk towns. The others are Suzhou, Hangzhou and Taihu. Besides producing high quality materials, the town has attracted other industries within its production chain such as textile production, silk reeling, weaving, garment making, dyeing and finishing.

Wanping: The *Wanping* is the sewing machine industry that dates back to the 1970s. There are currently over 30 sewing machine manufactures and over 160 related factories such as spare makers with more than 4000 varieties of spare parts.

China development

The Chinese model of SMEs development has made China not only a competitor but a challenger to other world industrial power houses, such as United States, Japan and Europe. The lesson from Chinese SMEs is that no matter where they are, SMEs can transform a country economic power if given the right conditions and legal environment support. This is emphasised by Krug and Laszlo (2000) who attribute the success of Chinese economic reform to the success of entrepreneurs.

Compared to the rest of the world, Chinese entrepreneurs reflect much of the Chinese cultural differences where they are "more likely to avoid uncertainty and subsequently less likely to exhibit innovations or advocate change" (Holt (1997:490). They are also said to lack self-determinations, less likely to take risk and less innovative (Anderson et al., 2003). These characteristics are especially evident among SOEs which still reflect socialist practices such as bureaucratic structures, overstaffing, lack of incentives and centralised decision making (Jenner, Herbert, Appell & Baack, 1998; Kornai, 1992; Kaminski, 1991). However, with reforms advocated, the SOEs managers are also adopting market oriented approach to business (Tan, 2001). Their weaknesses notwithstanding, the SMEs contributions and impacts are evidence both in China and internationally (Anderson et al., 2003). With the dramatic change in economic policies engineered by the Chinese government, entrepreneurs have embraced the changes dearly and have used them to start, develop and build a unique and dynamic business system which has impacted the global economy (Li, 2002). It is however notable that the SMEs and entrepreneurship is China would not have succeeded without government support. Beginning with support of TVEs, the private enterprises to industrial parks, the Chinese government has demonstrated that any successful SMEs and entrepreneurship transformation can only happen with government involvement and commitment to bring change (Gibb & Li, 2003).

SMEs in Africa

Like in China, the role of SMEs worldwide is critical to economic stability and development of economics, both developed and developing countries. Estimates indicate that SMEs account for 95% of world enterprises and contributes 60% of employment (Ayyagari, Demirgüc-Kunt & Maksimovic, 2011). In developing countries, SMEs account for 99% of all businesses and contribute significantly to the economic development of the countries (Fjose, Grunfeld & Green, 2010). In Africa SMEs are the heart of economic development and growth by reducing poverty, boosting nations' GDP and providing employment (Benzing & Chu, 2012). For instance, the Sub-Saharan Africa region, SMEs account for more than 95 percent of all businesses (Hatega, 2007; Kauffmann, 2005) and contribute approximately 50% of Gross National Product and 60% of employment (Fjose et al., 2010; Kamunge, Njeru & Tirimba, 2014).

A look at the role of SMEs worldwide indicates that they create more jobs than large corporations. In fact, between 2002 and 2010, SMEs were attributed to 85% of employment (de Kod et al., 2011). However, this finding is far from being realized in Africa where employment contribution by SMEs is significantly low. For instance, only few African countries can boost to have an average of 70% which is still lower than world standard. For many African countries, SMEs contribution to employment is fairly with Ghana having (49%), Nigeria (70%), Rwanda (60%), South Africa (60%), Tanzania (20%), Zambia (30%) and Zimbabwe (15%) (Abor & Quartery, 2010; Ariyo, 2011; Gebrehiwot, 2006; Katua, 2014; Mukamuganga, 2011; Mbuta, 2007; Mwarari & Ngugi, 2013; Tong, 2005; Willemse, 2010). These figures of employment contribution by SMEs are far below world average of 85% and indicate a need for the African government to address any short comings associated with the poor results.

SMEs in Africa range from very small micro-businesses associated with very slow growth to large medium businesses earning millions of dollars (Fjose et al., 2010). In terms of size, the average number of employees per company can range between 5 and 10 to 100 employees (Muriithi, 2017). Compared to developed countries like United States and Canada where the average number of employees is about 500 (Katua, 2014) more than 50% of African SMEs in low and lower middle income countries have less than 100 employees (Beck & Cull, 2014; Dalberg, 2011). In Kenya, for instance, SMEs account for 40%-50% of the GDP, are responsible for over 50% of new jobs created and employ 80% of the workforce (Kithae, 2012; Mwarari & Ngugi, 2013). In Nigeria SMEs account for 70% of industrial jobs and 95% of jobs in the manufacturing sector (Kauffman, 2003). Likewise, SMEs account for 92% of Ghanaian businesses and contribute 70% of the total GDP (Abor & Quartery, 2010). In South Africa, 91% of all formal businesses are SMEs and contribute 52-57% of the GDP (Abor & Quartey, 2010). For Rwanda, SMEs account for 60% of employment and 20.5% to the GPD. Likewise Uganda has SMEs contributing 90% of employment and 18% of GDP. With average performance or below performance for most countries, then the need to improve SMEs status become vital.

SMEs and the role of the African government

The contribution of SMEs in facilitating economic development is unquestionable as they remain the corner stone of development and industrialisation (Muriithi, 2017). In Africa like in other parts of the world, SMEs are associated with innovation of new products and discovery of new markets and account for 90% of all businesses and about 50% of GNP (Fjose, Grunfeld & Green, 2010). They are also attributed with creating millions of jobs creating a source of income and eradicating poverty of the majority of the population in Africa (Muriithi, 2017). Without SMEs in Africa, many governments will barely handle development and poverty challenges facing many African nations (Santrelli & Vivarelli, 2007). And knowing how valuable SMEs are to the government, it is surprising that many African governments rarely pay attention to SMEs development and growth. As noted by Muriithi (2017:39), "no amounts of SMEs will results to development as long as no development agenda has been put in place."

A comparison between Africa SMEs and China shows a major difference. While Chinese SMEs have a very high success rate due to government support, the failure of small businesses in Africa is alarming with five out seven new businesses failing in their first year of operations. The available statistics from different countries demonstrate this devastating situation with failure rate standing at between 50% and 95% (South Africa), 65% (Chad); 60-95% (Kenya) (Willemse, 2010; World Bank, 2012; Yeboah, 2015). Given this failure, it is important to address the role that African governments have played in encouraging or discouraging SMEs growth and marketing in Africa. According to Kambwale, Chisoro and Karodia (2015), government throughout the world focus on SMEs growth as an indicator of economic progress. One way to do this is to develop appropriate policies that encourage flourishing of SMEs sector to play its positive role in economic development. However, while governments are arguably the major determinant of SMEs existence or extinction, African governments have been accused of making it difficult for SMEs operations. Some of the practices and policies making it difficult for such operations are summarised as:

1. Business legal environment: The environment created by a given government determines the level of establishments and survival rate of businesses. In many African countries,

though entrepreneurs are committed to start and grow their businesses, the business environment is very hostile. The unfavourable environment range from hostile legal requirements, high taxes, high cost of operations, inflation and fluctuating market prices and currencies (Olawale & Garwe, 2010).

2. Lack of financial access: Another role of the government is to ensure that businesses are able to access credit and other financial services. Without adequate supply and access to financial services, it is impossible to grow businesses. Yet, this lack of access to credit and other financial services has been singled out as a major impediment to business growth in Africa (Ariyo, 2008; Fjose et al., 2010; Muriithi, 2017). In fact, a survey by The Enterprise Survey of the World Bank for a period of ten years termed financial constraints among SMEs as a major hindrance to their growth. The survey identified African financial system as poorly distributed, costly and only available to very small part of the population (Beck & Cull, 2014). This means that majority of SMEs owners' use their own savings, borrow from friends or informal institutions rather than government legalised institutions like banks. Formal financial institutions are considered very expensive in terms of interest rates, complex financial application procedures and insist on demand collaterals of and loan guarantees (Umoh, 2001).

3. Direct support: The role of government in recognising and supporting SMEs development is critical to their survival. Governments that create favourable environment from taxation, licencing, infrastructures, incentives, and market opportunities both local and international playing positive rate in their development. Failure in this area means inability of SMEs to sustain themselves given that many of them are start-ups or lack financial reserves to tap during challenging times (Kamunge, Njeru & Tirimba, 2014; Muriithi, 2017). In majority of countries in Africa, the logistical challenges to business establish a business range between 34 to 44 days in Kenya, Ghana and Nigeria. The same challenges apply before all licences are attained with some countries like Ghana and Nigeria taking more than 200 days to complete the process, not to mention high taxes charged and long period taken when clearing products for import or export due to imposed regulatory frameworks (Benzing & Chu, 2012).

4. Political institutions: The political institutions created in a country determine the number of businesses started and their growth. When the political institutions are stable, businesses thrive as they also benefit from stable and predictable business environment. It is the political institutions that enact necessary legal laws such as protection of personal safety laws, intellectual property rights, property rights, contract enhancement laws, tax laws and competitive laws. When the political institutions are weak or unwilling to enact such laws or create the right atmosphere, businesses cannot thrive (Hiatt & Sine, 2012; Fatoki, 2014), a situation affecting many African countries.

Discussion and Lessons to learn from China model of business

This paper has highlighted major milestones that the Chinese government has covered in the last three decades to transform SMEs and make them the ignition key to the economic development. These has seen the country prosper and attain significant growth making China a global competitor in the same league with United States of America, Canada, Britain, Germany, Japan and India. The transformation of SMEs sector which is now recognised as a common denominator to economic development has made Chinese economy to be envied by the rest of the world due to its robust growth. This makes China a good case study for African governments majority who are still struggling to find their mark on the world economic map. Some lessons from China are:

1. Strategic planning: As a first step in its reform agenda, China integrated SMEs to its national and social development strategic planning. This was meant to make SMEs to be a major development pillar. This way, the government was able to look at SMEs as important determinant of its future development and competitiveness especially at a global level. Chinese government integrated SMEs agenda in its national and social development and strategic planning.
2. Favourable policies: China had operated under socialist government for years and the need to change into a market economy meant there was need to develop market oriented policies. Originally operating and supporting SOEs, policies were developed to reduce the dominance of SOEs and promotion of private owned enterprises and entrepreneurship. Policies ranging from taxes exemption to business registrations were effective in encouraging establishment of thousands of small and medium enterprises. From a starting of zero number of private enterprises in 1979 to 11.7 million SMEs and 44.4 million entrepreneurs in 2013 demonstrates a major achievement, a goal that African countries can attain committed to similar goals.
3. Entrepreneurship training and mentorship: The Chinese government recognised that the heart of any development is to have the right persons and competenies. The government therefore launched several programs meant to identify, train and equip entrepreneurs to steer innovation and technology. There are thousands of entrepreneurs in Africa who are talented in various field and expertise. Many of these bright minds are left on their own to struggle and find their paths in the world of businesses. Some countries have policies to discourage individual inventions and innovations. Such entrepreneurs upon getting opportunities migrate to developed countries and build business empires. The United States and United Kingdom have benefited from such migrations while the entrepreneurs country of origin continue to languish in poverty and underdevelopment.
4. Business zones: The government of China recognised that putting all eggs in one basket is dangerous. The government knows the value of zoning different regions and have them concentrate in the production and manufacturing of specific products. From township and village-based enterprises (TVEs), business industrial parks to university business centres, the government has invested heavily to ensure SMEs are well grounded. While the township and village are involved in manufacturing of small products, the industrial zones are responsible for major manufacturing both for local and export. This strategy has enable even unproductive regions becomes business hubs and specialists in certain products. Each African country has many absolute advantages in terms of agriculture, pastoralism, tourism, waterfalls, fishing, lakes, trade centres and minerals all if well planned for can lead to economic zones. The governments can also establish innovation centres especially in the universities and other tertiary institutions responsible for should assigned to research, test and prototypes products or services. With heavy investments, African governments can easily transform their regions by attracting SMEs into product-service oriented zones that in turn will create job opportunities and produce desirable products for both local and international markets.
5. Technology: Like economic zones, the government of China as invested heavily in technologically driven innovation. In today's world, no country can survive without investing in technology. This has made it possible for China not to import technology for its manufacturing and other industries. If anything, China now export technology

and related products to other countries. This is another area that African countries can harvest on. With a growing education population especially at university level, many young people become jobless after graduation. With careful planning and investment, the governments can create technological centre to incubate new innovative ideas and products.

6. Financial and credit policies: Most SMEs worldwide failure to due to lack of financial support. Many to be businesses persons are discouraged with they can't get required finances to fund their operations. With only little money savings or borrowed money from friends and family members, most businesses fail before end of their first or second years. In China, the government has established favourable terms for SMEs owners and entrepreneurs. From bank financing to local governments grants and loans, SMEs have lines of credits available to them. The terms of credits which are dependence on business categories have enable thousands of SMEs to start, grow and accelerate their businesses.

Conclusion

SMEs are attributed to significant performance of world economies in term of GDP and overall growth. A major contribution for SMEs is provision of employment through providing the engine for economic development and employment. This is particularly important for countries struggling with poor economies and unemployment arising from lack of jobs especially in Africa and other emerging economies. As already indicated, SMEs contribute significantly toward Chinese economic development and employment. One major force to these positive contributions has been the Chinese government support through its various policies and reforms aimed at developing and boosting the SMEs sector. This paper has highlighted the importance of African countries modeling Chinese reform agenda and strategies for empowering SMEs. The paper perceives that this approach as essential to making African counties fasten their development and recovery for decades of poor performance. The approach can also enable many of the countries to prepare effectively to compete globally since the African countries have the capabilities, resources and manpower to propel the continent to the same competitive ground as other world developed countries. However, for this to happen, this must be a deliberate effort and commitment from the countries' governments. China deliberately and strategically developed SMEs agenda and effectively implemented the same. African can do the same.

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