

Backgrounder

Natural resource management

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Recognising informality in the China–Africa natural resource trade

How understanding informal small-scale trade and investment can promote pro-poor and sustainable resource governance

China is now Africa's largest trading partner; over the past 15 years the value of trade has risen from US\$10 billion to US\$200 billion. At times dubbed 'resource plunder' or 'neo-colonialism' by Western media, the social and environmental impacts of Chinese trade and investment in Africa, particularly in natural resources and land, are receiving global attention. Yet a crucial element to the policy debate is missing.

Focusing on small-scale trade and investment

Research to date has focused on large-scale projects and big players, such as China's state-owned enterprises; we know little

about the thousands of Chinese entrepreneurs and migrants conducting small-scale trade and investment in Africa.

Yet their activity has a direct impact on local communities and the livelihoods of rural farmers, loggers and miners — these rural residents may work as suppliers, labourers, intermediaries and business partners for Chinese traders and investors.⁵ In turn, rural populations' participation in the value chains link Chinese businesses firmly to the local informal resource and land economy.

Despite this, few researchers and policymakers examining the social and environmental implications of the China–

VITAL STATISTICS

9 out of 10 people work in the informal sector in some African countries, including Tanzania, Zambia and Benin.¹

38% of the national GDP of some sub-Saharan African countries is generated by the informal economy.²

More timber is sold by unregistered rural loggers than by registered companies in countries such as Cameroon, the Republic of the Congo, and the Democratic Republic of the Congo (DRC).³

90% of all minerals produced by artisanal miners in the DRC come from the informal sector.⁴

WHY IT IS IMPORTANT

Small-scale Chinese trade and investment in Africa's natural resources and land is often portrayed as illegal or as 'land grabs'. African and international policymakers and practitioners advocate stricter law enforcement to tackle informal trade, criminalising Chinese and local economic actors who participate in the value chains. But legalistic approaches could do more harm than good.

Thousands of poor families depend on Africa's vast informal economy: rural villagers with contested resource and land rights are often excluded from the formal economy and must look outside it to earn cash income. Research shows that informality is the daily reality of natural resource extraction and production in rural Africa.

Policy design must promote sustainable and pro-poor engagement by China in Africa's resource and land economy, looking at what works for rural communities and the environment. To support this, we need to face the complexity of Africa's resource governance: we need to talk about informality.

Africa relationship are discussing Africa's burgeoning informal economy, or seeking to understand the complexity of the continent's natural resource and land governance. Policy design cannot effectively support rural communities and environmental needs until this is remedied.

Understanding Africa's complex informal economy

No single common definition of an informal economy exists, but the broadest covers 'any economic activity or source of income that is not subject to government regulation, taxation or observation'. By any definition, Africa's informal economy is huge. In the natural resources and agricultural sectors, the informal economy sustains rural livelihoods and produces large volumes of goods that rival the formal economy. The informal economy is also messy and complex. It is often the only place where the poor — often women and young people — can participate in the market economy.¹ Subsistence farmers, loggers and miners from rural villages make ends meet by earning cash income.

On the other hand, it is also where opportunistic business people (African and foreign alike) get rich by evading regulations and underpaid local officials seek bribes from small-scale producers and operators.⁶ In the natural resources and land sectors, land and resource ownership may be bitterly contested between rural communities and the government — often a remnant of appropriation during the colonial period. At times, the legitimacy of the state, its policies and institutions may be questioned by rural communities.⁷ As a result, working with the informal economy is one of the biggest development challenges facing Africa today.⁸

Tackling the missing angle in the China–Africa debate

In response to informal trading, often labelled as a 'shady' businesses, international practitioners and policymakers often advocate stricter laws and enforcement. But a legalistic approach fails to recognise that informality is the daily reality of natural resource extraction and production in rural Africa. It also fails to consider the effects of complex governance issues, such as contested rights over land and resources and the high regulatory barriers that prevent small businesses operating in the formal economy, which encourage informal market activity.

Talking about informality does not mean approving of Chinese or local businesses that engage in criminal activity; it means acknowledging that they do not exist in a vacuum. The large informal economy found in many African countries provides a 'grey area' for illegal activity to flourish and persist. Ultimately, if we wish to promote China's sustainable and pro-poor engagement in Africa's natural resources and agricultural sectors, we need to acknowledge this reality and design policies that work for the poor who participate in the informal economy.

Carrying out grounded, credible research

To design policies that work for poor people who are reliant on the informal economy, we need credible research rooted in fieldwork. Researchers need to get out to the markets, forests and mine sites to speak with businesses and communities and understand the roles of Chinese and local actors — their relationships, and their socioeconomic and environmental impacts. Critical questions include: Does informal trade and investment provide crucial income for rural communities? Do rural villagers participate to 'protest' against what they see as illegitimate tenure arrangements by the government? Do local businessmen and intermediaries drive the value chains in the informal economy? Are Chinese actors unique in their social and environmental impacts?

Initial fieldwork in a few countries already highlights the need for careful and targeted policy responses. At IIED, we will delve deeper into these questions in the coming years through systematic research designed to understand informal value chains. Our initiatives over the next three years include examining the informal and small-scale trade of timber, minerals and agricultural products linked to Chinese actors and/or markets in East and Southeast Africa.



Knowledge Products

The International Institute for Environment and Development (IIED) promotes sustainable development, linking local priorities to global challenges. We support some of the world's most vulnerable people to strengthen their voice in decision making.

KEY SPACES

- African governments' natural resource and land tenure and governance policies offer possibly the most important vehicles for policymakers to protect the millions of marginalised people working informally in this sector: small-scale traders and investors come from many countries, not just China.
- The Chinese government's policies on 'China Going Global' could be revised to include provisions on small-scale trade and investment conducted by private Chinese entrepreneurs in Africa.
- International standards and initiatives related to natural resource governance tend to take a legalist approach towards the informal sector. This must change if international policies are to benefit poor and marginalised people in Africa.

SOUTHERN VOICES

The government could take away our land and trees any moment, so we'd rather sell all the trees away to the Chinese as soon as we can.

Villager, Southern Cameroon

¹ ILO (2009) The informal economy in Africa: Promoting transition to formality – challenges and strategies. ² Lapeyre, F et al. (2012) Addressing informality for rural development. ILO. ³ Lescuyer, G and Cerutti, P (2013) Taking the informal sector into account. CIRAD. ⁴ World Bank (2008) Democratic Republic of Congo: Growth with governance in the mining sector. ⁵ Weng, X et al. (2014) The Africa-China timber trade: Diverse business models call for specialised policy responses. CIFOR. ⁶ Benson, E et al. (2014) Informal and green? The forgotten voice in the transition to a green economy. IIED. ⁷ Perry, GE et al. (2007) Informality: Exit and exclusion. World Bank. ⁸ Chen, M (2005) Rethinking the informal economy: Linkages with the formal economy and the formal regulatory environment. UNU WIDER.



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FIND OUT MORE

Our work on China–Africa informal resource trade and investment is being undertaken as part of the Africa-China Informal Resource Trade (ACIRT), run by IIED's China and informality teams and partners. This group drives our efforts to examine informal value chains linked to Chinese actors/market in Africa, and their economic, social and environmental implications for rural livelihoods and sustainability. Find out more about our work on China–Africa trade and investment at www.iied.org/china