



## COVID-19 bailout nationalism: A predicament in saving small immigrant-owned businesses in South Africa



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### ABSTRACT

*The small business sector has been identified as an essential component of the global economy, especially in the developing economies, where it plays a significant role in addressing job creation and poverty. However, the COVID 19 pandemic and its attendant lockdown restrictions have brought untold devastation to the sector forcing many out of operation, crippling business operations and financial viability. We seek to identify the role and impact of government relief measures in helping immigrant-owned businesses in South Africa to deal with the impact of the pandemic on their businesses. Primary data was collected using an electronic questionnaire administered to 260 foreign business owners in South Africa. The data was cleaned and statistically analysed using IBM SPSS version 27. We interpreted and discussed the results using the realistic conflict theory. Though a vast majority of the businesses (89%) reported that the pandemic had a very severe impact on their financial sustainability and liquidity, none of them reported that they benefitted from any of the South African government business support packages during the pandemic.*

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## Introduction

The incidence and subsequent rapid spread of the Coronavirus have devastated the world economy, nearly grounding it to a halt at the height of the pandemic, and the vestiges of this economic devastation remain in various countries to different extents. A major step taken to stem the tides of the pandemic and contain the transmission of the virus globally was the introduction of lockdown measures (Abba AHmed, 2020; Haider et al., 2020; Omaka-Amari et al., 2020; Toda, 2020).

The various lockdown regimes across different countries impose different forms and intensities of social and other changes on people, institutions, sectors, and communities as well as governments' Fiscus primarily through the new mobility patterns ushered in by the lockdown regimes (Balhara et al., 2020; Caulkins et al., 2021; Rahman et al., 2020). The scope of the impacts includes social (Dobusch & Kreissl, 2020; Eisner & Nivette, 2020; Sundarasan et al., 2020), economic (Adam et al., 2020; Evelina et al., 2020; Inoue & Todo, 2020; Joshi et al., 2020), health (Singh et al., 2020) and healthcare delivery systems (Ahmed et al., 2020; Mishra et al., 2020; Sahu et al., 2020), environmental (Anil & Alagha, 2021; Dantas et al., 2020), and much more.

One of such sectors is the business sector at large, and small businesses in particular (Dai et al., 2021; Gourinchas et al., 2021; Pedauga et al., 2021). The small business sector has been identified as an important component of the global economy, especially in developing economies where it plays a significant role in addressing job creation and poverty. For South Africa, many have argued the fight against unemployment and crime necessitates the creation and sustainability of small businesses regardless of the owner's ethnicity or nationality (Deborah et al., 2015; Maas & Herrington, 2006).

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However, the COVID-19 pandemic and its attendant lockdown restrictions have brought untold devastation to the sector, forcing many out of operation, and crippling business operations and financial viability. This study seeks to understand how the pandemic have affected the immigrant-owned business sector in South Africa and the extent to which the government massive business support programme has helped this vulnerable but important economic sector. Using a closed-ended survey, we collected data from owners of immigrant-owned businesses randomly selected from 9 cities across the country. The resulting data was quantitatively analysed and interpreted using the realistic conflict theory which provides an explanation for the economic relationship and power dynamics between minor and majority groups and its implication for the wider social system.

The rest of the article is structured as follows; the overarching aim of the study followed by a literature review which mapped the relevant terrains and introduced the germane concepts. This was followed by the introduction of the theoretical framework adopted for the study, the methodology section which reported the empirical work that was done.

This study seeks to understand the impact of the COVID-19 pandemic and the lockdown restrictions on immigrant-owned businesses in South Africa.

## **Literature Review**

### *Conceptualising Immigrant Business*

Small businesses have been noted to be one of the major drivers of economic development based on their role in employment generation worldwide (Aladejebi, 2020; Elimam, 2017; Tengeh, 2013). Many of the Business conglomerates from the UK and US started as small businesses that grew due to the involvement of their respective governments in the reorganisation of small businesses to reduce unemployment among other (Bannock, 1981, 2004).

Within this scheme of small businesses' importance, Immigrant-owned businesses have been noted to be of critical importance globally (Tengeh & Nkem, 2017). Immigrant entrepreneurship presents an important economic opportunity for South Africa in form of employment creation which has important implications for the reduction of poverty and inequality, as well as stimulation of economic growth in the country (Fatoki, 2014; Ngota et al., 2018). Immigrants have been noted to be somewhat adept at creating business as an alternative to unemployment and in the identification and exploitation of opportunities (Fatoki, 2014; Kozlovski, 2019). However, most immigrant businesses often start and operate small (Hack-Polay et al., 2020).

It was found that 25% to up to more than 40% (in some states) of new firms in the United States were created, by immigrants (Pekkala Kerr and Kerr 2020). A similar trend was observed in the UK where over 17% of the immigrants start a firm as against 10% of natives; whereas a higher proportion of immigrants become self-employed or own a business in Canada (Green, Liu et al. 2016), ditto in Australia (Atalay, Kim et al. 2014).

### *Travails of immigrant businesses*

Studies have, however, shown that small businesses, whether immigrants or indigenes owned are always susceptible to a myriad of challenges which include discrimination, limited or restricted access to finance, and unfriendly or hostile business environments (Khosa & Kalitanyi, 2014; Ndoró et al., 2019) and the severity of these challenges is usually higher for immigrant-owned businesses (Hack-Polay et al., 2020). This situation is exacerbated by their lack of or restricted access to government support. Tengeh (2013) argues that since immigrants are in the country, economically they will be consumers and producers and the viability of an economy lies in the number of producers or active economic actors it possesses, it does make sense for host countries to encourage them to be active economic actors and this includes extending business support to migrant own businesses.

Challenges of migrant businesses start from the most basic business need which is patronage as studies have shown that the initial market niche is usually restricted. Studies by Zolin, Chang et al. (2016) found that social capital greatly moderates the growth of immigrant businesses. They found that micro-level coethnic social capital is usually the direct primary source of growth of immigrants' businesses, they only integrate into the larger local community and experience better growth if they operate long enough and do necessary social adaptations (Zolin, Chang et al. 2016). This assertion should not be seen as an attempt to reduce immigrant entrepreneurship to a mere ethnocultural phenomenon but (asides from emphasising the limited support) to underscore the foundation role of initial support and resources usually derived from co-ethnic networks (Verver et al., 2020).

### *The dual liabilities*

Based on multiple studies and observations, it has been discovered that immigrants are more likely to start a new company than natives/locals in a country, though (sadly) they are more likely to exit the company early (Barth & Zalkat, 2020). This has been attributed to the liability of foreignness which was aptly described by Irastorza and Peña (2014, pg 2) as the "additional difficulties faced by immigrants when entering the job market or starting up a business in a new country such as poor language skills, the lack of labour experience, the lack of human and social capital endowments specific to that country, and institutional restrictions including discrimination". In essence, it refers to the inherent constraints associated with the "opportunity structure" of the host country for the survival of immigrant businesses. It explains the low survival rate of immigrant businesses compared to that of locals or put another way it explains the gap between immigrants' entrepreneurial aspiration and their fulfillment (Gurău et al., 2020; Irastorza & Peña, 2014).

The challenges imposed by the liability of foreignness on immigrant businesses are in addition to the general liability of newness which threatens the survival of all small new businesses in their infancy or early stage and thus account for the high mortality rate of small businesses during this phase. The components of this include limited legitimacy, compliance challenges, competition with big and established businesses, paucity of financial and managerial resources, etc (Barth & Zalkat, 2020; DeVaughn & Leary, 2018). The liability of newness has been likened to a rite of passage that all new businesses must go through and it was found that governments' attempt to help mitigate or cushion it often turns out counterproductive as such measures prevent organisation learning and a host of other issues (DeVaughn & Leary, 2018).

Based on the foregoing, it is evident that immigrant businesses tend to be under perpetual pressure to survive as a result of the tension created by and between the two sets of liabilities. Thus, one can imagine what the pandemic with all its attendant social and economic implications will mean for a business sector with such "fragility".

#### *Immigrant owned businesses and xenophobic sentiments in South Africa*

An additional layer of vulnerability for immigrant-owned businesses in South Africa is the seemingly increasing xenophobic intimidation and violence. Despite records of making positive economic contributions, migrant businesses are constant targets of hostilities from local elements as a result of the widespread notion that foreigners "steal jobs" from the locals (Asoba et al., 2020). A study by Chinomona and Maziriri (2015) which employed focus group discussion with immigrant business owners, revealed that the foreign business owners in South Africa are living in palpable fear of imminent xenophobic attacks on their lives or businesses. And for African immigrants, "xenophobic intimidation and violence are everyday occurrences"(Grant & Thompson, 2015, pg 183). Perhaps this xenophobic tension among other reasons accounts for the relatively limited growth of foreign-owned businesses in the country as pointed out by various studies which concluded that the majority of immigrant-owned businesses in South Africa could be categorised as micro or survivalist businesses (Asoba et al., 2020; Crush & Peberdy, 1998; Khosa & Kalitanyi, 2014; Rogerson & Rogerson, 2011).

#### *The Impact of the pandemic on Small Businesses*

The pandemic no doubt affected all sizes of businesses, mostly in terms of their finances and disruption in operation. However, the small businesses were more severely impacted. A study showed that 21% of the small businesses in Russia were not sure of their continued existence after the pandemic (Tkach & Kurpayanidi, 2020). A survey of 5800 small businesses in the US revealed that almost half of them (43%) have temporarily closed as of the time of conducting the survey just a few weeks into the pandemic (Bartik et al., 2020). While most of the global business shutdowns were a result of government mandates, the chances are high that many will remain permanently closed because of the inability of the owners to pay expenses and survive the shutdown (Fairlie, 2020).

In the US, the number of active immigrant businesses progressively reduced from February to June 2020 with over 1 million closures reported between February and April. The business bounce back reported between May and June has little impact on those immigrant businesses compared to that of native owners (Fairlie, 2020).

Globally, the provision of stimulus by governments was the major mainstay of support for both businesses and households, and this cut across both developed and developing nations, but the need can be said to be more pressing in the developing nations (Loayza & Pennings, 2020).

### **Theoretical framework**

Hostile acts or disposition towards immigrants is nothing other than a manifestation of intergroup conflicts on a macro scale. It has been noted that the basis of such conflicts revolves around prejudice and discrimination. Social discrimination is usually a decision or behaviour based on the victims' ascriptive characteristics (Fibbi et al., 2021). It is connected to or the result of mental evaluations with stereotyping as its cognitive component and prejudice as the affective one (Fibbi et al., 2021). However, people need and always seek justification to express their discriminatory sentiments. This is because "prejudice is usually suppressed by anti-prejudiced norms, personal standards, beliefs and values, its expression depends on a justification that allows the individual to express prejudice without being sanctioned" (Pereira et al., 2010, p. 1232). This is the mantra of the system justification theory, which holds that discrimination is facilitated by the accessibility of a justification seen as unprejudiced (Jost, 2019; Pereira et al., 2010).

Central to the phenomenon of discrimination is categorisation or assignment of individuals to social groups; this ultimately leads to the partitioning of the social space by those championing the categorisation into "in-group" and an "out-group" (Fibbi et al., 2021). This categorisation is usually based on stereotyping or the picture of the out-group in the head of the in-group (Kambhatla et al., 2022; Kurylo, 2012). One of the aggravating dimensions of categorisation is that group members are not seen as individuals but as members of a category towards which negative attitudes can be activated (Fiske, 2000; Zhou et al., 2021).

It is important to note that the categorisation is usually arbitrary, with little similarity or contact among the group members (Brown, 2020). Studies have shown that categorisation causes the in-group to "see" increasing similarities among the members of the outer group and more dissimilarities between them and the members of their own (inner) group, hence a basis for negative group stereotype (Duckitt, 2003; Warsame, 2020).

While many theories, such as the social dominance theory, aversive racism theory, social dominance theory, system justification theory etc, have attempted to explain discrimination from different (and mostly non-conflicting) perspectives, this study will adopt the realistic conflict theory because of its relevance to the South African trend and context. In summary, realistic conflict theory states that contradictory goals lead to group conflict, and cooperation-requiring superordinate goals reduce it (Sherif, 1958; McKenzie & Gabriel, 2017).

The realistic conflict theory (RCT) was based on a sociological experiment conducted by its proponent and verified by a host of other researchers. It held that whenever the attainment of goals becomes competitive, meaning that the success of one group implies the other's loss, negative emotions like stereotyping and prejudice will thrive among the groups and they will become more socially distanced from each other. The out-group will become negatively stereotyped, and social distance between groups will increase. In more practical terms, when one group perceives another as a threat to its goals or interests, it grows the aforementioned negative emotions and accompanying social behaviour towards that group. Common goals or interests of note include but not limited to economic resources, social status, group security, military might etc (Sherif et al., 1988; Hohman & Kuljian, 2021 ). The theory further explains that the tendency for or severity of hostility can be effectively mitigated through the presence or introduction of superordinate goals. According to Sherrif (1958:349-350), these are "goals which are compelling and highly appealing to members of two or more groups in conflict, but which cannot be attained by the resources and energies of the groups separately. In effect, they are goals attained only when groups pull together".

In the South African context, negative attitudes and behaviours toward foreigners are generally held to be in reaction to perceive competition by the foreigners for increasingly constrained economic resources and opportunities (Gordon, 2015; Hewitt et al., 2020; Tella, 2016). Thus, conforms perfectly to the propositions of the realistic conflict theory. This notion is supported by the fact that most of the violent episodes of xenophobic reactions toward foreigners in the country are usually in communities where poverty and structural unemployment are (Field, 2017; Hewitt et al., 2020).

## Research and Methodology

To achieve the aim of assessing the impact of the pandemic on immigrant businesses in South Africa, primary data was collected using an electronic questionnaire that was administered to 260 business owners in South Africa. Only 100 responded over a period of about four months, and during the cleaning of the data, it was found that only 75 of the responses can be included in the analysis. The data was cleaned and analysed using IBM SPSS version 27 by conducting descriptive and inferential statistical tests. The open-ended question at the end of the questionnaire was thematically analysed, focusing on identifying the respondents' perspectives on how they think the government could best assist them.

### Demographics

Participants came from nine African countries, and their business locations included cities and towns located in at least four provinces (Gauteng, KwaZulu-Natal, Free State, and Western Cape). This can be considered a good coverage and spread of African migrants in the country (see Table 1).

**Table 1: Participants' Demography**

Nationalities of respondents		Location In South Africa		Sector	Registration status		
Country	%	Town/City	%		%		%
Cameroon	57.4	Bloemfontein	1.3	Service	52	Yes	61.3
Congo	2.7	Cape Town	65.3	Retail	34		
Egypt	1.3	Durban	12.0	Manufacturing	11	No	38.7
Nigeria	17.3	Johannesburg	10.7	Wholesale	3		
Somalia	2.7	Parys	2.7				
Tanzania	2.7	Pretoria	4.0				
Uganda	1.3	Randburg	1.3				
Zimbabwe	17.3	Roodepoort	1.3				
		Winterton	1.3				

Their major operating business sectors were service and retail, followed by manufacturing and a small proportion in wholesale.

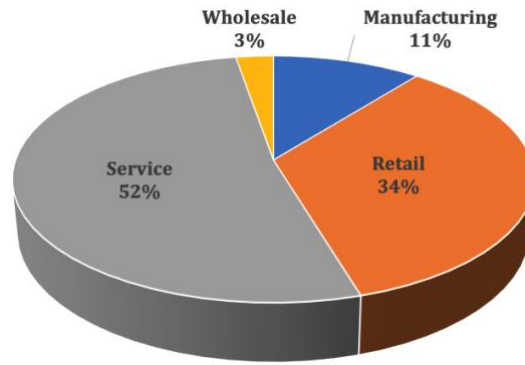


Figure 1: Participants' business sector distribution

**Impact of the pandemic on business operations**

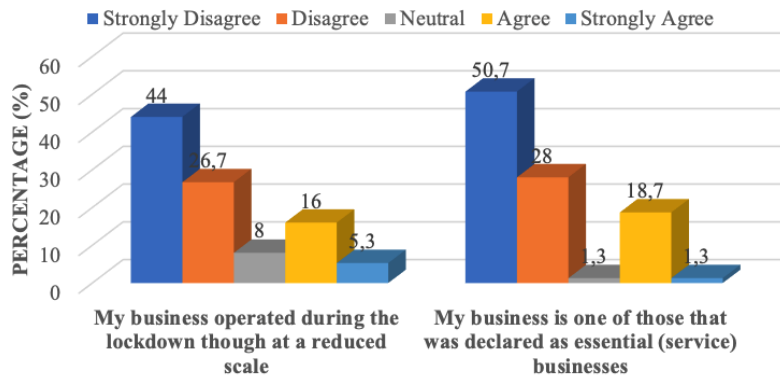


Figure 2: Impact of The Lockdown on Business Operations

Only 21.3% of the immigrant businesses were able to operate at a reduced scale during the lockdown, while the vast majority indicated that they could not operate. It was found that 20% of the participating businesses fall within the category of declared essential businesses.

**Impact of the pandemic on business financials**

Table 2 below shows the snapshot of the financial state of the businesses before and during the pandemic. It is obvious that the majority of the businesses were better off before the pandemic, and that the pandemic have negative impacts on their finances.

Table 2: Financial Situation before and during lockdown

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
	%	%	%	%	%
I made more money during the lockdown period than before it.	65.3	30.7	2.7	0.0	1.3
My business was not doing well before the lockdown (Covid-19 pandemic)	26.7	34.7	12	13.3	13.3
The Covid-19 pandemic did not have any negative impact on my business	58.7	30.7	1.3	6.7	2.7
I needed some financial support to keep my business going	1.3	10.7	14.7	37.3	36.0

The responses indicate that the businesses suffered significant negative consequences and that their liquidity or financial sustainability was also jeopardised.

**Beneficiation from SA Government Covid bailouts**

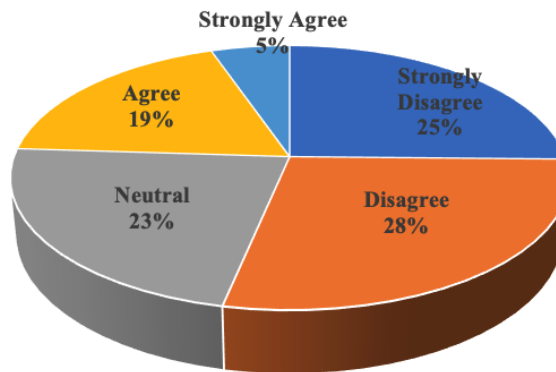
Although approximately 89% of the businesses reported that the pandemic had a very severe impact on their financial sustainability and liquidity (as shown in Table 2), none of them reported that they benefited from any of the South African government business support packages during the pandemic (see Table 3). Most of them reported that they did not apply because the qualifying conditions

already excluded them despite some being part of the declared essential services during the pandemic Table 3. While few of the businesses secured funds from banks (4%) and Non-Profit Organisations (2.7%), a combined 50.6% secured financial support from their social network which comprises friends, family, and tribal associations.

**Table 3:** Benefit from government intervention

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
	%	%	%	%	%
I was aware that the South African government was offering financial support to small businesses.	1.3	6.7	8	52	32
I applied for financial assistance from the government	29.3	45.3	16	6.7	2.7
I did not apply for financial assistance from the government because I could not fulfill the condition	6.7	14.7	16	40	22.7
I received financial support from the South African government	62.7	37.3	0.0	0.0	0.0

One thing that is worth noting about the businesses despite the apparent precariousness of their situation is their optimism and lack of despondency. A good number of them believed that they would recover from the loss suffered as a result of the pandemic and its attendant lockdown, only 28% outrightly disagree with the assertion. Figure 3 shows the respondents' responses to the statement "I am positive that most of the small businesses affected by the Covid-19 pandemic are going to bounce back in no time".



**Figure 3:** Chart showing respondents' perception of lockdown effect on business.

**Basis of 'funding'**

While operating within the designated essential business categories did not qualify immigrant-owned businesses for government bailout funds, it did for non-government funding. Cross tabulations showed that being within the declared essential business categories has a statistically significant association with securing funding from both banks (p = 0.019) and NGOs (p = 0.003), however, the business registration status did not (see Figure 3 for cross-tabulation results).

**Table 4:** Tests of association between being essential business and non-government funding

		Financial support from my bank.				Total	Chi-square	p-value
		Strongly Disagree	Disagree	Neutral	Agree			
<b>Business been essential</b>	Strongly Disagree	N	31	4	2	1	<b>24.182</b>	<b>0.019*</b>
		%	81.6%	10.5%	5.3%	2.6%		
	Disagree	N	10	10	1	0		
		%	47.6%	47.6%	4.8%	0.0%		
	Neutral	N	1	0	0	0		
		%	100.0%	0.0%	0.0%	0.0%		
Agree	N	4	8	0	2	14		
	%	28.6%	57.1%	0.0%	14.3%	100.0%		
Strongly Agree	N	0	1	0	0	1		
	%	0.0%	100.0%	0.0%	0.0%	100.0%		
<b>Total</b>	N	46	23	3	3	75		
	%	61.3%	30.7%	4.0%	4.0%	100.0%		

Table 4 Cont'd

			Financial support from my bank					Total	Chi-square	p-value
			Strongly Disagree	Disagree	Neutral	Agree				
<b>Business essential</b>	Strongly Disagree	N	34	3	1	0	38	<b>29.719</b>	<b>0.003*</b>	
		%	89.5%	7.9%	2.6%	0.0%	100.0%			
	Disagree	N	7	13	0	1	21			
		%	33.3%	61.9%	0.0%	4.8%	100.0%			
	Neutral	N	0	1	0	0	1			
		%	0.0%	100.0%	0.0%	0.0%	100.0%			
	Agree	N	5	8	0	1	14			
		%	35.7%	57.1%	0.0%	7.1%	100.0%			
	Strongly Agree	N	1	0	0	0	1			
		%	100.0%	0.0%	0.0%	0.0%	100.0%			
<b>Total</b>	N	N	25	1	2	75				
	%	%	33.3%	1.3%	2.7%	100.0%				

## Discussion

The fact that the foreign own businesses must perpetually deal with the vagaries of xenophobic sentiments in addition to the liabilities of smallness and foreignness earlier discussed paints a damning picture of fragility and avoidable frailty which has serious economic consequences in a world wherein globalisation and other factors are driving an increase in the rate of migration. The impact of the xenophobic hostilities becomes direr given that there was a spate of attacks not long before the emergence of the pandemic. Thus, it can be said metaphorically that the immigrant-owned business community was "gasping for breathes" just before the pandemic. One can then imagine how devastating the pandemic will be on this business sub-sector and how much any expression of help could have been to the sector.

When viewed in light of the realistic threat theory, this study has a important policy implication for South African government in terms of dealing with the foreigners-locals' hostilities in the country. It was held that that intergroup conflict or any of its manifestation and corollary can be mitigated by the introduction of superordinate goals which requires both (or all) groups to work together. In this instance the overarching basis of conflict is economic resources in the face of unemployment and poverty. The real solution lies in job creation and multi-level strengthening of the economy. This can be construed as superordinate goals which require active participation of all groups and sections in the country, but the government failed to come to grasp with this as exemplified in the system exclusion of immigrant owned business from the COVID-19 relief interventions. Conscious effort by the government to make the economic and contributions of the migrant obvious to its populace will go a long way to ameliorate the palpable anti-immigrant sentiments and its attendant consequences in the country

## Conclusions

Immigrant-owned businesses constitute a significant portion of the small business sector, thus a sizable component of the country's economy. Leaving them to suffer the impacts of the pandemic is simply akin to the neglect of a section of the economy, and that comes with its attendant problems like job security of the local employees in those businesses and their impact on the supply and demand side of their respective markets. All these will in turn aggravate the economic woes of the country, thus increased severity of (perceived) competition by the immigrants and inadvertently leading to an increase in the level of anti-immigrants sentiments and hostility.

Finally, it must be noted that discrimination against immigrant-owned businesses based on their national origin is not only detrimental to the economy, but akin to vaccine nationalism, which the South African government has been a leading critic of on the world stage.

We suggest that in the future in order not to set the country in a form of *subtle* 'self-destruct' mode and ensure balance and fairness there is a need for more relaxed criteria in the administration of such interventions. The interventions and assistance should be open to all registered businesses, and finally that legal and legitimate immigrants should be treated like indigenes in situations like this.

The primary limitation to the generalization of these results is the demography of the respondents. They are wholly small business owners of African extractions with no non-African representation despite the significant presence of non-African actors in the immigrant-owned business space in South Africa. This arise as a result of difficulty encountered in terms of data access since businesses spaces where such people could be found easily were closed because of the lockdown. The same reason accounts for the low response level that was experienced Efforts made to reach out to some of such business owners yielded no result.

Though previous research has not shown any significant difference between the experience of African and non-African migrant-owned businesses in the country, it would have been nice to still capture their experience, especially in terms of the role of coethnic social capital because of the cultural differences. Specific studies to capture and compare the role of coethnic social capital in such

hectic times will be of good epistemological value given what has been documented in terms of coethnic support during the starting phase of foreign-owned small businesses.

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**Institutional Review Board Statement:** Ethical review and approval were waived for this study, due to that the research does not deal with vulnerable groups or sensitive issues.

**Data Availability Statement:** The data presented in this study are available on request from the corresponding author. The data are not publicly available due to privacy.

**Conflicts of Interest:** The authors declare no conflict of interest.

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