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Competition and inclusive regional economic growth in food production

Barriers to entry and the role of African multinational corporations

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About the project

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Abstract: The growth of African multinational companies in Southern and East Africa in recent decades brings with it a great opportunity for development of productive capacity in the region and greater regional integration. This study identifies three emerging multinationals in the region—Trade Kings (from Zambia), Export Trading Group (Kenya), and Mount Meru (Tanzania)—that have developed capabilities over time to become effective competitors of incumbent food production companies in other country markets. By analysing the history, growth, competitive strategies, and capabilities of the firms, the study identifies factors that appear to have shaped their expansion in the region and the key lessons from their experiences. Drawing from interviews and publicly available information, the paper also analyses the various constraints the companies have faced in growing their businesses, particularly across borders in the region, with a view to identifying opportunities for policy that might help such companies to grow production capacity in local economies.

Key words: African multinational corporations, barriers to entry, food production, regional integration

JEL classification: L11, L14, L41, L52

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1 Introduction

For regional growth to be inclusive, local firms need to be able to participate and effectively compete in regional value chains, through innovation and effort, investment, quality, and prices. This goes beyond participation in regional markets through international and regional trade; it means being able to make investments and expand geographically to establish operations across the region. To further understanding of the constraints to capability development and the challenges to increasing dynamic rivalry between firms within the Southern African region, this research considers the obstacles to entry into regional markets from the perspective of African multinationals (AMNCs) that have managed to build such capabilities, overcome such challenges, and expand into the Southern Africa region, including South Africa.

The research identifies an emerging group of AMNCs that have grown their operations in their home countries (outside South Africa) and expanded into neighbouring countries around the Southern (and East) Africa region. In particular, the identified group represents a subset of firms that have in different ways overcome barriers to entry and the challenges of expanding and investing outside of their home country. In many cases, the companies have built up financial resources and capabilities that allow them to enter foreign markets and challenge incumbent operators. In short, these companies have demonstrated the ability to develop and expand capabilities, which has been highlighted as being at the centre of economic development (Hausmann et al. 2007; Page 2012; Sutton 2004).

The study builds on the knowledge base developed through previous studies on barriers to entry in South Africa's economy, and through the Regional Growth and Development in Southern Africa Project, which assessed regional value chains and firm capabilities in different sectors. By providing a new perspective on the experiences of AMNCs, the research contributes to understanding the nature and extent of the barriers faced, the forms of entry used (mergers and acquisitions, greenfield investment, etc.), the required levels of investment in production and marketing, the regulatory challenges and constraints to growth, and the effect of local industrial policies such as tax and investment incentives in fostering expansion and investment in new territories in the region. The assessment is conducted in the light of the objectives of the African Continental Free Trade Area to enhance integration, industrial development, competition, and trade in the region.

The research focuses on food production, including inputs into food production. This is because there has been significant growth in income levels and consequently in consumer demand for processed food products in Southern African countries—a demand that has been met by an increase in imports from South Africa. There is therefore potential for enterprises across the region to participate in meeting the growing demand through growth and investment.

From firm-level research and secondary information, this paper draws lessons from African MNCs regarding the challenges to market entry and expansion as well as from their ability to overcome constraints to become effective rivals in the region. The paper draws on interviews as well as publicly available information on a small set of companies, although there are several similar companies in the region. The analysis of a broader set of firms was unfortunately limited by the unavailability or unwillingness of many of the companies approached to participate in the research.

We proceed first by setting out our methodology, which is informed by background research and a literature review, before presenting the latter in Section 3. Section 4 sets out the main thematic

insights from the analysis before we discuss the cross-cutting findings, implications for industrial policy, and conclusions in Section 5.

2 Methodology

The research considers barriers to entry and expansion in regional markets, and the impact of the emerging AMNCs on investment, capability development, and dynamic rivalry in regional markets. The group of AMNCs studied for the purposes of this research comprises three firms: Mount Meru, Export Trading Group (ETG), and Trade Kings. Started in 1971 in Tanzania as a family business with one filling station, Mount Meru has become a truly African corporation, having operations in 14 countries with further plans to expand to all African states by 2030. ETG, established in Kenya in 1967, is one of the largest and fastest growing integrated agricultural conglomerates in Sub-Saharan Africa (SSA), processing and trading in soft commodities in 48 countries including Tanzania, Kenya, Malawi, Mozambique, Nigeria, and South Africa. The third firm, Trade Kings, is a Zambian family-owned business that was established in 1995 and currently manufactures four main categories of products: soaps and detergents, beverages, food and snacks, and confectionery. The company has expanded beyond Zambian borders to explore opportunities in other markets such as South Africa.

This group of companies was identified through desktop research, companies being selected on the basis of (1) being involved in food production and (2) having started production outside South Africa and grown productive capabilities into the Southern (and East) African regions. A case study methodology was applied, and because none of these firms is listed on any stock exchange, supplementary data was collected primarily through semi-structured interviews and a detailed review of publicly available information (see Appendix). Where the company managers were unavailable for interview (as was the case with ETG), the research draws on publicly available information from various sources such as media articles, YouTube videos of company presentations, and company websites.

The research focuses on the following key questions:

a) What has been the role and impact (on investment, capability development, and dynamic rivalry) of the AMNCs that have succeeded in expanding across the region in the selected sectors, and for what reasons have other firms failed to do so?
b) How have these three AMNCs up-scaled and developed capabilities to penetrate regional markets?
c) What is the nature of regional barriers to entry, and how do they compare with barriers to entry in domestic markets?
d) How have these AMNCs interacted with local policies and interests, and how have they integrated with local suppliers and enterprises in developing their capabilities?

3 Literature review

In many developing country contexts, models of development drawn from industrialized countries do not fit, as they usually fail to account for differences in social structures, institutional arrangements, and local political and power dynamics. This point is illustrated well by the experiences of late-industrializing East Asian countries, which highlight the uniqueness and country-specificity of growth strategies that are required in different developing nations to adapt to local priorities and political economy dynamics. It is this perspective that informs the research

in this paper. Its premise is that, in the context of a global literature on transnational corporations that has largely focused on large global MNCs, there are lessons and insights to be drawn on obstacles to integration (and how they can be overcome in different country contexts) from the unique experiences of African multinationals that have managed to build capabilities, overcome barriers, and expand across the region including into South Africa. These can help in understanding whether there are specific underlying issues in the African context that contribute to the successes (or failures) of firms operating in Africa that can inform broader research on the role, strategies, and impact of emerging country MNCs in other sectors and contexts.

In order to locate the analysis within the wider body of literature on MNCs, competition, and regional growth, the paper first explores the existing literature on competition, barriers to entry, regional inclusive growth, and the role of transnational corporations and MNCs in regional industrial and capability development.

3.1 Competition, barriers to entry, and inclusive regional growth

Developing countries (especially those that are relatively small) are potentially more susceptible to high market concentration and competition challenges than many larger economies and developed countries, not least because they typically have smaller economies, lower degrees of competition, and higher barriers to entry such as a lack of access to finance (Roberts 2016). This is problematic because monopolies and concentrated markets reduce welfare, while competition can deliver efficient markets, low prices, and more dynamic and innovative economies, resulting in greater overall welfare (Motta 2004). Put more simply, if exerted, market power harms economic development and especially harms low-income groups.

Considering the small size of many African economies, the likelihood that there are only one or two substantial producers in a given sector is high (Roberts 2016), making these developing nations more vulnerable to the exertion of market power. This is not just true theoretically. There is a growing body of evidence that in the Southern and East African context, anticompetitive conduct by large internationalized firms has spread across country borders, often replicating similar anticompetitive practices in different countries as part of a wider regional strategy to protect and grow market power (ACF and World Bank 2016; Burke et al. 2019; Roberts 2016; Roberts et al. 2017; Vilakazi and Roberts 2019).

Furthermore, a lack of competition or anticompetitive conduct in one country is likely to have adverse effects in another country or market (Gal 2009). For instance, agricultural markets for inputs such as fertilizer, seeds, and pesticides are highly concentrated, and this has often facilitated anticompetitive behaviour by large firms (ACF and World Bank 2016; Burke et al. 2019; Vilakazi 2017), some of which has spread across borders.

Despite these issues, competition is often overlooked when considering regional integration strategies. For instance, the drive towards integration in Africa has focused instead on connecting markets through the removal of trade barriers to promote intra-continental trade (Brenton and Isik 2012), improving transport networks, and enhancing institutions to support trade (Roberts et al. 2017; Vilakazi 2018).

However, growth and development through regional integration depend to a large extent on companies' ability and willingness to make long-term investments for the purpose of increasing productive capacities. If a few large, dominant firms, facing no threat to their market positions, are able to extract supra-competitive profits without making the requisite investments, then the regional scope of these firms can dampen competition and undermine growth and investment across the region as a whole.

For instance, RCL Foods, Rhodes Food, and Tiger Brands are large food production companies originating from South Africa that have expanded operations into the wider African region by acquiring local companies and rivals rather than by investing in new productive assets (Nhundu et al. 2017). This increases industry concentration and establishes market power, without necessarily enhancing productive investment and the development of productive capabilities locally. South African multinational companies do not have a strong record of investing or sourcing locally in the countries where they operate in Southern Africa, although there has been some recent progress (das Nair and Landani 2019).

The entry of rivals, including those from across borders, is therefore critical, as it imposes competitive discipline on the incumbent firms with market power, and the extent of barriers to entry is determinative of the resultant competitive rivalry within markets. In the absence of potential rivals, incumbent firms are likely to exercise power and freely raise prices. In contrast, when there is a relatively high probability of new entry or expansion by existing firms, the ability of incumbent firms to increase prices will be limited, since they are likely to anticipate that doing so would attract new entrants, or that existing rivals would expand output while maintaining lower prices (O'Donoghue and Padilla 2006).

There are two types of barriers to entry: structural and strategic. Structural barriers include natural barriers (e.g. physical location), sunk costs, switching costs, economies of scale, and network effects. Such characteristics tend to hamper the market entry of potential competitors (Lutz et al. 2010). Strategic barriers to entry are created by incumbent firms' strategic conduct to raise barriers to entry for potential entrants (Vilakazi et al. forthcoming). Such behaviour can take the form of aggressive over-investment in capacity or raising rivals' costs by, for instance, making key inputs more expensive.

The presence of entry barriers means that market players that could be competitive purely on the merits of their products are excluded, and dynamic rivalry is curtailed. Barriers to entry can therefore affect growth by excluding participation that could otherwise have led to competition on price as well as by restricting the development of capabilities through investment and innovation. There is consequently an important role for designated bodies such as competition authorities and sector regulators in enforcing measures that reduce barriers to entry.

At regional level, structural barriers may exist through trade barriers or high transport costs (Vilakazi 2018), while strategic barriers may result from large firms acting unilaterally or in collusion with other regional players. For growth to be more inclusive, even at the regional level, the openness of markets to contestation, including from rivals located across the border, is critical. Individuals must be able to participate in the market not only in terms of benefiting from social welfare programmes and employment, but also in terms of being able to share in the process of growth as entrepreneurs and business owners (Vilakazi et al. forthcoming).

Thus, as in the country-level case, there is an important role for pro-competitive intervention at the regional level to reduce barriers to entry. Where there are trade and non-tariff barriers, or restrictions that impact on the ability of foreign rival firms to invest in and contest neighbouring country markets, regional economic communities and local authorities need to work together across borders to address these constraints. This study, using the available data, seeks to understand the potential constraints to market entry at regional level.

3.2 Regional value chains and capability development

In Southern Africa, industrial development has been placed at the centre of the region's development agenda—a policy embodied in the African Continental Free Trade Agreement and

the ongoing work on implementing the SADC Industrialisation Roadmap. Building and expanding domestic and regional productive capabilities is considered critical for economic development (Page 2012). In this regard, regional value chains (RVCs) have important dynamics that bring together elements of trade, investment, and corporate ownership at the regional level (Bosiu et al. 2017), which, along with competition, are desirable in terms of achieving competitiveness in the regional production of goods (Roberts et al. 2017).

This research takes a regional perspective on value chains for at least three reasons: (1) the region is one of the main economic markets and growth areas for regional firms exporting manufactured products (Arndt and Roberts 2018); (2) the governance and control of RVCs in Southern Africa typically lies with regional players in terms of ownership, production, and investment; and (3) current regional economic integration and political agreements present opportunities for intervention to reduce barriers to trade and entry at the regional level (Bosiu et al. 2017). Understanding how firms can grow and expand industrial capabilities within the region is especially important if the African Continental Free Trade Agreement and the SADC Industrialisation Roadmap are to benefit regional firms rather than foreign firms only.

While participation in RVCs boosts opportunities for local producers to access regional markets (Conde et al. 2015), there is a limited body of literature on RVCs in the African context. Keane (2015) highlights that there is evidence of production networks in operation within the region, particularly in textiles and clothing, metal production, and the development of consumer-orientated products. Where value chains have emerged, however, they tend to be dominated by South African firms (Banga and Balchin 2019). For instance, some integration is being structured through supermarket supply chains (das Nair and Chisoro 2015), but this has been heavily skewed towards South African supermarkets (Banga and Balchin 2019), enabling them to become an increasingly important route for consumer goods in the region. Nevertheless, this sort of integration has helped drive trade in the region in processed foods and consumer goods. It has in fact enabled many suppliers to participate indirectly in retail value chains (das Nair and Chisoro 2015), but what is more crucial is that they should be able to upgrade their capabilities in order to integrate directly into these value chains and access markets. This is where market entry and participation play a critical role, in that, where opportunities for participation are provided, and dynamic rivalry is able to drive innovation and growth, capabilities will be built and expanded (Banda et al. 2015).

Given the key role that supermarkets have played in fostering the development of Southern Africa's regional value chains, they can be leveraged for the development of suppliers' capabilities through the transfer of skills and knowledge (das Nair and Landani 2019). However, while the role of supermarkets is important, the building and upgrading of capabilities also requires significant and concerted efforts from stakeholders in the private and public sectors, e.g. by investing in infrastructure, warehouses, and cold chains (das Nair and Landani 2019).

Unfortunately, the development of RVCs in Africa remains constrained by various challenges, including high transport costs, misaligned national industrial policies, shortage of skilled labour, and geographic remoteness from global markets. Food production is a key area in which intra-regional trade and investment could take place given the increased demand for (processed) food products and the growing capabilities of local producers. The key question is whether regional firms are enabled to trade, expand investment, and compete across borders, effectively integrating the region and extending value and supply chains across borders.

3.3 The role of MNCs in local industrial development

Across the world, companies have become increasingly multinational and 'stateless'. The process of a company becoming a multinational occurs not only through an increase in its foreign activities, but also through the relocation of its corporate head offices—along with important activities such as R&D—out of the domestic market (Chang 1998). MNCs can, and often do, use their investment experience outside their home countries to develop strategies for future investment in other countries (Ietto-Gilles 2005).

Dunning (2002) distinguishes between two types of MNC in terms of governance structure: the multidomestic or stand-alone MNC; and the globally (or regionally) integrated MNC. The main characteristic of the multidomestic MNC is that its foreign subsidiaries are given a notable level of autonomy over operational activities. These MNCs tend to be more sensitive to the regional policies of governments. On the other hand, the main feature of the globally (or regionally) integrated MNC is that it considers its foreign subsidiaries as part of a network of interconnected activities that individually and collectively promote the overall global or regional interest of the MNC. This means that the MNC is likely to pursue an efficiency-seeking investment strategy through, for instance, compelling foreign subsidiaries to source inputs (and leverage resources and capabilities) from global operations or networks of the MNC (Dunning 2002).

MNCs and capability development

The role of an MNC in the process of technology and capability development is multifaceted—as a producer of new technology, as a vehicle for its initial application, and as a mechanism for the international transfer and diffusion of that technology (Brewer and Young 2000). Technical knowhow is an integral element in the bundle of factors that MNCs transfer between countries as they engage in FDI. Relative to domestic companies, MNCs are more innovative, not least because they have resources to expend on R&D, but also because their transnational nature means that they have learned more about the international environment (Ietto-Gilles 2005). Consequently, MNCs can enhance innovation in the markets in which they operate. In other words, multinationality favours the development and spread of knowledge and innovation (Ietto-Gilles 2005).

Multinational corporations can facilitate the transfer of knowledge and innovation both internally (amongst business units) and externally (from company to company). Ietto-Gilles (2005) explains that, apart from adapting to the environments in which they operate, subsidiaries of MNCs also absorb knowledge and transmit it to other parts of the company, or to other independent companies. Thus, the diversity of the environments in which companies operate becomes their source of learning and innovation (Ietto-Gilles 2005).

The transfer of knowledge by MNCs can result in spillover effects that may spread over the entire industry in which they operate as more and more innovative investors are attracted (Ietto-Gilles 2005). From an economic point of view, the accumulation of technological capabilities will likely improve productivity, stimulate growth, and increase incomes per capita, which in turn will stimulate demand and attract more investment and further innovation (Ietto-Gilles 2005).

Ietto-Gilles (2005) postulates that the extent to which companies learn from and contribute to innovation—thus the extent to which knowledge and innovation spillovers may be observed—depends on a number of factors: (1) the extent to which the subsidiary is embedded in the host country; (2) the extent to which the country or industry can absorb innovation; (3) the extent to which subsidiaries have autonomy to deal with their local environments, e.g. freedom to enter into

business relationships with suppliers and distributors; and (4) their mode of entry into the host country.

The extent to which subsidiaries of MNCs abroad are embedded in their local communities is reflected in the extent to which they are able to choose suppliers and distributors from those communities, which in turn results in spillover effects due to the bi-directional learning process between suppliers and subsidiaries of MNCs. In particular, subsidiaries acquire knowledge of their environment and learn about its requirements. On the other hand, the extent to which local industries can absorb innovation from MNCs depends on the existing resources in the local communities, such as the education and skillsets of the labour force, as well as the availability of research organizations and laboratories.

Concerning the autonomy of subsidiaries, Ietto-Gilles (2005) explains that a relatively decentralized corporate structure—in which there is minimal micromanagement of subsidiaries from the centre—may deepen involvement in local communities and lead to external knowledge spillovers, whilst a centralized corporate structure is likely to result in internal knowledge transfer only. A decentralized structure is typical of the multidomestic MNC, whilst a centralized structure is synonymous with the globally or regionally integrated MNC described by Dunning (2002).

Lastly, different modes of entry may result in different forms of knowledge transfer. For instance, the entry of MNCs into local industries through mergers and acquisitions is likely to facilitate a direct form of knowledge transfer, whilst on the other hand, entry through joint ventures with local firms is likely to stimulate the learning process and result in knowledge spillovers between the MNCs and local companies.

MNCs as a constraint to effective industrial policy?

Despite its potential benefits to host countries in terms of technology and capability diffusion, as outlined in the previous paragraphs, investment by MNCs may have negative effects on host countries' economic policies, for example by limiting the freedom of the host nation to pursue necessary economic structural transformation and increase productive capacities (Panić 1998). In particular, MNCs may prevent a host country from adopting strategic industrial policies for increasing national competitiveness such as restrictions on foreign ownership and local content requirements (Chang 1998). Since MNCs have the ability to relocate, such policies are likely to prompt them to seek less stringent investment environments with better productive resources and lower costs of doing business elsewhere (Chang 1998). Hence, a country in need of foreign investment (and with little bargaining power) may be forced to relax policy measures that would otherwise be necessary.

Panić (1998) submits that successful industrial policy requires two key objectives to be fulfilled: (1) an increase in the overall level of investment in productive assets; and (2) the distribution of that investment in a manner that will generate sustainable and maximum economic welfare. Unfortunately, the two objectives may be in direct conflict with the MNCs' own long-term objectives (Panić 1998). For example, a multinational corporation may decide that opportunities in the host country are no longer as lucrative as in other countries, and therefore extract earnings from the host country for investment in alternative markets. Hence, the level of investment and savings in the current host country may actually decline (Panić 1998).

With regard to the second objective, the fact that globalization and the free movement of capital enable MNCs to distribute their operations across countries may make it difficult for countries to allocate investments to those sectors with the potential to maximize the country's welfare (Panić 1998). For example, whilst a country may identify a particular sector as being important for growth

and development, the MNC may decide to divest out of that sector—e.g. in order to reduce corporate risk by diversifying its activities across countries as opposed to diversifying within a country (Panić 1998)—thus compromising the host government's attempts to transform and diversify the country's industrial structure.

More generally, MNCs—by virtue of their scale, potential to employ large numbers of people, and capacity to make large investments—are often very influential in the political economy of countries. Where MNCs are large firms at the sector or national level, they are able to influence policies and regulations in line with their interests (Vilakazi and Roberts 2019), and when those interests do not align with the broader industrial policies and growth objectives of a country, the latter's implementation of certain policies can become very difficult (Whitfield and Buur 2014).

MNCs and bargaining with host countries

Chang (1998) argues that the notion that MNCs are capable of constraining a host country's ability to pursue industrial policies is based on a number of assumptions, many of which lack sound empirical justification. For example, it is widely assumed that MNCs always have more bargaining power than host country governments when it comes to negotiating for investments they seek to undertake in those countries. However, host countries often exercise substantial bargaining power over MNCs in pursuit of policies of national interest (Panić 1998; Chang 1998). Moreover, it should be pointed out that the prevailing regulatory regime is a not a major concern in an MNC's choice of investment location, unlike issues such as profitability and market growth. MNCs are often able to operate in environments with restrictive policies provided there is stability and predictability (Chang 1998).

Often, host countries that possess bargaining power have two important features: (1) They have relatively self-sufficient economies endowed with some advantages such as natural resources or proximity to key markets; (2) Their economies are relatively large, with stable and predictable policies and well established and independent institutions (Panić 1998; Chang 1998). These factors constrain MNCs' ability to bully host-country governments (Panić 1998). Nevertheless, it is important to highlight that having potential bargaining power does not guarantee that host countries will attract the right amount and type of foreign investment, which will largely depend on political will, the government's administrative capacity to exercise its power, and the appropriateness of the overall economic conditions (Chang 1998).

Leveraging MNCs to acquire capital and capabilities

Governments conducting strategic industrial policy have the opportunity to leverage MNCs in order to acquire investment and innovation. Chang (1998) explains that various factors will determine the government's ability to secure these inputs, including 'the country's relative bargaining position, the technological nature of the industry, [and] the role of the particular industry concerned in the bigger scheme of industrial development envisaged by the government'. For example, in situations where job creation and accumulation of foreign exchange are more important than any other benefits intended to be derived from FDI—such as in 'cash cow' industries like garment, shoe, and toy production—it may be important for a country to open up to MNCs for a simple injection of capital (Chang 1998).

Similarly, Chang (1998) argues for an open attitude towards MNCs in capital-intensive industries with extremely high technological requirements, such as oil, mineral, and other resource-extraction industries, where the primary return for the government is expected to be the 'rent' element. Here, however, the government must have sharp bargaining skills in order to extract sufficiently large

'rents', as well as having plans in place to allocate the rents effectively, including for the development of other industries (Chang 1998).

FDI by MNCs may also be desirable in cases where countries require significant capital investment and new technology in order to become globally competitive, although, again, governments would need to be extremely tough in their bargaining and adopt strong policies on technology transfer (Chang 1998).

We can conclude that a government acting strategically to attract foreign investment cannot apply a one-size-fits-all policy towards MNCs irrespective of the industries in which they are seeking to invest. Each industry should be viewed differently according to the function it serves within the broader industrial development plan, and the policies a country adopts towards MNCs should depend on the role it wishes the latter to play in the relevant industries. For example, it may be necessary for a government to adopt a liberal FDI policy in order to establish a new industry, but at a later stage, when that industry is relatively developed, to impose stricter restrictions on issues such as local content requirements (Chang 1998).

3.4 Summary of literature and linkage with study objectives

The literature reviewed above highlights the significance of the complex interactions between competition and barriers to entry, between regional value chains and integration, and between capability development and the activity of multinational enterprises. This lays the foundation for the line of inquiry pursued in this study, which seeks to understand what barriers (structural and/or strategic) the identified AMNCs have faced in entering different country markets and growing their businesses within food production value chains.

The literature review has also identified important benefits that the entry of MNCs into host countries can bring about, which are reminiscent of the general theory that welfare increases when new (and smaller) firms sustainably enter and participate in markets. This is key to understanding how the entry and expansion of the AMNCs considered in this study have impacted Southern African consumers and markets, and the contribution that their arrival has made to wider development and integration objectives in the region. Understanding these issues also assists in gauging whether the advantages these firms have gained are firm-, context-, and time-specific, or whether their strategies can be replicated by other market players at the regional level.

The remainder of this paper uses in-depth firm interviews along with economic theory to understand the dynamics required by an AMNC in order to overcome barriers, participate competitively, and contribute to inclusive regional economic growth in food production.

4 African multinational corporations and regional expansion

As set out above, the present study focuses on the growth, strategies, and expansion of three AMNCs: Mount Meru, ETG, and Trade Kings. From the interviews conducted and the review of relevant secondary information, we highlight the common features, and key differences, in the investment and growth strategies of these companies. Our choice of thematic areas was guided both by the key issues arising from the available information and by the main principles derived from the literature review above.

4.1 Procurement, investment, and production capacities of African MNCs

AMNCs have made significant investments in productive assets in different countries (Verhoef 2016). In relation to the food industry, this has meant increasing capacity in order for the continent to become self-sufficient in food production, and fostering growth in agricultural value chains. As discussed below, each of the companies has built up capacity to make large-scale investments, and managed to expand and make investments not only beyond their domestic countries into the rest of Africa, but also beyond Africa. For instance, ETG, which was established in Kenya in 1967, has made substantial investments in warehousing, processing, and logistics in Africa and the rest of the world.

ETG has over 300 strategically placed warehouses in 40 countries (14 of which are in Africa), with over 2.5 million tons of storage capacity,[1] and operates 71 processing plants across the globe. At least 10 of those are cashew nut processing plants. In 2019, ETG traded almost 6.7 million tonnes of core products such as 'maize, pulses, wheat, rice, sugar, oilseeds, cashew nuts, coffee, fertiliser and farm implements'.[2] This is up significantly from the 1.4 million tonnes that was traded in 2012.[3]

Over 30 per cent of traded volumes of sesame originates from the Africa.[4] ETG's subsidiary, Seba Foods, which manufactures soy pieces and soy-fortified drinks, has plants in Ethiopia, Uganda, Zambia, and Malawi. As early as 2001, the company built a cashew-processing plant in Mozambique, and it now has 25 storage facilities in Malawi, with a total storage capacity of 250,000 tonnes.[5] In the early 2010s, the company acquired a coffee processing plant in Uganda, the largest of its kind in Africa. ETG also has fertilizer blending plants and/or operations in Zambia, Mozambique, and Tanzania.[6]

Similarly, Trade Kings has made significant investment in plants across its product offering, which includes detergents and soaps, creams, pastes, plastic packaging, blended fruit and dairy products, beverages, household products, and toys such as yoyos. The beverage plant is the largest in the region, and required an investment of over US$50 million. It has not been commissioned yet, although drinks are already being produced there. It is being built alongside the household products plant, which is due to absorb production of all of the detergents and household products. Together these plants are worth US$250 million.

Mount Meru has also made substantial investments. The value of the company's investment in a crushing plant in Katuba, Zambia, is in the range of US$60–70 million. The plant, which was built in 2011, has two refining machines— cotton and sunflower seed oil extractors —and a cotton gin. Every day, around 500 tonnes of beans and 200 tonnes of cotton or sunflower seeds are crushed, producing about 250 tonnes of cooking oil. Mount Meru's annual production volume of oil has risen from 30,000 tonnes in the period 2015–2018 to 60,000 tonnes in 2019. The company is

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[1] See ETG website, and the group corporate video presentation.

[2] See ETG website.

[3] See corporate video presentation.

[4] See corporate video presentation.

[5] See video presentation of group activities in Malawi.

[6] See video presentation of group activities in Malawi.

currently operating at about 60 per cent capacity and plans to grow production to around 85,000 tonnes per year in the next four years.[7]

4.2 The impact of African MNCs' investments

The investments of AMNCs have had a notable impact on local and regional markets, in terms of their contribution to local capacity, employment, and development of other small enterprises. The experiences of Mount Meru illustrate this.

The company's initial line of business was the retailing of fuel in Arusha (Tanzania), before it expanded its operations by building more service stations around Tanzania in 2000. The first foreign country the company expanded into was Kenya, in 2005. Subsequently, the company ventured into the seed-crushing business to produce oil, which allowed it to have a greater impact on the lives of small-scale farmers, since the business of fuel retailing was not as impactful in terms of employment and opportunities. The shift to an agri-business model was identified as the appropriate vehicle to achieve the company's social objective, which is to impact the lives of 100 million people by 2030.

Mount Meru impacts small enterprises in many ways. The soya beans and cotton used as inputs into the manufacture of cooking oil come from small-scale farmers, and the company is involved in cotton out-grower schemes, whereby it supplies cotton farmers with inputs such as seeds and fertilizer to maximize their production for the mill. Whilst the overall strategy for Mount Meru has been backward integration, the company has nevertheless left the market for the provision of key input materials into their business to small-scale farmers through contract farming. That is, Mount Meru is not directly involved in the business of farming, but instead enters into contracts with existing farmers.

Similarly, ETG's investments have had a significant impact in the continent, contributing extensively to employment directly through its 26 plants across Africa and Asia. The company, much like Mount Meru, has also focused on the empowerment of smallholder farmers. This is achieved by supplying agricultural inputs—including farm implements and machinery such as tractors and accessories—to smallholders in remote regions, as well as equipping them with the necessary training and skills to employ appropriate farming practices.[8] In turn, ETG purchases produce from the same farmers, and has a network of over 5 million smallholder farmers across Africa selling their produce to ETG.

There are obvious benefits for companies such as ETG and Mount Meru in employing business models that involve supplying farmers with inputs, as well as purchasing crops from them. First, the fact that inputs can often be purchased at lower cost owing to scale economies means that the companies benefit from larger margins. Being able to supply inputs and purchase different crops in return also means that the companies can benefit from lower transport costs due to the availability (at least in some periods of the year) of adequate return loads.[9] This strategy has been key to ETG's growth in the Southern Africa region, along with its substantial capabilities in terms of warehousing, transport fleet, and storage capacity (Ncube et al. 2016). In this regard, it is important to note that ETG initially built up capabilities in logistics in the Kenyan market, where

[7] Interview with Mount Meru Millers Zambia, 27 February 2020.

[8] See group video presentation.

[9] Typically, trucks supplying inputs to farmers in remote areas would return empty; if they return loaded with crops that are ready for market, overall transport costs are reduced.

it transported consumer goods amongst other products, and its familiarity with distribution has been crucial to the growth of the company since then (Patel 2014).

ETG has also implemented out-grower schemes, providing input finance and agricultural know-how to increase yields and improve quality. The fact that there are these mutually beneficial outcomes means that the relationship between the company and the smallholders is more sustainable. At the simplest level, it is critical that the company earns sufficient returns from its investments in infrastructure and the various farmer-support schemes, and that the farmers earn more from supplying the company than they would from selling their produce, without support, to other buyers.

In addition, ETG operates the ETG Farmers Foundation (EFF), which teaches potential farmers what crops to grow, how to grow them, and where to sell the produce. The foundation (established in 2012) has implemented several programmes for the benefit of farmers and students in Tanzania and Zimbabwe primarily, including provision of 'input finance, group management, basic business skills and agricultural practices training'.[10] Furthermore, there has been transfer of knowledge and other skills to small enterprises and entrepreneurs, facilitated through partnerships with governments and/or development agencies. An example is the 3I (Input, Implement, and Information) Farmers' Empowerment Hub initiative, whose aim was to develop hypermarkets and extension services across rural districts in Mozambique, and to transfer knowledge about advanced farming techniques using mobile-based ICT solutions.[11]

All three firms analysed are therefore extensively involved with local communities, and in particular smallholder farmers. Their capacity-building activities and investments beyond the core capabilities required by the business stem from an interest in helping farmers to become better suppliers of produce, which in turn benefits the companies. This is critical given that both ETG and Mount Meru seek to supply international markets, where standards and produce requirements can be stringent. Whatever the companies' social objectives, in the absence of an economic incentive, these investments would not necessarily take place. The presence of agreements between the companies and local farmers also means that the companies are able to secure the supply of produce for marketing in international markets—and may in fact pay less for the produce if credit facilities and low cost inputs are supplied to the same farmers. Importantly, ETG's substantial investments in warehousing and its ability to reach farmers in remote rural areas, along with the availability of its own transport fleet, has been a critical factor in enabling the company to compete in fertilizer supply with long-established firms such as Yara, which typically operate only at the wholesale level (Ncube et al. 2016). An impact, therefore, is also seen through downward pressure on local prices for key inputs, which ultimately leads to benefits for farmers.

4.3 Up-scaling and development of capabilities for competitiveness

The AMNCs we analyse have employed a range of strategies to build capabilities, up-scale, and expand beyond their countries of origin. For example, ETG grew from a player in logistics services, applying this experience to the distribution of other products (Patel 2014), and capability in terms of distribution was a key driver of its growth in fertilizer markets in the region (Ncube et al. 2016).

Mount Meru's strategy for up-scaling and expanding into other jurisdictions has been to start with the wholesale and retail of fuel in any country they expand to. This is primarily due to the strong

[10] See ETG website.

[11] See ETG website.

capabilities the company has built from this line of business over the years, and also to the fact that fuel retailing is not characterized by prohibitively high capital requirements.[12] A filling station costs only about US$30,000–40,000 to build. The company then uses the earnings from its fuel business to expand into other product lines. In Zambia, it expanded into the production of cooking oil after first building 10 filling stations.

The company's other primary strategy has been to expand into business lines that are connected to the main existing businesses.[13] For example, the company plans to expand into the production of margarine and mielie meal in the next two years, leveraging the fact that the raw material for margarine will come from the existing refinery process of palm and the infrastructure for cotton production can also be used for making mielie meal.

In the interests of both sustainability and competitiveness, Mount Meru's strategy has been to focus on vertical integration. The company produces its own packaging material; has an infrastructure business to meet all infrastructure requirements in-house; and it has its own logistics business to manage the distribution of its various products and its fuel inputs, as well as the importation of the raw oil used in the production of cooking oil. This kind of integration enhances efficiency. For example, the company is able to build a filling station in 18 days thanks to its in-house infrastructure capability, and its in-house packaging facility means a reduction in costs and time associated with sourcing packaging, which is consistent with the known benefits of vertical integration in the competition economics literature (Motta 2004).

Similarly, ETG has employed a vertical integration strategy for both sustainability and competitiveness. The company has leveraged its experience gained in the logistics market in Kenya to enable it to distribute a range of commodities in a low-margin environment, where competitiveness depends on large volumes. It now operates as a fully vertically integrated agribusiness, with both backward and forward linkages, which allows it to maximize efficiency and significantly reduce costs.

A number of other factors have contributed to the company's competitiveness[14]:

- **First mover advantage** in the procurement and distribution of commodities as a result of early and significant investment in warehousing, distribution, and logistics infrastructure, which has enabled the company to reach farmers even in remote rural communities;
- **Longstanding relationships and networks** with farmers, financiers, and other stakeholders such as local authorities and governments in the jurisdictions in which the company operates;
- **Broadening of its distribution** network beyond Africa into other parts of the world, including Asia, the Middle East, and Europe;
- **Proximity of its facilities to raw materials and major distribution points** to enable the company to manage transport costs effectively;
- **Focus on niche and high-value products** such as cashew nuts, sesame seeds, and coffee.

[12] Interview with Mount Meru Millers Zambia, 27 February 2020.

[13] Interview with Mount Meru Millers Zambia, 27 February 2020.

[14] See ETG Corporate Strategy, at: https://www.etgworld.com/#/company/strategy; and ETG Sustainability Practices at: https://www.etgworld.com/#/sustainability/practices.

4.4 Regional barriers to entry

The African multinationals studied here do not seem to have experienced significant challenges when entering different country markets, although there have been particular political economy and regulatory constraints. In the case of Trade Kings from Zambia, the first African market to be penetrated was the DRC, despite the fact that the diplomatic relationship between the two countries was in a precarious state. This caused delays at the borders, which impacted on costs and efficiency. Navigating the regulation of different products in the DRC was also challenging, and it was difficult to obtain approval or licences for certain products, partly due to high levels of corruption. In order to overcome these challenges, which have to do with the ability of foreign companies to do business in the DRC, Trade Kings leveraged its existing distribution networks in the DRC to establish a local presence and links. In the case of Mount Meru, in order to adequately understand and anticipate potential barriers in the countries into which it expands, the company deploys representatives to study the business and regulatory environment.

Apart from overcoming regulatory barriers, the AMNCs have had to adopt various strategies to enter markets and remain competitive. For instance, Mount Meru has focused on entering markets where there is strong demand but little established competition.[15] For example, the company deliberately did not go into maize milling because that market was already saturated and decided not to enter South Africa for the same reason. In Zambia, when Mount Meru started producing cooking oil, there was only one company, Zamanita, in the sector. ETG has applied a similar strategy by ensuring that it becomes a first mover in the markets in which it operates, as highlighted previously.

Mount Meru has not been successful in every market. The company had to close its filling station business in Zimbabwe because of the depressed state of the economy; attempts to enter Botswana around four years ago also failed; and, in Angola a feasibility study indicated that the fuel business was not as lucrative as expected. On the other hand, the company's entry into Zambia and Rwanda has led to significant growth over the past 10 years. According to the company, these successes are due to the stable political environment created by strong, effective leadership in these countries.

Several studies have highlighted access to finance as one of the major barriers to entry, especially for SMEs. However, finance was not an issue for Mount Meru, which was fully self-funded from family earnings. The agro-processing plants were funded through earnings retained from the fuel retailing business.[16] The company's philosophy has been never to rely on bank funding or loans, especially for capex. Bank loans have been sought only for working capital in countries where the cost of finance is high.

Reinvestment of retained earnings (or limited utilization of bank finance) for expansion purposes appears to be the common funding approach amongst the AMNCs considered. Like Mount Meru, Trade Kings has expanded into new markets using own funds, including retained earnings, for start-up capital. Throughout its expansion, Trade Kings has not used a single bank loan and prides itself on the fact that it has been entirely self-funded.

While the self-funding strategy may have been the most viable (and probably the only one available) at the start-up stage due to high costs of finance, it is likely that these AMNCs are now in much better positions (having grown substantially) to negotiate favourable loan terms with

[15] Interview with Mount Meru Millers Zambia, 27 February 2020.

[16] Interview with Mount Meru Millers Zambia, 27 February 2020.

banks and offer collateral where required. Moreover, relying solely on retained earnings for expansion may delay much needed investments, whereas it may be quicker to access bank funding. Despite this, bank funding has generally been used for working capital purposes rather than capex, as in the case of Mount Meru.

ETG has received working capital from commercial banks such as Standard Bank, Standard Chartered, and the African Development Bank (AfDB). For instance, in 2010, the Standard Chartered Bank provided a US$120 million structured soft commodity facility to ETG to finance the trade of commodities in African markets.[17] ETG managed to negotiate better terms on the facility because of its long-standing relationship with Standard Chartered. In 2012, ETG further received a finance facility of US$32.5 million to assist with expansion into food processing and infrastructure, from the CDC Group (a UK government development finance institution).[18] At around the same time, ETG received a bespoke US$250 million syndicated structured commodity financing facility from Standard Chartered, to purchase commodities (maize, sesame seeds, pulses, and cashew nuts) at farmgate level and export to world markets.[19] The facility was also used to import commodities that many African countries rely on, such as rice and fertilizer. And in 2017, ETG received a loan of US$100 million from the AfDB to provide support at different stages of its value chain, potentially impacting 600,000 farmers in 17 countries.[20]

ETG has evidently managed to secure significant external funding, perhaps owing to its track record, longstanding relationships with funders, and substantial assets to leverage as collateral. This suggests that the reputation and relationships of companies with funders and other development partners are important in the expansion of the major AMNCs—advantages which smaller market participants are less likely to enjoy.

Apart from finance, studies have identified lack of access to markets as a potential barrier to entry (Vilakazi et al. forthcoming). The experiences of these three AMNCs in this regard suggest that access to markets has not been a major challenge. For instance, Mount Meru asserts that it has not been difficult to access supermarkets because the company had already built a brand in the rest of Africa at the time when major supermarkets emerged in Zambia. Mount Meru sells to supermarkets like Shoprite and Pick n Pay in the region, but the company's largest client in Zambia is Zambeef. Initially, Zambeef was supplied by Cargill, but the space opened up when Cargill closed its business in the region. Shoprite previously imported cooking oil from South Africa, until the importation of refined cooking oil was banned in Zambia. The ban is most probably one of the major factors that enabled Mount Meru to access major supermarkets in the Zambian market.

Another likely contributing factor is the government's policy of encouraging people to buy locally produced products. Trade Kings corroborated this by explaining that the Zambian government's promotion of a buy-local agenda induced Shoprite to include Trade Kings in its supply chain. Shoprite was under pressure to conform to the government's policy, and Trade Kings represented a viable local alternative. Prior to the emergence of the major supermarkets, Trade Kings used to distribute to small retailers across the country.

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[17] Standard Chartered Bank (2010) News Media.

[18] CDC Group video presentation.

[19] ETG interview with CNBC Africa, available on YouTube.

[20] AfDB website.

Mount Meru also mentioned that the requirements for supermarket listing are not onerous, and that payment periods are not inhibitive to their operations,[21] which contrasts with findings in previous studies (Chisoro and das Nair 2020). The company notes that the process of payments is primarily guided by the different contractual agreements with different supermarkets, including a rebate system which has made sure that supermarkets usually pay on time.

4.5 Key technologies and processes for maintaining competitiveness and sustainability

The AMNCs considered in this study have differentiated themselves in the market through vertical integration and the building of logistics capabilities, as discussed above, as well as through employing cutting-edge technology. Mount Meru, for example, affirmed that technology adoption is very important in the crushing business, to reduce costs and increase production capacity. The ability to diffuse this technology through the various parts of the regional business is also important, as discussed in the review of literature. For example, before Mount Meru entered the Zambian market, none of the existing companies had a solvent extraction plant; that is, they were extracting oil mechanically, which was not the optimal method. In 2019, Mount Meru increased the capacity of its refinery plant from 100 tonnes to 350 tonnes, and it now plans to purchase an automated filling machine.

Another example relates to cotton, where Mount Meru initially did not have a de-linting plant, for separating lint from cotton seeds. Through the use of such technology Mount Meru aims to achieve higher quality output in order to access international markets such as European countries and Japan, which pay a premium for high-grade cotton. Similarly, Nestlé's plant in the Netherlands pays a premium for Mount Meru's sunflower oil because of its consistent high quality.

The above assessment shows that the AMNCs that have grown their food production and processing operations have done so through being able to compete on both price and quality. This means that consumers will benefit, as cost savings are likely to be passed on to them. There are other benefits to be derived from the use of new technology. For example, Trade Kings' use of multiple power sources means not only that operating costs can be reduced, but also that the company is less susceptible to the country's frequent power outages. The ability to produce cost effectively and consistently is a critical aspect of remaining competitive both in the region and internationally.

4.6 Interaction with local policies and institutional frameworks

The inefficient functioning of institutions remains a significant challenge for business development in Africa. ETG noted that, in general, policies are unclear and constantly changing, which means that the company has had to become highly adaptable in its strategies in different countries in the region. Trade Kings similarly noted a lack of properly functioning systems in Zambia, such that something as basic as patenting a trademark or claiming tax rebates is difficult, and that there is no effective enforcement of policies and laws against low-quality products (which compete with those of Trade Kings). In terms of retail, Mount Meru pointed to the challenge of smuggling, stating that 600 tonnes of cooking oil are smuggled into Zambia monthly. The issue of smuggling and the proliferation of low-quality products in the Zambian market has been raised by a number of other local manufacturers, which points to potential weaknesses in the institutional framework.

Nevertheless, Trade Kings has managed to build alliances and relationships with key institutions and interest groups, which has given the company an advantage in navigating the Zambian terrain.

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[21] Interview with Mount Meru Millers Zambia, 27 February 2020.

For instance, Trade Kings has been appointed by the Zambia Revenue Authority (ZRA) as a tax agent. That is, the company collects tax on behalf of the ZRA. This proves that Trade Kings has a favourable relationship with the authorities and is regarded as a 'good corporate citizen' in Zambia's socio-political context. Notably, the company has even been able to invite the President of Zambia to commission new plants.

Some local policies have led to an overall increase in competitiveness. For example, the government of Zambia has a tax incentive for the agro-processing industry, whereby local manufacturers do not have to pay corporate tax. Since it is in the business of producing cooking oil, Mount Meru has benefited from this incentive. Furthermore, the Zambian government's multi-facility economic zones have enabled industrial enterprises to access facilities that are critical to the day-to-day running of operations. Trade Kings' new beverages plant is located in a multi-facility economic zone. In Tanzania, ETG partnered with the government-owned national development corporation to run a 58-acre agro-processing and logistics park, which processes about 400 tonnes of grain per day.

Each country, of course, has policies that MNCs must comply with, although these are not necessarily prohibitive of entry or investment, as noted in the literature. In the cashew nut market, for instance, ETG observes that Tanzania operates a cooperative-driven model, where largely cooperative societies, unions, and the cashew control board (the Cashewnut Board of Tanzania) control the entire process. In such instances, ETG participates only at the tendering stage, as other market access and sourcing processes are handled by the various groups, whereas many countries in West Africa allow companies to source cashews provided they do not buy directly from farmers. In Mozambique, a firm is free to obtain cashews from any source but it is expected to have processing conducted domestically.

5 Conclusions: how can the emergence of African MNCs be leveraged for regional industrial capacity development?

The emergence of African multinational corporations brings together a number of opportunities that can be beneficial for regional industrialization. Improved regional industrial capacity means increased import substitution in value chains where regional economies have comparative advantage due to the abundance of underlying raw commodities. Of course, having local production of a crop at the primary level does not mean that a country has the latent capabilities to undertake processing of that crop; the set of capabilities required is vastly different. However, the presence of good crop resources does provide an opportunity for large-scale agribusinesses and processors to enter markets in the region and develop production capacity. This has been the case with the AMNCs considered in this study.

In order to unlock these opportunities, African countries that have primarily relied on exporting unprocessed food products can move to higher value-adding activities by attracting investments in processing capacity. Adopting clear and consistent policies in that regard can ensure that large-scale investors such as those considered in this paper are attracted, with the certainty that adequate returns will be appropriated from the investments made. The stability of policies and predictability of the policy environment are important conditions, also confirmed in the literature. This is important because attracting investments in local value addition means increased employment in the domestic market as well.

The experience of ETG with cashews in Mozambique shows that it is possible for an African country to have strong local value addition and investment policies that impact on MNCs, without

necessarily impacting negatively on investment. The important takeaway point from the ETG experience is that companies need to believe that they will still be profitable within the prevailing policy environment, i.e. that returns will be earned from the investments made. Despite sometimes challenging operating and policy environments in the countries into which they have expanded, including uncertainty regarding policies, the selected AMNCs have been able to earn sufficient returns to grow over time. They have done so by adopting various strategies suited to local contexts, and building capabilities in home markets first.

The AMNCs studied have each employed a strategy of insourcing and vertical integration through the value chain. Whilst there is no doubt that control of key parts of the value chain increases efficiency and ensures security of supply of input materials as well as the smooth distribution of products to end markets, there appears to be limited participation of SMEs in the value chains of the AMNCs. This can be problematic in that the AMNCs can crowd out other local players, which means that local capabilities are not effectively developed. In the medium to long term, it is thus expected that an absence of capable domestic suppliers and rivals will lead to entrenched market power for the AMNCs, which are just as likely as other dominant firms to abuse this position.

On the other hand, AMNCs have tremendous potential to build up local suppliers and farming communities through effective contracting with SMEs and local sourcing of inputs and produce. In this particular group of AMNCs, this is demonstrated through the cases of Mount Meru and ETG, where there have been other benefits such as the transfer of skills and capabilities to local SMEs. Thus, strong policies can be adopted to foster the participation of SMEs within some of the value chains anchored by African multinationals. These policies of course need to ensure that SMEs are not restricted to the provision of low-value products or services, but that they acquire the requisite capabilities to upgrade to high-value activities in the value chains. There is certainly growing evidence that large internationalized corporate entities in the region have increasingly sought to partner with local players, albeit only in response to pressure from local governments in some cases (das Nair and Landani 2019).

The AMNCs studied here have all made an explicit commitment to growing the economies of both their home countries and the African countries in which they operate. Ultimately, they are all profit-maximizing and make investments based on viability and likely returns, as discussed above. However, it is notable that the founders of the companies have sociological and generational roots in the region, which means that they have an inherent understanding not only of the challenges of operating in markets in the region, but also of navigating the socio-political and economic challenges of the different countries. Although not assessed further in this paper, understanding the role, perceptions, and strategies of 'indigenous' capitalists in African economies is a potentially interesting area for further research.

There also seems to be great value in having established personal networks and alliances with political and governing elites and bureaucrats, and being seen to support or at least comply with local policies. In fact, although it has not emerged clearly from the information available for this study, it is likely that the AMNCs are 'good corporate citizens' precisely because they have benefited directly from local policies (Vilakazi and Roberts 2019). In Zambia, Trade Kings benefited not only from the government's policy on the promotion of locally produced products, but also from public endorsement of the company's products by prominent political figures, including the President. This significantly swayed the public's perception of Trade Kings' products and substantially boosted demand. (As a result, it has become extremely important for the company to have the President officially and publicly commission every new plant built.) Ultimately, local connections within elite networks do shape economic opportunities and outcomes for the AMNCs as well.

The emergence of African multinationals can be leveraged to promote locally produced products. For instance, the spread of big supermarket groups across the continent can be used to link local producers to end markets. The cases of Trade Kings and Mount Meru show that effective policies can be crafted to ensure that large buyers such as supermarkets promote local products. Pressure exerted by the Zambian government on major supermarkets enabled Trade Kings to access Shoprite's shelf space. Similarly, that pressure accompanied by a ban on the importation of finished cooking oil enabled Mount Meru to access Shoprite, Pick n Pay, and other supermarkets. It is evident therefore that local industrial policies matter for opening up local and regional supply and value chains. Importantly, however, measures to protect and include local producers should not serve to shield inefficient producers from competition.

In conclusion, each of the three African multinationals studied has had to vertically integrate in order to realize efficiencies and become competitive, and this seems to have been a critical and necessary part of the evolution of each company's business strategy. The important task for competition authorities and policy makers is to ensure that the large integrated entities do not abuse market power and their control of access to key inputs and customers. Specifically, firms can (and tend to) act strategically to block the entry of other new firms (especially SMEs) or force the exit of existing firms from the market. This may be done in order to protect their market shares at different levels of the market, and unfettered control of key resources can be used to reinforce these strategies (Paelo et al. 2017).

South Africa has had extensive experience with anticompetitive exertion of market power by integrated incumbent firms, and it is important that this experience is drawn on by other jurisdictions. That said, it is important to recognize that efficiencies can arise through integration, and can be passed on to consumers if markets are sufficiently competitive. It may also be that interventions to curb the power of emerging AMNCs in different markets need to be balanced by incentives for these firms to make much-needed investments.

It is evident from the analysis in this paper that the growth and expansion of these companies in the region has led to significant investments in logistics, production, and processing capacity, and to competition against incumbent rivals that has benefited the market generally. The fact that these companies have also invested in new technologies and upgraded production processes is also likely to contribute (over time) to the the structural transformation of local economies. Our assessment shows that there is a critical role for governments to play in both reducing the constraints faced by emerging AMNCs and enabling their entry and growth through various investment incentives where possible.

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Appendix: Interview schedule and interview guide

Interview list	
Name of company	Date of interview
Trade Kings Limited	24 January 2020
Mount Meru Millers Zambia Limited	27 February 2020
Export Trading Group (ETG)	ETG did not grant an interview. Information (in line with the questionnaire below) was gathered through publicly available sources, such as the company website, media articles, and presentations by senior representatives of the company available on YouTube.

Interview guide – main thematic areas	
1	Background information • Overview of the company ownership structure, establishment • Key activities of the company
2	Barriers to entry into local and regional markets • Sources of start-up capital • Barriers to entry into the home and new country markets • Market structure and incumbent lead players in markets entered • Reaction of incumbents to entry • Strategies adopted to remain competitive and gain market share • Time taken to profitability • Timeline of expansions into other African countries • Role played by personal networks in overcoming barriers to entry both locally and regionally
3	Key technologies/processes/capability development for maintaining markets and entering into export markets • What specific technologies were important in the expansion of your business and supplier networks? • What has been the impact on your company of adopting/not adopting new technologies in terms of: o Productivity, production, production costs o Capital investment and upgrades to existing equipment o Skills training and employment o Maintaining export markets and entering new markets (regional) o Any other related business decisions? • What key capabilities did the company have to develop in order to remain sustainable? • What investments were made by the company to develop these capabilities?
4	Role of institutions and policy in capability development • Role played (if any) by the host country government in facilitating expansion/entry, including reference to any government incentives or tax exemptions • Effect of institutional and policy decisions on your business decisions to expand and make investments in your home country and in new markets
5	Production and investments • Production output over the past 5–10 years • Potential for growth in production over the next 5 years (in the context of climate change, access to markets and land, etc.) • Extent of capital investments made in production, warehousing, cold storage, transport & logistics, etc. over the past 5–10 years
6	Market access • Main markets, customer categories, and sales volumes per market • What are the costs and requirements for supplying these markets (supermarkets, independent retailers, export markets)? List both legal requirements and private standards imposed by specific buyers.

	• What are the key market access constraints? • What has been the role of government in opening up new markets and addressing the following key constraints: o Phytosanitary (plant health) issues o Promotions / market development for potential export markets o Tariffs o Credit, incentives and access to finance? • Within the industry, are there links between government and the industry regarding market access and related matters (e.g. industry association)? • Was the company able to make representations to policy makers regarding issues of concern with respect to location and investments in different markets? • What role did personal networks play in enabling market access?