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Leveraging investment strategies of African Multinational Corporations (AMNCs) for improved regional integration and industrial capacity

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1. Introduction

Both the Southern African Development Community (SADC) industrialisation roadmap and the African Continental Free Trade Area (AfCFTA) have a core focus of developing regional industrial capacity in African markets.[1] In this regard, considerable importance has been placed on fostering competitive markets, diversification, and the development of strong regional value chains.[2] By seeking to remove tariffs on 90% of goods, open up trade services, enhance competitiveness, and address a range of nontariff barriers, the AfCFTA aims to spur industrialization and growth in the sub-region.[3][4][5] However, developing regional industrial capacity and strong integration should go beyond trade policies, and requires other policies that enable the growth of regional entrants and that remove barriers to effective competition.

Developing competitive markets requires independent rivals competing across borders and within domestic markets through innovation and effort, investment, product quality, and prices. The opening up of markets for regional firm-rivalry is fundamental in enabling the emergence of African firms that can compete with large multinational corporations. In the process, this can enhance innovation and improve regional industrialisation. Improved regional industrial capacity and competitiveness can contribute to import substitution in value chains where regional economies have comparative advantage due to the abundance of underlying raw commodities.

This policy brief discusses insights from experiences of emerging African multinational corporations (AMNCs) to reveal what entrants have to typically adopt in terms of specific expansion strategies across boarders within the region. Key amongst many of the strategies are: innovation; ability to navigate domestic political economy environments; large-scale investments; and use of internal resources for investments. We unpack why and how emerging entrants tend to adopt these strategies, and in doing so highlights some of the challenges that may arise regarding the industrial development through the AfCFTA.

Insights from the experiences of five emerging African multinational corporations operating in food production and construction inputs sectors across multiple African countries are discussed. The studies were conducted by CCRED on behalf of United Nations University World Institute for Development Economics.[6,7] The following table lists the AMNCs studied (Table 1):

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[1] Byiers, B., Apiko, P and Karkare, P. (2021). AfCFTA and Industrialisation: From policy to practice. ECDPM discussion paper number 314

[2] Nsomba, G. (2021). The Coca-Cola Company/Coca-Cola Beverages Africa merger: lessons for robust regional competition enforcement. https://doi.org/10.1177/0003603X211045436

[3] Nimonka Bayale, et al., Potential Trade, Welfare and Revenue Implications of the Afcfta for Ghana: An Application of Partial Equilibrium Model, e2385 J. PUB. AFF. 1–14 (2020)

[4] African Union (2018). Agreement Establishing the African Continental Free Trade Area. Available at: https://au.int/sites/default/files/treaties/36437-treaty-consolidated_text_on_cfta_-_en.pdf

[5] World Bank (2020). AFRICAN CONTINENTAL FREE TRADE AREA: Economic and Distributional Effects. Available at:
https://openknowledge.worldbank.org/bitstream/handle/10986/34139/9781464815591.pdf

[6] https://www.wider.unu.edu/sites/default/files/Publications/Working-paper/PDF/wp2020-88.pdf

[7] https://static1.squarespace.com/static/52246331e4b0a46e5f1b8ce5/t/6137565812370a6f0c7d0c0e/1631016538763/wp2021-143+Nsomba+and+Vilakazi+FINAL+%28002%29.pdf

Table 1: Emerging African multinational corporations

Company name	Date established	Country of origin	Countries expanded to	Sectors
Export Trading Group (ETG)	1967	Kenya	Tanzania, Malawi, Mozambique, Nigeria, and South Africa.	Agro-processing
Mount Meru	1971	Tanzania	Zambia, Rwanda, Malawi, Mozambique, Kenya, Zimbabwe, Gabon	Agro-processing Fuel retail
Trade Kings	1995	Zambia	South Africa, Zimbabwe	Food processing Soaps and detergents
UMCIL (Kafue Steel)	2004	Zambia	Distribution centres in 18 African countries	Steel
Dangote Cement	1981	Nigeria	Ethiopia, Ghana, South Africa, Tanzania, Zambia, Siera Lione, Congo.	Cement

Source: Bosiu and Vilakazi (2020) and Nsomba and Vilakazi (2021)

2. Regional expansion strategies of AMNCs

Literature on barriers to entry in the African context highlights that the process of industrialization and the expansion of capabilities is particularly different for developing countries relative to developed countries.[8] Therefore a one size fits all approach to understanding expansion activities of firms is not appropriate. African markets have been described to have diverse challenges and opportunities; where the diversity of people, political and economic histories, levels of development, and culture confers Africa with unique business environments.[9] These characteristics impact significantly on the way expansion strategies of African firms can be understood.

The experiences of emerging AMNCs highlight a range of strategies the firms have employed to build capabilities, up-scale, and expand beyond their countries of origin. These strategies are reflective of why it is important to understand country and regional specific challenges to industrialisation in order to realise the potential gains of the AfCFTA. Importantly, these strategies show how market dynamics within national borders and across regional economic blocks play an important role for continental industrial development.

This section provides a discussion that covers the following four key entry and sustainability strategies common to all five studied firms: large scale competitive entry at multiple levels of the supply chain; adoption of new technologies; utilisation of internal resources; and use of personal networks with the governing elites. While expansion strategies are not limited to the ones focused on in this policy brief, we note that these are reflective of why industrial

[8] Esho, E. and Verhoef, G. (2020). Beyond national markets: The case of emerging African multinationals, Economic History of Developing Regions, 35:2, 71-97, DOI: 10.1080/20780389.2020.1757425

[9] Ibid

ambitions through the AfCFTA should practically go beyond tariff liberalisation. governments within the region have not filled the gap as far as possible in ensuring that the process of competitive rivalry is instilled in their respective economies, resulting in few dominant national champions that govern value chains and dominate domestic and regional markets.[10] We discuss each strategy in turn.

2.1. Large-scale competitive entry at multiple levels of the supply chain

Notwithstanding the diversity of regional economies on multiple fronts, markets in southern Africa are typically dominated by large international players, including in food production and construction inputs.[11] This impacts significantly on the ability of smaller local rivals to enter and expand within domestic and regional markets – requiring efficient and large-scale entry for rivals to compete effectively and earn fair returns on investments made. Leveraging off strong national networks, geographic proximity, cultural understanding and institutional complementarity across countries, the studied firms significantly invested in large scale competitive entry into adjacent markets.

The table below lists the extent of each firm's investments across the region. In many respects, these investments are large in the contexts of the specific sectors in which the firms operate. For instance, Mount Meru's investment in Zambia of an 84,000 tons per annum edible oil production facility is substantial in the context of an economy with a total annual demand of about 120,000 tons.[12] Similarly, UMCIL's annual steel production capacity of about 250,000 tons is substantial relative to the total national demand of about 300,000 tons per annum.[13] On the other hand, the capacity of Dangote's cement plant in Tanzania is about 30 per cent of that nation's total production capacity.

One striking factor of the large-scale competitive entry is the time taken to complete large investments and expand capacity. In the case of Zambian steel producer, UMCIL, for example, it had taken nearly 10 years to set up the operation of its Kafue steel plant and approximately two decades from the time that the prospect of erecting a Zambian steel production company was being discussed in earnest in Zambian policy processes.[14] Large scale investments take time, and this is at the heart of industrial support considerations for governments across the region and the AfCFTA itself. For example, in environments where macroeconomic (especially monetary) policies lead to high interest rates and stringent borrowing conditions, large scale investments by several other under-resourced rivals are likely to be challenging.

[10] See Roberts, S. (2016). Competition in Africa: Insights from Key Industries. Cape Town: HSRC Press.
[11] Bosiu, T. and Vilakazi, T. (2020). Competition and inclusive regional economic growth in food production: Barriers to entry and the role of African multinational corporations. WIDER Working Paper 2020/88. Helsinki: UNU-WIDER; Nsomba, G. and Vilakazi, T. (2021). Barriers to entry and the role of African multinational corporations: Entrants in intermediate industrial products (inputs into construction). WIDER Working Paper 2021/143. Helsinki: UNU-WIDER
[12] Zambia Association of Manufacturers (2021). Upscaling Local Content in the Edible Oils Sector. Available at: http://zam.co.zm/upscaling-local-content-in-the-edible-oils-sector/?utm_source=rss&utm_medium=rss&utm_campaign=upscaling-local-content-in-the-edible-oils-sector
[13] Interview with AMCIL, 16 May 2019
[14] Nsomba, G. and Vilakazi, T. (2021). Barriers to entry and the role of African multinational corporations: Entrants in intermediate industrial products (inputs into construction). WIDER Working Paper 2021/143. Helsinki: UNU-WIDER

Table 2: Emerging African multinational corporations expansion activities

Firm	Expansion Activities
Export Trading Group (ETG)	Phased expansion: • 2,500,000 storage capacity • 300 warehouses • 71 processing plants
Mount Meru	• Oilseed crushing and oil refinery plant worth ~$70,000,000 • 84,000 tons oil production capacity
Trade Kings	• Beverages and household products production plant worth $250,000,000
UMCIL (Kafue Steel)	Phase acquisitions of capacity: • 81-acre site • 20-ton furnace and rolling mill, 250,000MT annual production capacity
Dangote Cement	Phased expansion: • 1,500,000MT annual production capacity Zambia • 3,000,000MT annual production capacity Tanzania, 30% of Tanzania's total capacity

Source: Bosiu and Vilakazi (2020) and Nsomba and Vilakazi (2021)

Secondly, increasing productive capacity through regional integration requires reducing barriers to entry and widening economic participation. The case of Dangote in the cement industry is instrumental here. While entry in countries across the region such as Malawi, South Africa, Tanzania and Zambia led to a reduction in cement prices, substantial cross-border price differences (despite countries being in the same regional economic community) strongly indicated that incumbent companies were dividing markets across the region,[15] indicating significant regional market power. This was exacerbated by factors such as refusal to stock by retailers as well as high logistics costs, impacting on Dangote's potential competitiveness.

High transport costs impacted the entry of all the studied firms, save for UMCIL. Large-scale entry was therefore complimented with investments in transport fleets and distribution channels to navigate challenges of infrastructure constraints and the lack of regulation of transport markets. These experiences provide insights that there are challenges in adjacent markets (such as logistics, retail, etc.) that have the effect of raising costs of entry of challenger firms – which governments and policy makers need to be cognizant of in their interventions to improve regional industrial capacity.

The other striking feature of the large-scale competitive entry is the clear strategy to integrate the supply chain process so as to maximize efficiencies. For example, with regards

[15] Paelo, A., Roberts, S., Simbanegavi, W. and Vilakazi, T. (2020). Understanding the role of competition in rethinking regional integration in Africa for inclusive and sustainable development. CCRED Working Paper

to fertilizer, 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 with long-established firms such as Yara. Similarly, Mount Meru' strategy has been to vertically integrate. The company produces its own packaging material; has an infrastructure business to meet all infrastructure requirements in-house; and has logistics business to meet all transportation needs, such as transporting of fuel and importation of crude oil used in the production of cooking oil.

On the other hand, UMCIL has invested in iron-ore mining to reduce reliance on scrap steel and strengthen security of supply of raw materials. Whilst the vertical integration strategy has seemingly enabled AMNCs to maximize efficiencies and significantly reduce costs, it may also point to tight control of the value chains by incumbents, necessitating challenger firms to enter at multiple levels in order to be competitive.

2.2. Utilisation of internal resources for limited scope entry and expansion

The cultural diversity in Africa is more complex than in other markets, which explains the frequent cautious and single product competitiveness dimension of corporate internationalisation strategies.[16] These factors also explain the centralised management control, often by families, and a reluctance to appoint professional management or risk the loss of control through public listing.[17] A key insight emerging from the research is that each of the companies mentioned above are primarily single product producers, who then diversified activities gradually to evolve their portfolio. This was achieved through leveraging internal resources initially from within the group to develop other parts of the business.

In order to expand across regional borders, the AMNCs studied have used internal funding sources for initial expansion activities as well as gradual migration of capabilities and resources from one area of a business to another.[18] In many of the African countries, public resources are limited and stretched to address other key domestic priorities such as investing in infrastructure and public health and education. Hence, external funding for large-scale local entrants in the region remains limited generally. Almost all the funding for the development of the Kafue Steel operation was sourced internally within the Trade Kings group, following unsuccessful attempts to secure funding through private banks. Similarly, Mount Meru was fully self-funded from family earnings, with the agro-processing plants funded through earnings retained from the fuel retailing business. In contrast to the AMNCs studied here, South African-domiciled AMNCs have financed their expansion into the rest of the African continent and internationally largely through debt funding and capital raised

[16] Esho, E. and Verhoef, G. (2020). Beyond national markets: The case of emerging African multinationals, Economic History of Developing Regions, 35:2, 71-97, DOI: 10.1080/20780389.2020.1757425

[17] Esho, E. and Verhoef, G. (2020). Beyond national markets: The case of emerging African multinationals, Economic History of Developing Regions, 35:2, 71-97, DOI: 10.1080/20780389.2020.1757425; Bosiu, T. and Vilakazi, T. (2020). Competition and inclusive regional economic growth in food production: Barriers to entry and the role of African multinational corporations. WIDER Working Paper 2020/88. Helsinki: UNU-WIDER

[18] Bosiu, T. and Vilakazi, T. (2020). Competition and inclusive regional economic growth in food production: Barriers to entry and the role of African multinational corporations. WIDER Working Paper 2020/88. Helsinki: UNU-WIDER

through the Johannesburg Stock Exchange (JSE).[19] Given that South Africa is faced with similar challenges of access to finance for SMEs as the rest of the continent, the relative ease of access to finance by South African-domiciled AMNCs is likely due to their relative size. Compared to those studied here, many of them have grown so large and built requisite capabilities and strong relationships with financial institutions that become advantageous when seeking finance.

The use of retained earnings by non-South African AMNCs (i.e., those studied here) is however significant for at least two reasons. First, internal resources of local holding companies or investors are a critical advantage for AMNCs. The ability of a holding company to reinvest in its different subsidiaries at the level required for the establishment of very large, sophisticated, and competitively significant domestic manufacturing operations is typically uncommon in smaller economies with poorly developed and under-resourced capital markets.[20]

The reality is that, save for case study examples, African firms continue to face difficulties regarding access to funding, which remains a significant constraint in terms of both capital expenditure and working capital.

2.3. Investment in new technologies and upgraded production processes

Theories on growth and expansion of multinationals emerging from developed nations have implicitly assumed that cross border expansion requires a solid technological base and institutional infrastructure.[21] The use of technology and the ability to diffuse it through the various parts of any business is indeed central to cost reductions and increasing operational efficiencies.[22] New entrants, in seeking to be competitive against incumbents, are more likely to draw on new technologies or business models to distinguish their businesses from rivals. However, scholars have found that the manner in which technologies are developed and are adopted are highly context-dependent.[23] For example, multinationals studied from Japan and Korea have been found to increasingly adopt new technologies through being aggressive risk takers and following a less path dependent course, leveraging off country

[19] Bosiu, T., Goga, S., and Robb, N. (forthcoming). Large firm strategies and investment for economic recovery in South Africa. CCRED Working Paper
[20] Bosiu, T. and Vilakazi, T. (2020). Competition and inclusive regional economic growth in food production: Barriers to entry and the role of African multinational corporations. WIDER Working Paper 2020/88. Helsinki: UNU-WIDER
[21] Cuervo-Cazurra, A., and R. Ramamurti. (2014). Understanding Multinationals from Emerging Markets. Cambridge, UK: Cambridge University Press; Esho, E. and Verhoef, G. (2020). Beyond national markets: The case of emerging African multinationals, Economic History of Developing Regions, 35:2, 71-97, DOI: 10.1080/20780389.2020.1757425
[22] Bosiu, T. and Vilakazi, T. (2020). Competition and inclusive regional economic growth in food production: Barriers to entry and the role of African multinational corporations. WIDER Working Paper 2020/88. Helsinki: UNU-WIDER
[23] Esho, E. and Verhoef, G. (2020). Beyond national markets: The case of emerging African multinationals, Economic History of Developing Regions, 35:2, 71-97, DOI: 10.1080/20780389.2020.1757425

specific advantages.[24] On the other hand, multinationals from China have adopted technologies based on imitation capabilities and state driven globalization policies.[25]

Among the studied African firms, the adoption of improved technologies is much less explicitly linked to country specific advantages that have resulted from targeted government policy but are rather to a large degree informed by the need for more efficient production to compete with dominant multinational firms with extensive global links such as Lafarge in the case of cement and Arcelor Mittal in the case of steel. Dangote Cement and Kafue Steel in Africa have employed some of the latest plant technologies, including those that have enabled efficiencies in terms of energy usage.[26] In the cement industry, for example, existing rivals in the regional cement market are well established, but generally with much older plant technology. Technological adoption is therefore found to be highly linked to firm specific advantages as opposed to country and industry advantages.

Dangote's entry into the east and southern African region has incorporated the latest technologies in plant production which have come with significant efficiencies derived in terms of quality and energy costs. This has not necessarily been linked, however, to direct support through industrial policy across countries it has expanded to. While there has been clear intent from the government in Zambia, for example, around the need for economic diversification and the important role that subject matter experts and the industrial inputs sector plays, this has not necessarily translated into tangible sector-specific policy outcomes.[27] There is therefore need to understand further how industrial policy can shape specific upgrading activities in targeted sectors, particularly for cases where firms are not in a position to transfer technologies, capability development and learning from 'parent' plants.

The entry experience in Zambia also provides for a good example of the potential for agriculture to tap into the growing urban demand for processed foods. Before Mount Meru entered the Zambian market, none of the existing companies had a solvent extraction plant, which gave Mount Meru a competitive advantage.[28] Incumbent firms relied mainly on mechanical oil extraction, which is a lesser efficient technique to extract oil from seeds.[29] Conversely, Mount Meru did not initially have a de-linting plant – a technology used to separate lints from cotton seeds. Subsequent acquisition of this technology enabled the company to compete effectively and achieve higher quality output in order to access international markets such as European countries and Japan, which pay a premium for high-

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[24] Luo, Y., and R. L. Tung. 2007. "International Expansion of Emerging Market Enterprises: A Springboard Perspective." *Journal of International Business Studies* 38: 481–498.
[25] Fitzgerald, R., and C. Rowley. 2016. "Internationalization Patterns and the Evolution of Multinational Companies: Comparing Japan, Korea, China and India." *Asia Pacific Business Review* 22 (4): 523–533.
[26] Nsomba, G. and Vilakazi, T. (2021). Barriers to entry and the role of African multinational corporations: Entrants in intermediate industrial products (inputs into construction). WIDER Working Paper 2021/143. Helsinki: UNU-WIDER
[27] Nsomba, G. and Vilakazi, T. (2021). Barriers to entry and the role of African multinational corporations: Entrants in intermediate industrial products (inputs into construction). WIDER Working Paper 2021/143. Helsinki: UNU-WIDER
[28] Bosiu, T. and Vilakazi, T. (2020). Competition and inclusive regional economic growth in food production: Barriers to entry and the role of African multinational corporations. WIDER Working Paper 2020/88. Helsinki: UNU-WIDER
[29] Dunford, N. (2016). FOOD TECHNOLOGY FACT SHEET: Oil and Oilseed Processing II. OKLAHOMA State University. Available at: https://extension.okstate.edu/fact-sheets/oil-and-oilseed-processing-ii.html

grade cotton. The cotton sold to the international market is the by-product of the oil extraction process from cotton seeds.

Importantly, there are at least two factors that contributed to Mount Meru's upgrading, which also provide for some important learnings for industrial upgrading in the context of the AfCFTA. First, Mount Meru managed to attain significant financial and skills capabilities, including through the Africa Agriculture and Trade Investment Fund for expansion funding.[30] Therefore, while there is need for appropriate industrial policy structures that can necessitate expansion, the case of Mount Meru shows that financing will continue to play a critical role in the ability of African firms to expand in the context of the AfCFTA. Secondly, access to and adoption of cutting-edge technologies (sourced from India) enabled Mount Meru to upgrade along the value chain and tap into other lucrative international markets. Therefore, regional industrial development efforts should also speak to issues related to affordable access to efficient technologies. The machinery and equipment industry should be strengthened, perhaps leveraging from the existing capabilities in South Africa.

2.4. Use of personal networks and alliances with governing elites

Alongside the global orientation of founders (of AMNCs) that originates from their education and experience, relationships from founders' networks also play a dominant role in their expansion process. In particular, it appears some of the AMNCs have managed to build alliances and relationships with key institutions and governing elites, which has given them an advantage in navigating the regional terrain. For instance, as a result of strong personal networks, Trade Kings has been appointed by the Zambia Revenue Authority (ZRA) as a tax agent, tasked with collection of tax on behalf of the ZRA. On the other hand, 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.

These companies have favourable relationships with the authorities and are regarded as 'good corporate citizens' in these countries' socio-political contexts. As a result, in Zambia, Trade Kings has lobbied for and benefited from the government's policy on the promotion of locally produced products. Moreover, it has also benefited from public endorsement of the its products by prominent political figures, including the then President Lungu. These have significantly swayed the public's perception of Trade Kings' products and substantially boosted demand. Thus, it appears there is a great value in establishing networks with the ruling elite, as they seemingly do shape economic opportunities and outcomes.

[30] https://www.aatif.lu/impact-briefs.html?file=files/assets/downloads/AATIF%20IMPACT%20Brief%2009%20-%20Mount%20Meru%20Millers.pdf&cid=519

3. Industrial policy support to attract AMNCs investment

There has always been a clear intent by African governments (bilateral agreements and regional policies) to improve industrialisation and increase the inclusion SMEs in value chains, however this has not necessarily translated into tangible sector-specific policy outcomes. Moreover, the challenge for the SADC industrialization roadmap and AfCFTA is to facilitate a regional industrialization process and the inclusion of SMEs in regional value chains. The growth of the AMNCs has largely been through own effort and ability to establish alliances with key stakeholders, and to a lesser extent through direct industrial policy support. Industrial policy support plays a key role for firms seeking to establish operations and to compete effectively. A key challenge for AMNCs in the region appears to be that the approaches and policies of governments towards entrants are often unaligned and uncoordinated. This relates also to the nature of industry development and investment support provided.

The level and directness of policy support received by some AMNCs shows the idiosyncratic features and political contexts of the different countries in which the AMNCs operate. In South Africa, for example, there has been various government support measures, following the recent entry of Mamba Cement and ETG, in the form of tax incentives, permits, or grants.[31] In contrast, support received by Dangote has been quite different following its entry in some of the countries it operates. Whilst the experience with government support was somewhat positive in Zambia, the various government commitments (i.e., access to natural gas and coal resources) in Tanzania never materialized, as a result of the then changing political and policy environment. This had significant cost implications Dangote's operations. For example, negotiations with the energy regulator over access to natural resources at favourable rates got protracted to a point where Dangote was left with little choice but to opt for usage of costly diesel turbines.[32] This resulted in significant losses, leading to temporary closure of the plant.

Nonetheless, there have been efforts from regional governments to provide economy-wide incentives to businesses in general, which have indirectly benefited the AMNCs. For example, UMCIL in Zambia has benefited from the government's emphasis on locally sourced products and provision of tax incentives for sourcing inputs locally. This was to encourage government and other entities to source locally produced steel products. Mount Meru has also benefited from the Zambian agro-processing tax incentive which exempts local manufacturers from paying corporate tax.

Alongside industrial policy support, well-functioning national institutions are vital to improve regional industrial capabilities. Interviews with the AMNCs suggest that there are challenges with effective functioning of public institutions in many African countries in which they

[31] Paelo, A., S. Roberts, W. Simbanegavi, and T. Vilakazi (2020). 'Understanding the Role of Competition in Rethinking Regional Integration in Africa for Inclusive and Sustainable Development'. CRRED Working Paper. Centre for Competition, Regulation and Economic Development. Johannesburg: University of Johannesburg. Available at: https://static1.squarespace.com/static/52246331e4b0a46e5f1b8ce5/t/5f58bd766b1bea57547da66c/1599651199015/Regional+integration+and+competition_Paper_Final.pdf (accessed 6 December 2021).

[32] Dangote Cement (2017). 'Annual Report 2017'. Lagos, Nigeria: Dangote Cement. Available at: https://dangotecement.com/wp-content/uploads/2021/04/DCP-2017-AR_updated_April20181.pdf (accessed 6 December 2021).

operate, and that the institutions do not provide a supportive environment for AMNCs to thrive. Furthermore, the enforcement of policies and laws is largely ineffective. For example, several AMNCs operating in Zambia have raised the issue of smuggling and the proliferation of low-quality products. This is an indication of the potential weaknesses of the institutional framework.

4. Leveraging AMNCs to improve regional industrial capacity

As discussed above, the five AMNCs studied have made substantial investments in their countries of origin and have expanded to other regional markets. These investments appear to have been undertaken strategically in order to remain sustainable and competitive. For instance, the investment of the AMNCs studied here have not only been on production capabilities, but also on the accompanying warehousing and logistics capabilities
The scale of these investments has undoubtedly improved the overall industrial capacity and capabilities of the countries in which these firms operate. Moreover, they have brought about dynamism in some of the previously tightly-controlled industries, such as cement and fertilizer. One of the clear competitive tools they have used successfully, as discussed, is the adoption of new modern technologies that have improved their production processes significantly. This is quite important as it is likely to contribute to upgrading within value chains and improve structural transformation in the economies in which they operate over time.

In relation to the food industry, the AMNCs have made scalable investments in agro-processing capabilities, unlocking the industrialization potential within some of the agricultural value chains. Given the abundance of crop resources in many African economies, the full potential the agricultural sector has not been fully exploited, thus investments in processing capacity by AMNCs in these value chains is a welcome contribution to regional industrialization of agriculture primary activities. This has meant increased self-sufficiency in food production in the continent. Further, this illustrates that it is possible for African countries that have primarily relied on exporting unprocessed food products to move to higher value-adding activities by attracting investments in processing capacity.

Additionally, the investments in the agricultural value chains, especially at the processing level, bring about tremendous opportunities for localization and inclusion of small-scale farmers within these value chains. The cases of Mount Meru and ETG illustrate that, through effective contracting with small-scale farmers, other benefits can be derived such as transfer of skills and capabilities. Similarly, the cases of Trade Kings and Mount Meru further illustrate the potential for inclusion of SMEs in various FMCG value chains by leveraging the scale of large buyer groups such as supermarket chains. In Zambia, strong policy position and the accompanying political will resulted in the inclusion of Trade Kings in Shoprite's supply chain, and Mount Meru in supply chains of Pick n Pay, Shoprite and other retailers. Importantly, however, measures to protect and include local producers should not serve to shield inefficient producers from competition, nor merely restrict SMEs to the provision of low-value products or services, but enable them to upgrade to high-value activities in the value chains overtime.

The increased competition by AMNCs has brought about important benefits in the form of price reductions and improved quality of products. For instance, Dangote's entry was able to drive down prices of cement in the markets in which the company entered. The entry of UMCIL, on the other hand, brought about important quality improvements in the Zambian steel industry which increased import substitution and regional exports. Prior to UMCIL's adherence to international quality standards, there were negative perceptions about the quality of locally produced steel, which necessitated increase in imported steel products.

The entry of rival AMNCs has also brought about significant competitive responses from incumbents. For example, in cement, there has been a competitive response (from Lafarge and PPC) to the entry of Dangote Cement in Zambia, in the form of price reduction and improvement in quality of products, as well as new investments to establish plant and distribution capabilities, and retail presence in different countries.

5. Concluding remarks

This policy brief has explored the various regional investment strategies of the AMNCs, and how they can be leveraged for improvement of regional industrial capacity and increased regional integration. Industrialisation is an important driver of economic growth that underpins the regional integration agenda of SADC and AfCFTA. While regional integration has traditionally been viewed through reduction of trade barriers to facilitate imports and exports, it is becoming increasingly evident that countries are becoming more integrated through operations of their firms that are increasingly expanding across borders. In this regard, the brief shares some insights from the investment strategies and cross-border expansion of AMNCs to inform policy approach towards regional industrialization and integration.

The AMNCs studied have evolved their businesses over time, accumulating different local capabilities that have enabled them to compete more effectively with established rivals. The nature of products in which these companies specialize entails investments in large-scale, bulky production facilities, at multiple levels of the value chains in which they operate. Further, these emerging companies seem to employ more recent, cost-saving technologies in their operations. This is critical in these markets because plant efficiencies reduce the relative costs of production.

The ability to make these investments depended on the pre-existing financial resources of the entrants. As such, having access to equity investments or retained financial capital from other group companies or holding companies was very important for the firms studied. This is because in many local markets in the region, financial markets are largely constrained, and state resources are similarly limited. Thus, access to finance is an important area that requires deeper consideration by AfCFTA. Given the constraints, a holistic regional approach to funding enterprises – and innovative funding models – needs to be explored. This brings forth the option for a policy agenda to open up markets through linking development finance, skills development and lowering regulatory barriers.

The impacts of entry by these firms have been significant and make the case for domestic policies that enable rather than undermine entrants. In each of the cases considered, there is evidence of competitive impact, including stimulating incumbent firms to improve their capabilities. In cement, the price effects of entry have been substantial with significant decreases in prices in Zambia, and in steel, the entry of Kafue Steel has helped improve the quality of locally produced steel products to be in line with international standards. In agro-processing and FMCG sectors, the cases of Mount Meru and Trade Kings illustrate how inclusion of SMEs in some of the value chains can be achieved, without discouraging investments by established firms.

These static and dynamic benefits from competition only result if entrants that have made large-scale investments can reap the benefits of scale obtained through accessing a larger regional market. The level of demand in many of the countries in the region for these products tends to be relatively small and insufficient to support large-scale production. This insight points to the importance of trade policies and opening up regional markets for greater cross-border trade and investment—a focus on these issues in the ongoing negotiations relating to the AfCFTA is critical for fostering regional industrial development.

It is also clear that governments can aid or hinder these investments through policy making—that is, inconsistencies in policy over time or an inability to engage with competing local interests can undermine the attractiveness of domestic and regional markets for potential investors. Notwithstanding, the reality of state-business interactions is that policies will change overtime, as various interest groups continuously contest over distribution of resources. The degree of policy uncertainty depends on the stability of the prevailing political settlement in any country. Nonetheless, there is scope in the region for improvement of institutional frameworks if the region is to achieve greater regional integration and developed industrial capacity. Moreover, there is a need to properly consider trade-offs of any policy initiative on a case-by-case basis, ensuring that the decisions ultimately taken do not raise barriers to entry that could prevent the much-needed investment in productive capacity.

Notwithstanding the challenges, the case studies reveal an adaptability on the part of the AMNCs to local political economy conditions that enabled them to navigate shifting policy environments, through building networks and alliances with the governing elite. This is a critical area that may hold the key to understanding the different incentives of regional multinational firms, their strategies for overcoming barriers to entry, and how policymakers can better engage with these companies to stimulate local and regional investments even in highly complex political economy environments.

The strategy of building networks with governing elites is not necessarily different from the strategies employed by other incumbent firms in lobbying for domestic policy support and protections from competition (including trade barriers).[33] However, it is important that state–business engagements lead to productivity-enhancing, pro-developmental outcomes rather than protections that facilitate rent-seeking, restrict rivalry, and undermine sources of competitive discipline from local or international rivals.

The other important element to AMNCs investment strategies that needs closer monitoring is the clear trend of vertical integration. This can potentially increase firms' market power and abuse thereof. Nonetheless, it is important to recognize that efficiencies can arise through integration, that can be passed on to consumers if markets are sufficiently competitive. Therefore, interventions to curb the power of emerging AMNCs in different markets should perhaps be balanced by incentives for these firms to make much-needed investments.

In conclusion, for the regional economies to attract further large-scale investments by AMNCs, there is a need to adopt clear and consistent policies that provide certainty that

[33] Roberts, S. (2016). Competition in Africa: Insights from Key Industries. HSRC Press: Cape Town.

adequate returns will be appropriated from the investments made. The table below summarises key interventions that need to be undertaken to leverage the investment strategies of AMNCs for enhanced regional integration and industrial capacity. The experiences of some of the AMNCs have shown that it is possible for an African country to have strong local value addition and investment policies, without necessarily impacting negatively on investment. However, this can only happen if companies believe that they will still be profitable within the prevailing policy environment, i.e., that returns will be earned from the investments made.

Table 3: Summary of key interventions and potential outcomes

Key interventions needed	Potential outcomes
• Clear and consistent policies • Industrial support • Monitoring abuse of market power	1. *Increased entrants and rivalry across borders* 2. *Increased industrial capacity and strong regional integration* 3. *Reduced prices and improved quality of products* 4. *Increased participation of SMEs* 5. *Increased localization*

Source: Authors