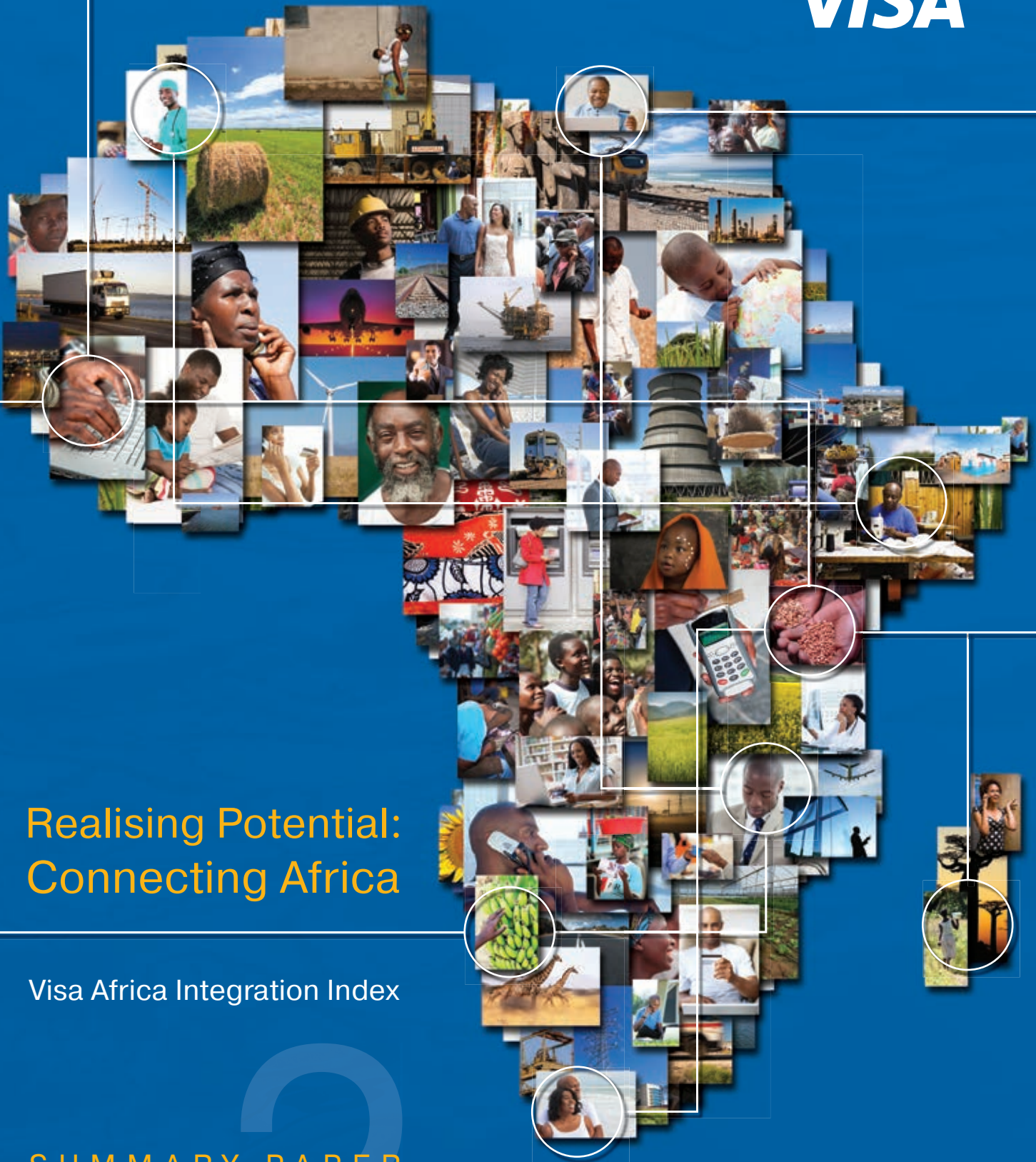


VISA



# Realising Potential: Connecting Africa

Visa Africa Integration Index

SUMMARY PAPER  
VOLUME

2



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## List of Acronyms

AGOA	African Growth and Opportunities Act
BRIC	Brazil, Russia, India and China
DRC	Democratic Republic of Congo
FDI	foreign direct investment
GDP	gross domestic product
G20	Group of 20
IIAG	Ibrahim Index of African Governance
IMF	International Monetary Fund
REC	regional economic agreement
TCIP	trade, capital, information and people
WTO	World Trade Organization



# Foreword

Visa, in conjunction with our partners across Africa, touches the lives of over 500 million people, through our services and innovations.

With our electronic payment network across the continent, we are helping to unleash the enormous potential of a rising Africa.

And to better understand where we can serve Africa's payment needs on a country specific basis, we produced the first *Visa Africa Integration Index* in 2013. The index measures the degree of economic integration within key trade corridors of sub-Saharan Africa namely West Africa, East Africa and Southern Africa. At present, these are Visa's key African markets where we have an established infrastructure and growth strategy.

The index was instructive in providing insights into areas where Africa is growing rapidly and integrating with the rest of the world. It also highlighted areas of untapped potential.

This year the results of the *Visa Africa Integration Index* are very encouraging. The trend of greater integration across Africa continues. And integration is improving in nearly every country in our study.

We expect this positive trend to continue as Africa integrates further not only with the world, but with itself.

Visa contributes to improved integration through solutions that provide consistent payment standards. This has always been a cornerstone of our business. Innovations such as cross-border remittances, mobile money and commercial solutions, amongst others, all contribute to integration within the African continent and into the global economy.

We will continue to produce the index to provide thought leadership on Africa's regional integration, enable us to track changes and progress over time and ensure we provide Africans with the best way to pay and be paid.

We also hope it can provide policymakers with an insightful and academically sound tool to shape economic decisions.

**Puneet Bahl, Group Country Manager: Visa sub-Saharan Africa**

# Introduction:

## Africa's Economic Emergence

Since the launch of the *Visa Africa Integration Index* in 2013 the African economy has extended its best period of economic growth on record by delivering growth of 4.8 percent in 2013. With annual economic growth averaging in excess of five percent since 2000, Africa's economic growth has outpaced the global average by more than two percent *per annum* since the turn of the millennium. At an individual level, a number of African countries have enjoyed faster economic growth than the established Asian economic success stories in recent years, and six of the world's ten fastest-growing economies between 2001 and 2010 were African.

It is widely expected that this feature of buoyant economic growth will continue for the foreseeable future and it is likely that the African economy will achieve a growth rate approaching 5.5 in 2014. With a collective gross domestic product (GDP) of over \$1.9 trillion – a figure that is expected to exceed \$2.6 trillion by 2020 – Africa today is one of the world's fastest growing regions, which translates into exciting investment prospects.<sup>1</sup> To this end, whilst Africa's economic fate for a long time was associated with a reliance on foreign aid, the region now boasts the highest rate of return on investment of any region in the world.

Although boundless opportunities in natural resources currently serve as a key driver of this growth, Africa's billion-strong youthful and increasingly urbanised population is translating into booming consumer and labour markets that will drive economic growth for years to come making Africa's much-vaunted potential a reality. Notably, this bullish economic outlook represents a break with the past.

Over the course of the twentieth century Africa failed to advance meaningfully, with little or no economic growth or progress for most Africans. *Per capita* income stagnated for most of the 1900s, which resulted in broad-based developmental decline for the average person in sub-Saharan Africa. During this period only a select few countries, including a handful in North Africa as well as South Africa and Botswana on the southern tip of the continent, experienced meaningful economic growth.<sup>2</sup> By and large, the twentieth century was a lost century for Africa from an economic growth perspective, with dire consequences for the region's socio-economic development and health.

During this time, in terms of commercial transfers in trade and transactions and in the formal structures governing these activities, Africa was pushed to the periphery of the global economy. As a consequence, the African economy grew increasingly disconnected from the rest of the world, which was further aggravated as individual African countries followed a similar trend by becoming more and more disconnected from each other. Indeed, the extent of Africa's economic isolation and socio-economic stagnation led *The Economist*, in May 2000, to describe Africa as "The Hopeless Continent" (*The Economist*, 2000).

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<sup>1</sup> In 2012 Africa's economic growth exceeded six percent making Africa the fastest growing continent in the world (*The Economist*, 2013).

<sup>2</sup> For ease of exposition, the term "Africa" refers to sub-Saharan Africa in the remainder of this report, unless otherwise stated.

Since the appearance of that cover, however, the story has changed dramatically and Africa's reversal in fortune is undeniable. Even *The Economist* retracted its previous statements with a cover in December 2011 proclaiming "Africa Rising" and, more recently in March 2013, featured the cover story "Aspiring Africa", with a special report on "Emerging Africa". Put simply, the African story has changed dramatically over the past fourteen years.

There is no single reason behind Africa's exciting turnaround. Rather, a combination of internal and external factors have colluded and contributed to Africa's development. This combination includes robust commodity prices; improved economic management and healthier policy platforms; substantial debt relief; and increased international trade and private investment or capital flows. These developments have made substantial contributions to the region's positive trajectory. But African economies need to be more integrated with each other and more globalised to truly benefit from these changes and to instil a framework that ensures sustainable economic growth and social development.

Currently, whilst Africa may be the world's fastest growing continent, it also is the world's least globalised – or internationally integrated – region. It is far less connected to the global economy and its value chains than the likes of Emerging Asia, Latin America, Central America or Eastern Europe. To boot, of the world's different regions, Africa also is the least integrated internally.

This disconnectedness and low level of economic integration is a binding constraint on Africa's economic progress that must be overcome if the region is to achieve its economic potential. Africa's integration also is relevant to economic progress for the world at large. Africa is no longer part of the problem around global economic development, it now is part of the solution and its integration is a key factor in contributing to the region's growth as well as world economic growth. In short, through greater connectedness, scale and improved integration with the global economy, Africa will set itself up to reach its true potential and contribute more substantially to this global economy.

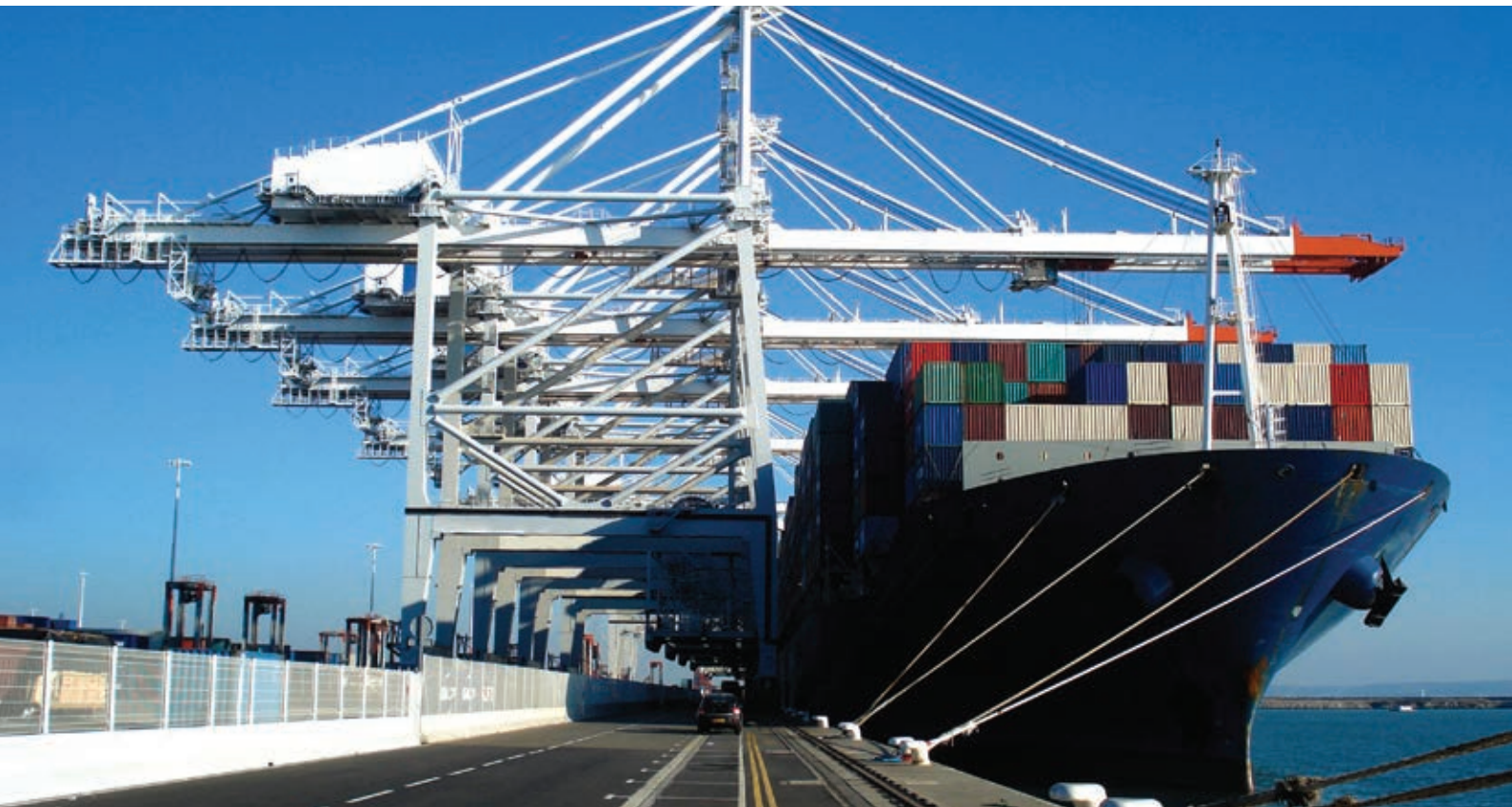
Against this backdrop, this report provides an update to the first edition of the *Visa Africa Integration Index* that was published in 2013. The data released since then has allowed us to make two bi-annual updates to the index, adding observations for the first half of 2013 and the second half of 2013, respectively. To give context to the index and the updated information, a large part of the original report remains intact and offers a detailed consideration of the state of Africa's economic integration and the role that integration might play in shaping Africa's economic surge. The greatest changes to the original report arise in the final section of this report with deals with regional and country-specific evidence.

# The Four Drivers of Africa's Economic Rush Forward

Africa's economic growth since the turn of the century has been shaped and driven by a set of four key factors that include internal (within the continent) elements as well as external elements, where global trends have favoured Africa's natural resources and changing circumstances. These drivers include a combination of structural changes supported by carefully managed policy adjustment and international developments, which have contributed significantly to the dramatic changes and rise of Africa's economy since 2000.

**The four drivers of Africa's great rush forward are:**

- i. Robust commodity prices and new sources of demand;**
- ii. Improved economic management and policy platforms;**
- iii. Debt relief and sustained debt improvement; and**
- iv. Africa's "demographic dividend".**



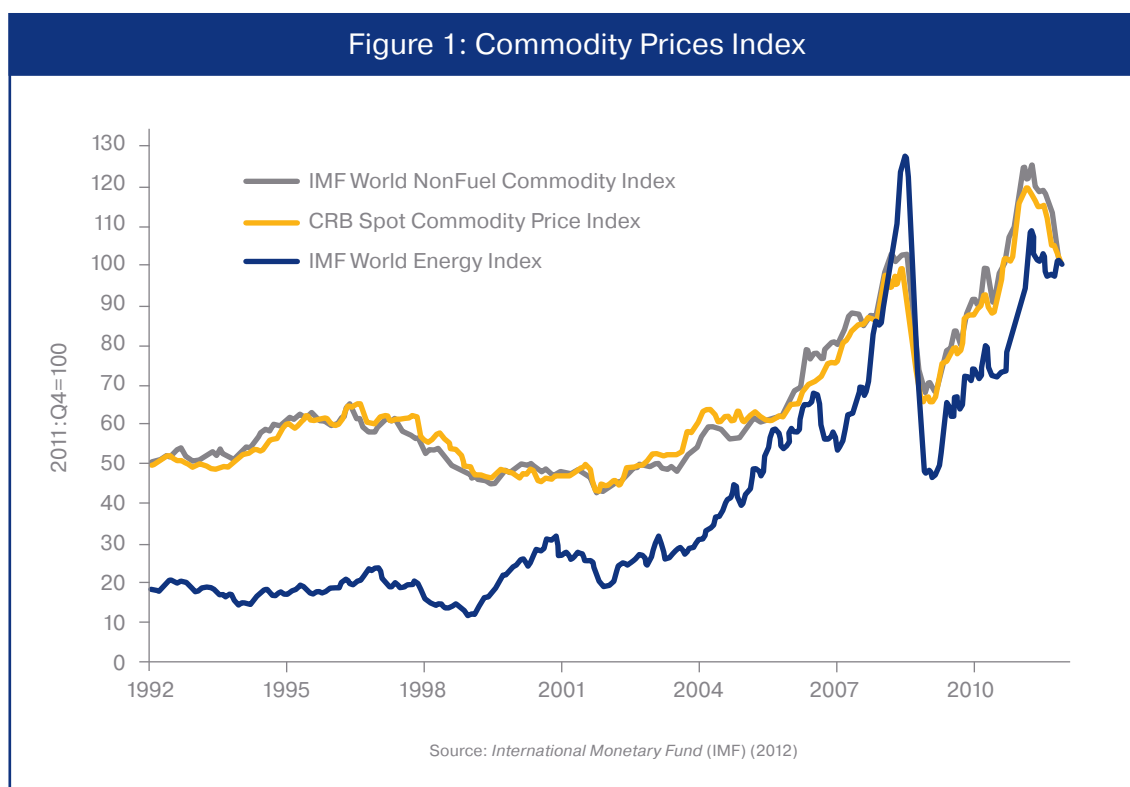


## i. Robust Commodity Prices and New Sources of Demand

Whilst the period since 2000 offers strong evidence of increasing diversification in Africa's economies, along with growing industrial capacity and sophistication, Africa is still dominated by resource extraction, the production of commodities and the export of these basic goods to the rest of the world. By one estimate, the commodity sector alone (ignoring the contribution of value-added industries) still explains roughly a third of Africa's economic growth in recent years.

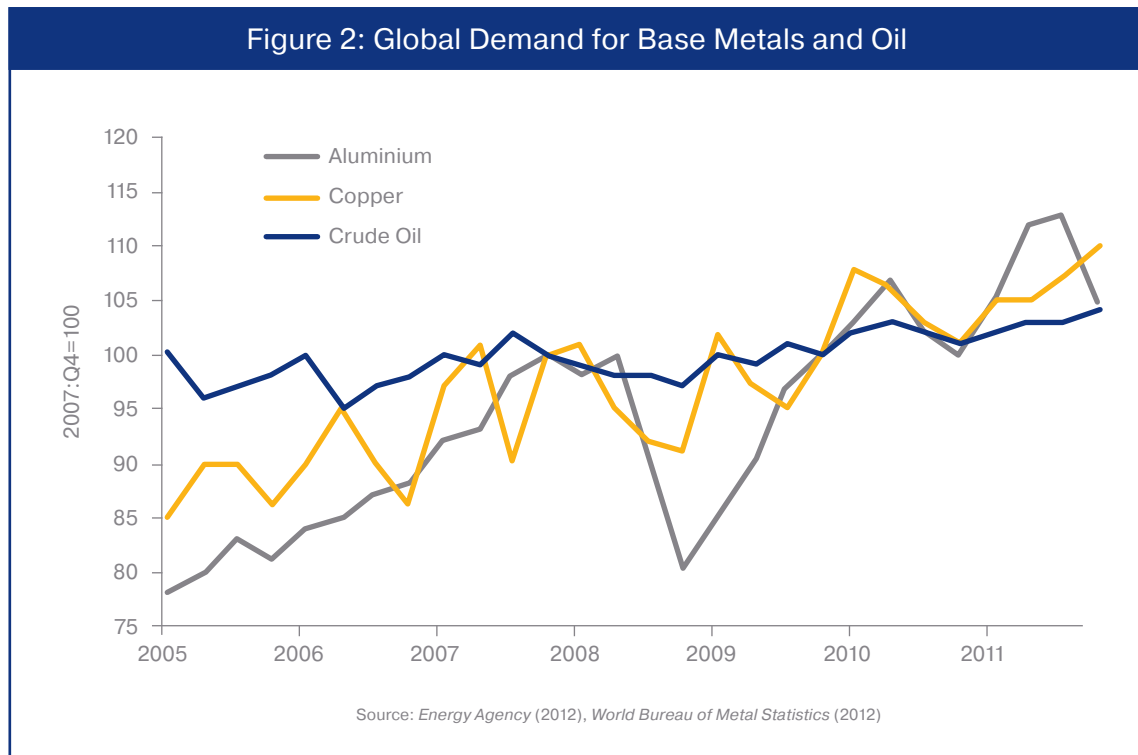
Thus, it is an inescapable result that a first factor that helped kickstart Africa's economic growth at the turn of the century was the strong performance of the global economy and, with this, increasing demand for natural resources. This buoyant environment helped drive commodity prices steadily higher – at least until 2007, when the Global Financial Crisis made its effects felt.

As shown in Figure 1, between 2000 and 2007, across the board commodity prices rose significantly, representing a material windfall gain for Africa's many commodity-rich economies.



During this period, strong growth in world demand for basic commodities spurred export volumes of commodities from Africa. Between 2000 and 2007, world consumption of four important African commodity exports – platinum, copper, iron ore and oil – grew by an average 5.8 percent *per annum*. Moreover, despite the sluggish state of advanced economies in the aftermath of the Global Financial Crisis, world demand for base metals surpassed pre-crisis peaks during the first quarter of 2010 (see Figure 2). Similarly, global oil demand increased by more than three percent in 2010 and 2011, a rate close to the previous peak in demand growth in 2004, and grew by a further three percent between the end of 2011 and the end of 2013.

Figure 2: Global Demand for Base Metals and Oil



This evidence suggests that the Global Financial Crisis has not fundamentally changed the rising demand pattern that emerged in commodity markets in the late 1990s and early 2000s (as the steady price increases in Figure 1 illustrate). This is because growing *per capita* incomes in key emerging economies are serving to replace demand that has been lost in advanced economies. This growth in commodity demand is likely to increase further as investments are made in infrastructure and efforts are made to develop linkages with rapidly growing and industrialising economies.

However, whilst recognising the role that higher commodity prices have played in promoting economic growth in Africa, it would not be accurate to characterise the region’s growth story of the past decade purely as commodity-based. This is underscored by the fact that resource-rich and resource-poor countries in Africa displayed similarly impressive rates of economic growth. Africa’s rise and recent growth is beyond merely resources.

## ii. Improved Economic Management and Policy Platforms

A second important contributor to Africa’s rush forward since the turn of the century has been the steady improvement in economic management and policy reforms. In many places, the origins of these improvements lie well before the turn of the century. However, to be certain, the benefits have materialised during the last ten years as African governments increasingly adopted policies that have energised and supported business activity, investment markets and consumer markets.

These actions included the privatisation of state-owned enterprises; reduced barriers to trade; supranational agreements and regional economic agreements (RECs); lower corporate taxes; strengthening of regulatory and legal systems; and development of critical physical and social infrastructure.

Although the policies of many governments have a long way to go, the important policy steps taken in recent years have enabled a private sector to emerge at the same time that widespread improvement in macroeconomic factors have materialised. For instance, debt-to-GDP ratios have come down dramatically from more than 66 percent in 1995 to approximately 30 percent in 2010 and since then have remained at that level. In turn, fiscal discipline has resulted in the moderation of consumer price inflation rates, the normalisation of interest rates and substantially greater currency stability.

On this front, it would be remiss to overlook the critical contribution of political reform and stability. The number of major African conflicts has fallen from more than 30 in the 1990s to eight in 2012; the number of democracies has risen from three in 1989 to reach 23 by 2008; and, since 1991, a change in African government has been brought about at the ballot box on 31 occasions, whilst this happened only once between 1960 and 1991. In this vein, in its sixth year of publication, the 2012 Ibrahim Index of African Governance (IIAG), confirms that progress in governance – measured across four categories, namely safety and rule of law; participation and human rights; sustainable economic opportunity; and human development – has been achieved since 2000 (*Mo Ibrahim Foundation, 2012*).

Improved economic and political management, with an increasingly stable environment, bodes well for doing business in Africa and for drawing ongoing investments that will stimulate and sustain economic growth.



### iii. Debt Relief and Sustained Debt Improvement

It is against this backdrop that we identify a third element that has carried great weight in the surge forward of many African economies, namely the substantial debt relief that has been afforded over the last decade.

On this score, evidence shows that less indebted countries record higher economic growth rates than those that are relatively more indebted. *Reinhart and Rogoff (2009)* find that countries with debt-to-GDP ratios below 60 percent are able to sustain annual economic growth of an average 3.6 percent *per annum*, whilst countries with debt-to-GDP ratios above 60 percent achieve just 2.2 percent *per annum*. Whilst the exact figures that follow from these results have been drawn into question, the qualitative result holds. More specifically, highly indebted countries are likely to face debt traps as economic growth collapses and debt serving costs run away from the ability to service debt.

In Africa in the mid-1990s, 21 out of 48 countries had debt-to-GDP ratios of more than 90 percent. By implication, by mid 1995, almost half of Africa's economies faced a "debt trap". Ten out of these 48 countries had debt-to-GDP ratios above 150 percent in 1995, a figure that was unchanged at the turn of the century, leaving very little room for any hope of sustained economic growth.<sup>3</sup>

Yet, the highly indebted state of Africa in the 1990s has changed materially over the past decade. Debt relief programmes like the Heavily Indebted Poor Countries (HIPC) programme initiated by the IMF and World Bank were a good starting point. This hinged on the dual benefits of the reduced debt burden giving many economies a leg up onto the ladder of socio-economic advance, as opposed to the debilitating grind of debt servicing. However, increasing fiscal discipline and rising tax bases have proved to be even more important contributors to reduced indebtedness. As a consequence, by 2010, the average debt-to-GDP ratio had halved from 1995 levels and the number of African countries with ratios in excess of 90 percent had fallen from ten to three.

This reduced indebtedness has numerous benefits, including lower debt-servicing obligations and a reduced cost of borrowing. As noted, this healthier financial state most often translates into higher economic growth. Critically, whilst debt relief kickstarted the programme, its sustained success is a result of rigorous economic management geared toward meeting a range of performance targets. This clearly ties back to the broader improvements in economic management observed over the past decade.

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<sup>3</sup> The story of debt and development aid in Africa is a complex one related to the need for scarce supplies of capital at the time of independence. This was escalated through economic mismanagement and the nature of relations between newly-independent African states and other countries or supranational providers of finance and capital. Much of this debt was written off or 'forgiven' at the turn of the millennium by those interested in facilitating a fresh start for Africa and seeing the continent grow.

#### iv. Africa’s “Demographic Dividend”

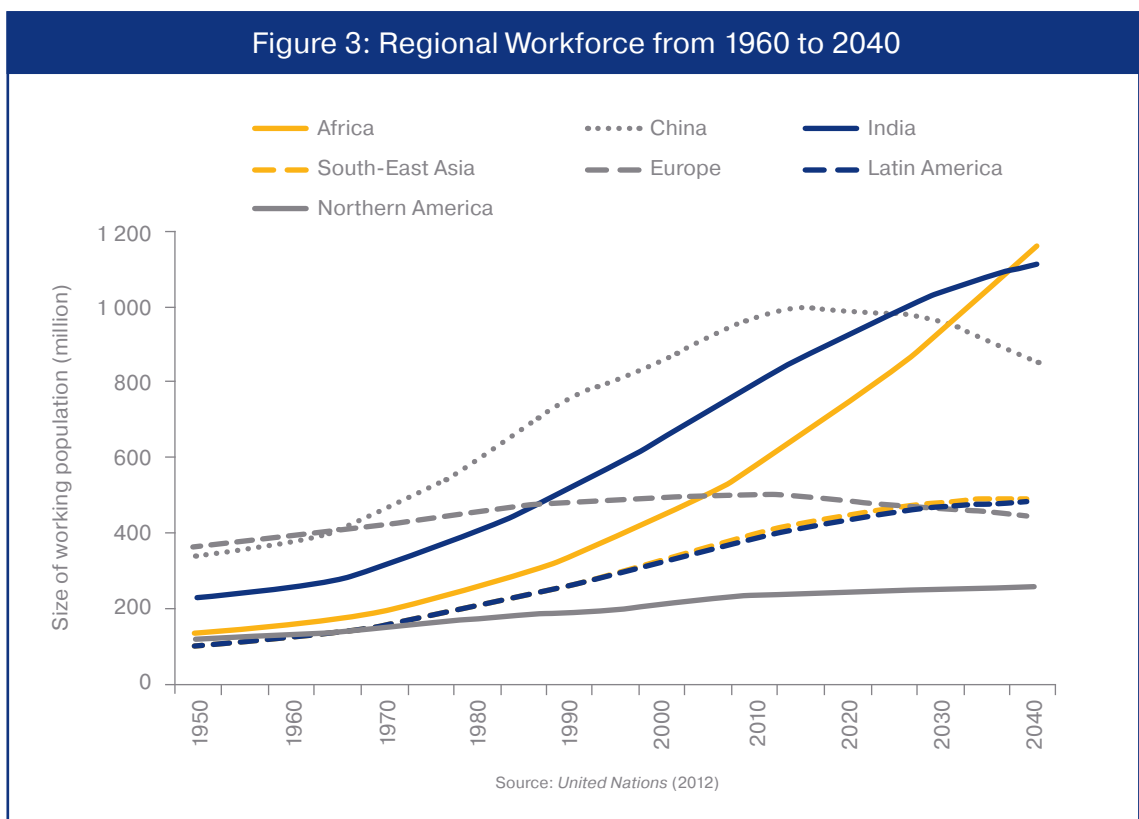
Whilst it may be premature to talk unambiguously of a “demographic dividend”, a fourth structural factor that has started to make itself felt in the past decade – and that is likely to have a growing effect – is the influence of Africa’s relatively young population. To a large degree, the “demographic dividend” hinges on successful economic management because, in the absence of effective social and economic policies, a young and growing population is more likely to be a burden than a boon. In recognising that African governments have demonstrated rising capacity and capabilities over the past decade or more, it follows that Africa’s young and growing population has started to make a positive contribution to socio-economic advance.

Africa’s demographic structure is increasingly seen as a positive contributor to the region’s growth story. But it is vital that Africa meets the challenge of ensuring that economic growth translates into stable, wage-paying jobs that support an expanding consumer market (*McKinsey Global Institute, 2012, 2*). Over the past decade the economic growth experienced by Africa has translated into 37 million new wage-paying jobs whilst the number of households that are members of the “new” consumer class has risen from 60 million to 90 million (*McKinsey Global Institute, 2012, 1-2*).

These features of rising employment and growing consumer households will support sustained economic growth by virtue of the region’s demographic makeup coupled with rising labour absorption. Currently, more than one-half of the African population is younger than 24 years of age and, as a result, between 2010 and 2020 the continent will add 122 million people to its labour force (*Economist Intelligence Unit, 2012, 5*).



Whilst the metrics of countries and regions are not strictly comparable, it is worth noting that by 2035 the continent’s labour force will be larger than that of China and India (Figure 3); and by 2050, Africa’s population of two billion people will have overtaken that of India (1.6 billion) and China (1.4 billion) (McKinsey Global Institute, 2012, 2). Nigeria’s population will lead the African pack, followed by Ethiopia, the Democratic Republic of Congo (DRC) and South Africa. It is notable then that Ethiopia, as a case in point, has gone from having two universities to 32 in two decades; the government has put schools and clinics in most villages and, according to foreign donors, infant mortality rates have fallen by 40 percent (The Economist, 2013).



By 2060, Africa’s population could reach 2.7 billion people with a middle class of more than one billion people. Its economically active population could by then have tripled – providing the basis for consistently high levels of economic growth (Gernetzky, 2012). As such, Africa’s demographic configuration, embodying a young, growing population, represents a fourth important structural factor that has impacted the region’s economic prospects positively in the last decade and that if well managed, promises to shape the economy for the foreseeable future.

Along with a youthful population and growing middle class, the prospect of rapid urbanisation across the African continent also spurs demand for modern goods and services while building a more sophisticated skills base, which is all part of the “demographic dividend”. On this front, Africa already represents a substantial consumer population. As shown in Table 1, Africa has as many large cities as Europe, and more than North America (the United States and Canada).

Table 1: Population and City Headcount

	India	Africa	China	Europe	Latin America	North America
Population (million)	1,219	1,032	1,351	830	594	349
Cities with > 1 million people	48	52	109	52	63	48

Source: McKinsey Global Institute (2010)

As Africans have flocked to the cities and disposable incomes have risen, the demand for modern goods and services, such as telecommunications and banking services, has accelerated. The demographic structure suggests that this “dividend” will continue to make a substantial contribution to Africa’s economic progress. Global businesses – whether based in Asia, Europe or the Americas – as well as homegrown African firms, will strive to meet this demand.

## v. Tying It Together: A Fifth Factor

The four factors outlined above have individually and collectively played key roles in contributing to Africa’s emergence and rush forward over the past decade and more. By virtue of their structural attributes, these factors make a strong argument that Africa’s economies are set to continue to grow quickly. But there is a growing level of attention being given to a fifth factor that arguably will have a more profound and pronounced effect in sustaining high levels of economic growth and development in Africa, namely rising economic integration or, in the language of the day, “globalisation”.

Notably, whilst the first four factors have enjoyed rising acceptance as positive influences in Africa’s economic growth story – meaning they are relatively uncontroversial – the fifth factor of rising economic integration has been met with disagreement and uncertainty as to its impact. Africa’s rising integration – within Africa and between Africa and the rest of the world – is a fundamental part of understanding Africa’s full potential and realising its true economic prospects.

# Africa's Growing Integration: Why This Matters

## i. Africa's Rising Economic Integration

Africa may be the least globalised region of all, but the economy has started opening up to the rest of the world. This increased economic openness and integration over the past ten years has contributed toward Africa's economic rise. To document this, over the past decade Africa has increasingly opened up the spread of exports to international markets. Export volumes have grown at an average of 8.5 percent per year since 2000, versus the world average of 3.6 percent. This reflects rising global demand for African products and services. Moreover, given that Africa's export growth exceeded economic growth – albeit modestly – over the period, it follows that exports have become a relatively more important component of the region's economy since 2000 – indicative of the importance of economic openness as a component of sustained economic growth.

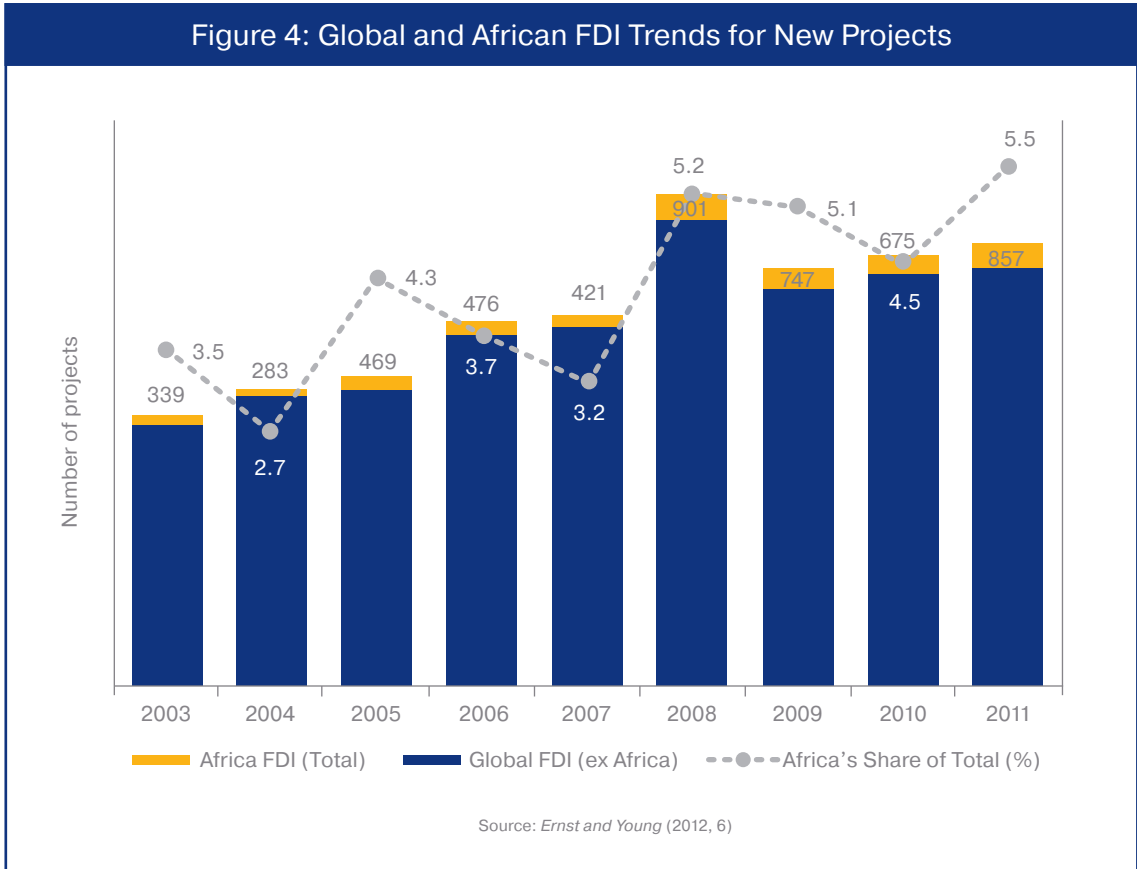


New trade partners like Brazil, Russia, India and China – the so called BRIC economies – have increased their trade and investment flows with Africa substantially over the past decade, which has contributed strongly toward African economic growth. In 2001, African economies exported \$24 billion in goods and services to these four economies; by 2013, this figure had grown more than ten-fold. Africa's economic growth and the region's rising competitiveness is evidenced further by the increased trade diversification and sophistication that has come about following important reforms during the 1990s and early 2000s, and subsequent relations with new trade partners who are also the new drivers of global economic growth.

Rising international trade flows have been met by an increased flow of private capital, which provides further evidence of Africa becoming increasingly open. Again, whilst this improvement comes off a low base, the available evidence shows that increased financial openness corresponds with rising economic welfare. Foreign direct investment (FDI) flows to Africa in recent years provide clear support for this argument. From 2003 to 2011 the number of FDI-financed projects increased at a rate of 7.6 percent per year, rising from 339 projects at the start of the period to 857 projects by 2011 (see Figure 4). While Africa's share of global FDI projects remains modest, and understates the region's economic potential, the share has steadily risen in recent years, from 3.5 percent in 2003 to 5.6 percent in 2013, pointing to Africa's rising openness and growing competitiveness (*Ernst and Young*, 2013, 6).



Figure 4: Global and African FDI Trends for New Projects



Flows of private capital to Africa have widened as well as deepened in recent years. Specifically, FDI flows to Africa are starting to diversify beyond the resource extraction sector. For instance, between 2010 and 2012, Chinese investors committed around \$101 billion to commercial projects in Africa, but less than half of this figure was directly toward extractive industries (*Stratfor*, 2012). It is true that many of these FDI flows are for mega rail, port, road and energy projects that service the extractive industries, but it is equally clear that Chinese FDI flows, along with others, are financing new areas of industrial activity and that these flows are being directed to other areas of the economy beyond resource extraction.

To support this argument, between 2003 and 2011 just 27.6 percent of FDI flows went to extractive industries, with 38.3 percent of FDI going to infrastructure-related investments and 29.9 percent into manufacturing (*Ernst and Young*, 2012, 7). This surge in investment in the area of manufacturing is a clear effort to build capacity and competitiveness in response to policy initiatives such as the African Growth and Opportunities Act (AGOA), which grants preferential access to markets in the United States for African manufactured products as an incentive to stimulate export-led growth through manufacturing.<sup>4</sup> These flows are starting to spill over into other non-traditional investment sectors like agriculture and tourism.

<sup>4</sup> AGOA is an example from a growing set of policy initiatives of how to incentivise economic diversity and promote openness and economic integration as drivers of economic growth and development. Initiatives like AGOA serve as important catalysts and stepping stones toward integration and broader-based globalisation for less-developed African countries seeking access to international markets.



## ii. Integration as a Driver of Economic Growth and Socio-Economic Development

Whilst Africa's economic integration has risen steadily – and substantially – over the last decade, the impacts and influence of integration on economic growth and socio-economic development in Africa have received relatively little attention from observers. The reason may be that where integration has been considered, the emphasis amongst strategists, analysts and researchers has been placed on “globalisation”, which is defined here as African economies integrating with the outside world – instead of focusing on the collective potential of African countries connecting not just to the rest of the world, but also to each other.

Consequently, deliberations around African economic integration have focused on the influence and impact of relationships with the rest of the world, whilst overlooking the economic potential and role of the neighbourhood.<sup>5</sup> Unmistakably, the economic impacts of globalisation are significant. But neglecting the impact of Africa's internal integration – or simply the exchanges between African countries – is an oversight that demands careful and detailed consideration.

An holistic assessment of the role that economic integration plays in Africa's socio-economic advance is important. *Pankaj Ghemawat* (2011) captures the argument effectively: based on hard data, and separating facts from fiction, the evidence shows that rising economic integration can bring large gains in welfare, and more so when integration relates to neighbours. It is against this backdrop that this report and its different outputs are designed to contribute to our understanding of the role and potential that economic integration, and particularly regional economic integration, plays in Africa's future.

The relationship between integration and socio-economic welfare is especially important from an African perspective, as the continent's low level of integration – with the rest of the world and, more importantly, with each other – points to a source of potentially large and sustainable gains in prosperity.

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<sup>5</sup> Regional integration in Africa has focused more on political discussions, which have started adopting an economic dimension, but dialogue and negotiations toward wider and deeper integration have traditionally been motivated by confidence-building with a political impetus or motivation among member countries.

# The Argument for Economic Integration: The Importance of Connecting Trade, Capital, Information and People

The benefits of global integration are identified by *Ghemawat* (2011) as flowing through four main channels, namely:

- i. the flow of goods and services or trade (T);**
- ii. financial integration and the movement of capital (C);**
- iii. the flow of information and knowledge (I);**
- iv. the movement of people (P).**

Consequently, we describe the framework for assessing the impacts and influence of economic integration as the TCIP framework.<sup>6</sup> Below we outline why connecting economies – whether they be in Africa, Asia or Europe – with each other and the rest of the world is a fundamental prerequisite for their economic growth and development.

## **i. Trade (T)**

International trade is made up of the flows of goods – so-called merchandise trade – and the flow of services. Considering the flow of goods, the theory of international trade identifies six ways in which openness contributes to improvements in economic welfare, namely through additional trade volume; decreased costs of production; differentiation; intensified competition; normalisation of risk; and the generation and diffusion of knowledge. These gains are best illustrated through the correlation between levels of intra-regional trade and economic development. In the EU and Asia, intra-regional trade accounts for over 70 percent and 50 percent of total trade, respectively. In Africa, while intra-regional trade has been increasing in recent years, it is still less than 15 percent of total trade. International trade and internal trade between regional partners is a crucial part of economic development.

With regard to the breakdown of trade, services account for roughly two-thirds of global GDP but only one-fifth of global trade, leaving trade in services only about an eighth as intensive as trade in merchandise (*Ghemawat*, 2011). For this reason, trade in services is a relatively unexplored sector compared to trade in goods. However, it is easily illustrated that the channels through which merchandise trade benefits economies extend effectively to trade in services especially since services make up a far greater part of the world economy than goods.

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<sup>6</sup> This framework is developed and explained in a global context in *Ghemawat, P.* (2011) "World 3.0: Global Prosperity and How to Achieve It". *Harvard Business Press*: Boston, Massachusetts. Our work relies heavily on the framework developed by *Pankaj Ghemawat* and is detailed in *Saville and White* (2013).

## **ii. Capital (C)**

Capital is a vital prerequisite for growth and development. This comes in various shapes and forms, most commonly internal savings and foreign investment. In less developed economies where savings are relatively low, foreign investment and credit is a crucial source of capital.

International capital flows thus contribute toward the savings pools, export levels and technological sophistication of recipient economies. They also facilitate access to new and larger foreign markets, provide training for labour, and help upgrade technical and managerial skills of a country's workforce.

Evidence suggests that international capital flows, by way of direct and spill-over benefits, help in making the host economy more competitive and improve socio-economic conditions.

## **iii. Information and Knowledge (I)**

The implications of the flow of information are abundant. While Information and Knowledge (I) forms an intricate part of Trade (T), Capital (C) and People (P), such exchanges also involve important components of technology transfer, overcoming distance and circumventing poor or non-existent infrastructure toward greater integration.

Two key implications of improved information and knowledge on basic transactions and socio-economic development are: First, information flows have the capacity to remove inefficiencies in systems and, in turn, have profound impacts on welfare. Second, even modest information flows can have welfare effects that substantially outstrip the most carefully crafted and well-funded social development policies.

## **iv. People (P)**

The cross-border flows of people, which in the first instance refers to the movement of labour, has the potential to bring enormous economic gains. As with Trade (T) and Capital (C), the movement of People (P) is dependent on and closely linked to the development of infrastructure. Infrastructure, in various shapes and forms but in this case transport by road, railway and ports, is the underpinning enabler for greater integration. The movement of people requires good transport infrastructure, but also spurs the development of connecting roads and railways simply through their movement or "lobbying with their feet".

The potential gains from the free movement of people – and liberalising labour in particular – are large and it contributes significantly to the liberalisation of trade and capital, as well as knowledge sharing. *Ghemawat* suggests the combined liberalisation of these factors could potentially push the gains past five percent of global GDP.<sup>7</sup>

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<sup>7</sup> *Ghemawat, P.* (2011): "World 3.0: Global Prosperity and How to Achieve It". *Harvard Business Press*: Boston, Massachusetts. (Pp17)

But the movement of people has ramifications beyond labour and consumption. With a growing interest in social, cultural and educational exchanges, the movement of people has become a crucial part of integration. It has proven effective in nurturing talent, deepening cultural awareness and understanding and, most importantly, building confidence between nations which are increasingly connected.



## **v. The Impact of Openness**

The economic gains from further liberalising merchandise trade are potentially large. The gains from liberalising cross-border labour flows are even larger, and those from boosting services trade and information flows have multiplier effects that are potentially significant. Also, it is important to remember that the gains that flow from openness are not only economic in nature: cross-border exchanges also offer, amongst other things, cultural and political benefits, not to mention confidence-building among nations and economic actors.

Findings around openness and increased integration have important implications for the socio-economic advance of African economies based on at least two structural drivers. First, African economies are substantially unconnected to the rest of the world. Second, African economies largely are unconnected to each other.

Africa stands to gain from a sustained structural benefit brought about by the opening up of African economies to each other and to the world at large.

# The State of African Integration

As noted earlier in this report, over the past decade African economies have become more integrated. Poor integration in the past helps explain Africa's decades of underperformance. But rising integration today could go some way to explaining Africa's economic growth surge over the last decade. Equally, rising integration underpins the region's economic prospects.



Since the late 1990s, African economies have become more globally connected. For instance, Africa's exports grew at a rate of 8.5 percent per year between 2000 and 2013, well above Africa's rate of growth of 5.4 percent over the period, and well in excess of world economic growth of 3.7 percent over the same period. African exports also are becoming more sophisticated. For example, in 2000, African exports to China amounted to \$4 billion, of which almost the entire value was represented by raw materials and fuel. By 2010, not only had the figure grown substantially to just under \$60 billion, but about one-eighth of the value was represented by manufactured goods, machinery and chemicals (*Rice, 2012*).

In terms of capital flows, annual flows of FDI to African countries increased from \$25 billion in the decade of the 1990s to \$196.6 billion in the last decade. This constitutes an almost eight-fold increase in FDI in the space of a decade, with the number of FDI-funded projects growing at 27.7 percent per year over the period 2003-2011. By some estimates, Africa will attract over \$150 billion of FDI by 2015, equivalent to 6.2 percent of forecast GDP (*Ernst and Young, 2012, and IMF, 2012*).

There is a clear and persistent structural opening up of African economies since the turn of the century.

However, to better understand economic integration, it is important to recognise that integration can be disaggregated into global integration and regional integration. The first element relates to Africa's connectedness to the world, the second element relates to the connectedness of African economies to each other.

## **i. Global Integration: Under-Integrated Africa**

Despite this rising integration, Africa's global economic integration remains extremely low. While Africa has undoubtedly become far more integrated with the rest of the world in recent years – and especially since 2010, following the global financial crisis – the continent is still the least globalised region in the world.

Trade is just one example. The movement of goods and services between Africa and the rest of the world has been slow, with lacklustre flows lagging other regions. Dropping from its peak in 1948 when Africa's contribution (exports and imports) was around 7.7 percent of total world trade, Africa's trade has increased from a low of 2.3 percent in 2003 to 3.2 percent of world trade in 2011. While this is not much lower than Latin America, which contributed 4.1 percent toward world trade in 2011, Africa's share is significantly less than Asia, which grew from 24.9 percent of world trade in 2003 to 31 percent in 2011.<sup>8</sup>

Africa's poor trade performance is less about policy and preferential access to key markets than about facilitation. It is still significantly more expensive to trade with Africa than with other regions around the world. This is because of poor – or absent – infrastructure, bureaucratic inefficiencies and weaknesses in other enablers that facilitate trade and overall economic integration.

**Africa needs to trade and become more integrated in global value chains if it is to harness its natural potential and stimulate wealth and prosperity. This also means growing integration within Africa – to build economies of scale and competitiveness in global markets, and thus weigh in alongside the likes of Asia.**

Similar results are evident in the areas of capital, information and the movement of people. While there are significant signs of improvement in integration and openness, it is clear that Africa still lags behind other regions and that improved integration will have a dramatically positive impact on economic growth and development.

International capital flows are still low in Africa, which attracts less than five percent of global FDI projects. Africa is by and large under-banked and under-served in terms of conventional financial support and capital provision or insurance facilities, which poses enormous constraints on ordinary transactions, but also presents a tremendous opportunity for potential providers of such services. Most Africans have never had access to a landline telephone, making day-to-day communication near impossible and seriously hampering the sharing of information and knowledge. That said, mobile technology has changed this, providing perhaps the most impactful form of communication infrastructure the African continent has ever seen.

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<sup>8</sup> These figures are based on the *World Trade Organization's (WTO)* "International Trade Statistics 2012 report", accessed via [www.wto.org/english/res\\_e/statis\\_e/its2012\\_e/its2012\\_e.pdf](http://www.wto.org/english/res_e/statis_e/its2012_e/its2012_e.pdf).

Mobile phones are ubiquitous in Africa today. With the near absence of landlines across the continent, nearly every person in Africa now has a mobile phone. The usage and innovations associated with mobile technology are leapfrogging the west. In the space of just 10 years – from the mid-1990s to 2005 – mobile phone subscribers increased from zero to 88 million. By 2010 there were a remarkable 360 million subscribers in Africa – representing half of the African population. There will be an estimated 900 million mobile phone connections in Africa by 2015, representing an 85 percent penetration from a mere three percent penetration in 2001. This has been one of the most dramatic leaps of communication connectedness by any measure in world history.

Internet connectivity will follow a similar trend on the back of mobile phones over the next few years. Already in countries like Kenya, which has pioneered the mobile technology revolution with four times the penetration of neighbouring Ethiopia, mobile technology has added at least one percent a year to Kenya's GDP growth and one in two Kenyans uses the internet. Mobile phones and internet access are two sides of the same coin in Africa, and are also part of crucial services related to banking and insurance. As with the surge of mobile phones in Kenya, the number of bank account holders has increased from one million to twenty million in ten years, and over one-third of Kenya's GDP now flows through mobile banking solutions.<sup>9</sup> Still much remains to be done to improve Africa's connectivity.

In sum, considering Africa's integration with the global economy, the region's role and standing in the broader global landscape is low. Whilst this low integration plays an important role in explaining Africa's economic backwardness in the past, it also presents a powerful source of sustained structural growth that contributes to the exceptional latent potential of the broad African economy.



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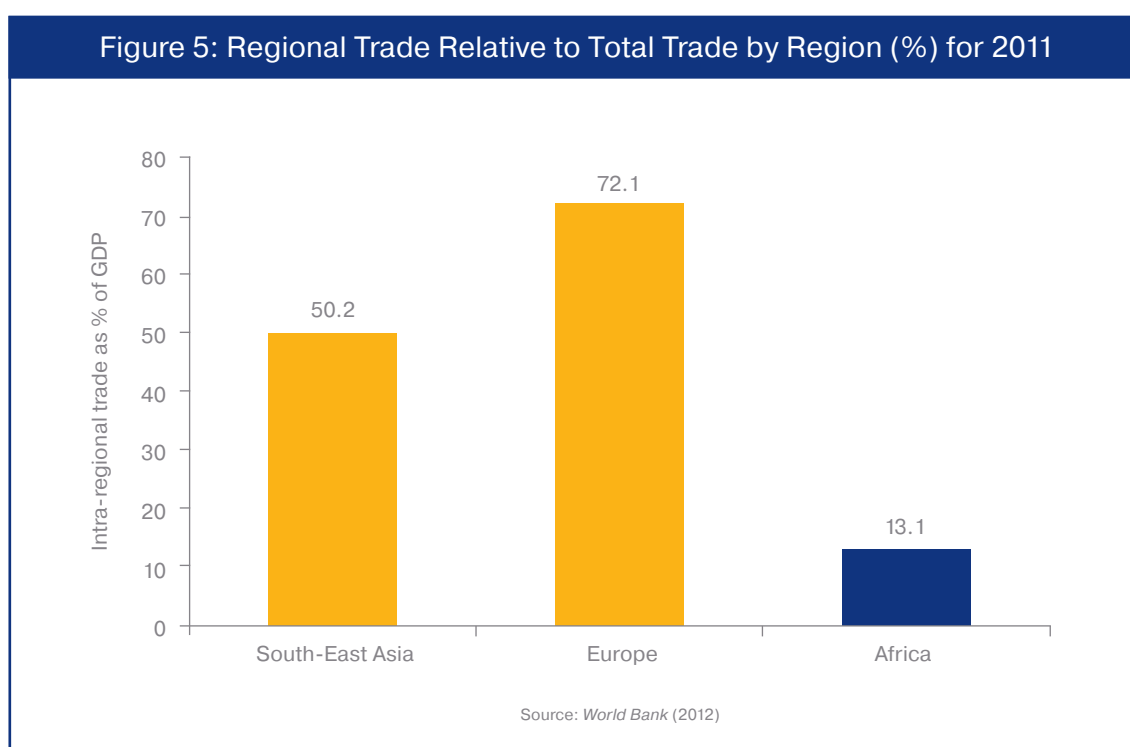
<sup>9</sup> See *The Economist* Special Report: "Emerging Africa". 2 March, 2013.



## ii. Regional Integration: African Neighbours Are Not Integrated

The second line of analysis regarding integration relates to how connected African countries are to each other. Once again the evidence points to exceptionally low levels of intra-Africa flows and regional integration that, in the same fashion as low levels of global integration, is an important explainer of Africa's poor economic record whilst, simultaneously, pointing to the substantial economic potential that resides in the prospect of African economies connecting to each other via regional integration.

Trade relationships effectively illustrate the low degree of Africa's regional integration. On this score, World Bank data show Africa's intra-regional trade amounted to just 13.1 percent of its total in 2011 – well below the global average, not to mention the levels of South-East Asia and Europe where intra-regional trade accounts for 50.2 percent and 72.1 percent, respectively.



Experts following integration in Africa highlight a set of fundamental reasons for the low level of regional integration, namely low levels of economic and product diversification; historical relationships; poor or inadequate infrastructure; and historically small markets with low purchasing power. There is little history of trade complementarity between African countries and historically, infrastructure was designed and built to extract resources from the continent to be shipped to other locations and not necessarily to connect one African market to the next. These have hampered bilateral trade among African countries and the development of a lucrative consumer market, while rendering the development of any value chains or productive economies of scale near impossible. In short, this has undermined the overall competitiveness of the African economies.

# Africa: Taking the Great Leap Forward and Integrating

Integrating with each other is an essential prerequisite for African economies to realise their full potential. This forms part of unlocking the burgeoning market opportunities within Africa while building scale and competitiveness for African countries and companies seeking opportunities in global markets. The potential, in this regard, is exponential.

Whilst the low degree of integration forms a key component in explaining Africa's historically poor economic performance, it also underscores the latent economic potential that is released as integration progresses. Seen in this light, it is evident that the potential of African economies hinges critically on effectively integrating with the world economy but, given that the greatest gains from integration relate to local integration, it is essential that African economies connect with each other via intra-Africa trade, capital flows, movement of people and exchange of information and ideas. Such connectivity will serve to bolster Africa's rising prospects and help realise gains in socio-economic welfare.

This suggests substantial opportunity for African economies as they become increasingly integrated, internally as well as with other economies. Against this backdrop, in this report we detail the construction and results of the *Visa Africa Integration Index*. The index provides a contemporary measure of integration amongst key economies across the continent and allows for a dynamic study of the evolution of economic integration and how it contributes to Africa's improving socio-economic prosperity.

In this way, the *Visa Africa Integration Index* constitutes a new instrument in our toolkit that helps us better understand the changes, challenges and opportunities presented by Africa's economic leap forward.



# The *Visa Africa Integration Index*

In this report we argue that economic integration is a vital ingredient for socio-economic advance, and lead evidence to this effect. We recognise that economic integration is multi-faceted – and includes more than just the movement of goods, services and capital, but also the movement of people, information and knowledge. We also recognise that integration can be measured at different levels of aggregation, and we argue that measuring regional integration is at least as important as measuring global integration.

It is against this backdrop that the *Visa Africa Integration Index* is constructed for a set of 11 countries that are found in three clusters, namely:

**An East African Cluster, which includes Kenya, Uganda, Rwanda and Tanzania;**

**A West African Cluster, which includes Ghana and Nigeria; and**

**A Southern African Cluster, which includes South Africa, Angola, Mozambique, Zambia and Zimbabwe.**

Constructing the index along these lines is a function of a range of factors including:

- i. growing evidence of rising integration amongst these countries;
- ii. the role these countries have in contributing to growing business revenues; and
- iii. availability of long-term data sets.

Aside from allowing for the construction of a reliable and robust index, the 11 constituent countries are highly representative of the region, with a combined population of 437 million people, or 55 percent of the total population of approximately 800 million people. The combined GDP of the 11 countries that make up the index measured \$961 billion in 2013, equal to three-quarters of the region's total output.

In addition to provide a robust measure of African economic integration, the *Visa Africa Integration Index* makes an important contribution to knowledge by drawing on proprietary information, represented by more than four million data points, to fill in gaps in our understanding and measurement of economic elements in a fast-changing but characteristically data-poor environment.

For the purpose of constructing the index of economic integration, we draw on *Ghemawat* (2011, 32) who defines economic integration as a measure of “the depth and breadth of a country's integration with the rest of the world, as manifest by its participation in international flows of products and services, capital, information, and people”.



To measure integration, we measure the depth of economic integration as well as its breadth. In terms of “depth”, a country is considered to be “deeply integrated” if the economy is particularly open and highly connected to the rest of the world. However, integration only becomes “deep and broad” if a highly connected economy is engaged with a wide variety of counter parties across the different strands of its global relationships. Measuring economic integration by way of depth and breadth provides for a more granular description and better understanding of the nature of integration beyond conventional economic measures.

As noted, the definition of economic integration adopted here identifies four specific dimensions of economic integration to measure global integration, namely the movement of goods and services, or trade (T); financial integration, represented by the movement of capital (C); the movement of information and knowledge (I), such as access to information, ideas and technology; and the movement of people (P). Within the four pillars of this TCIP framework, individual types of flows become the building blocks of the index.

The components included in the construction of the *Visa Africa Integration Index* are shown in Table 2. The final index has a global element and a regional element, which are assigned equal importance. As shown, the global element rests on the four TCIP pillars which are constructed for breadth and depth using 19 underlying components. Their weights are assigned on the basis of assessed economic significance (Table 2). In some instances scores are meaningless, which results in weights being reassigned. The method and arguments are detailed in *Saville and White (2013)*. With regard to the regional element, data constraints mean that whilst regional pillars are constructed for breadth and depth, the scores rest on a narrower base of four components. Again, the method and arguments are detailed in *Saville and White (2013)*.

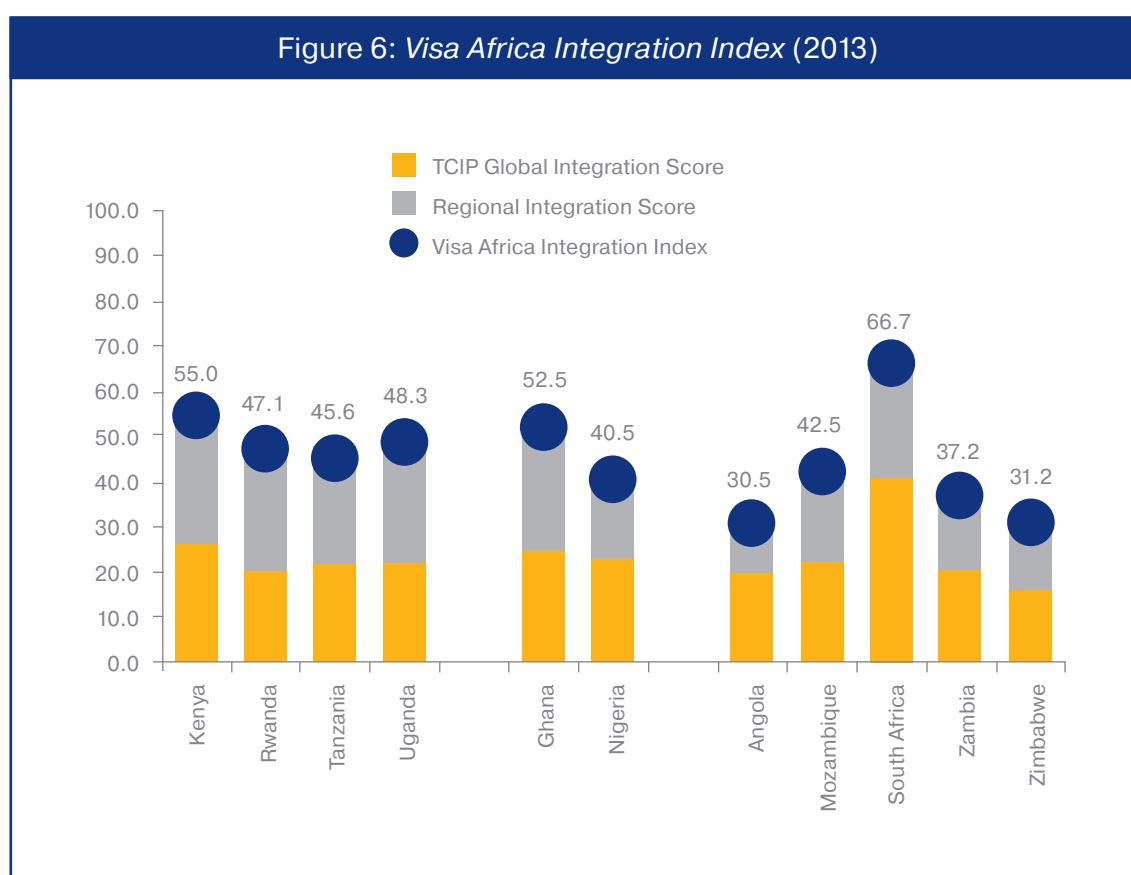
The net result is an index that has four primary elements, namely: (i) global depth; (ii) global breadth; (iii) regional depth; and (iv) regional breadth. Each of the four elements carries a final score of 100, where a score of 100 is equal to the global median. By adding the four elements together and dividing this result by four produces a final index figure which, by the same convention, should be read against the global median of 100. A country with a score below 100 is achieving economic integration, but to an extent below the global median, and so on. Equally, we can consider the influence of elements, such as regional integration, by comparing a country’s score to the median. In this vein, a score for regional integration, say of 30, needs to be compared to the median of 50, made up of regional depth (25) and regional breadth (25). For ease of exposition it generally is easier to interpret sub-scores as being measured out of 100. Full index weights are displayed in the country section. As noted, the method and inputs for the construction of the index are detailed extensively in *Saville and White (2013)*.

Table 2: Pillars and Components of the *Visa Africa Integration Index*

TCIP Global Integration Score				
Pillar	Pillar Weight (%)	Component	Depth Weight (%)	Breadth Weight (%)
Trade (T)	17.5	Merchandise trade	20.0	45.0
		Services trade	10.0	22.5
		Spend on logistics and travel	15.0	0.0
		In-country transactions on foreign bank cards	15.0	32.5
		Road, rail and air infrastructure	7.0	0.0
Capital (C)	17.5	Foreign direct investment (FDI) stocks	75.0	75.0
		Foreign direct investment (FDI) flows	25.0	25.0
Information (I)	32.5	Internet users	20.0	25.0
		Mobile cellular subscribers	20.0	25.0
		Trade in printed publications	10.0	0.0
		Social network users	10.0	0.0
		Spend on data services and information	20.0	25.0
		Education spend	20.0	25.0
People (P)	32.5	Immigrants (foreign born)	30.0	35.0
		Tourists (arrivals and departures)	15.0	0.0
		International students	30.0	35.0
		Air transport passengers	12.5	0.0
		Foreign bank cards versus domestic bank cards	6.25	15.0
		Transactions on foreign bank cards	6.25	15.0
Regional Integration Score				
Pillar	Pillar Weight (%)	Component	Depth Weight (%)	Breadth Weight (%)
Trade (T)	17.5	Intra-SSA trade	10.0	10.0
Capital (C)	17.5	Intra-SSA card usage (outbound)	22.5	30.0
Information (I)	32.5	Intra-SSA card usage (inbound)	22.5	30.0
People (P)	32.5	Intra-SSA spend	45.0	30.0

# The *Visa Africa Integration Index*: Key Findings

The final outputs of the *Visa Africa Integration Index*, which is measured biannually for 2011, 2012 and 2013, are captured in Figure 6.



First, whilst improving off a modest base, the countries that make up the index have undergone positive structural transformation over the past decade. The index offers both recent and robust evidence of this: all 11 countries show improvements in economic integration over the period measured, namely the six half-year periods that make up 2011, 2012 and 2013.

In some cases the improvements are modest. Zimbabwe and Uganda record gains in integration that amount to 0.5 percent per year and 1.2 percent per year, respectively. In other cases the gains are swift and substantial. Rwanda's index score rises by just less than 20 percent over the three years. Angola, Ghana, Kenya, Nigeria, South Africa and Zambia all record robust single digit improvements in economic integration. These scores are elaborated on in the country analysis that follows.

Second, given the rapidly improving economic environment and composition, the socio-economic gains that come with rising integration will translate into rising investment opportunities and prospects for new business relationships in the 11 countries covered. Notwithstanding these improvements, the results of the *Visa Africa Integration Index* show no African country in the index scores above the global median of 100 at either the global or regional level. South Africa scores highest amongst the 11 countries for global integration with a score of 42.6 out of 50 (when allocated a 50 percent index weight). Kenya scores highest for regional integration, scoring 27.5 out of 50, narrowly overtaking Ghana. But all of these countries – South Africa, Ghana, Kenya and the other eight – are a long way off the global median of 50.

The same observation holds for the underlying depth and breadth pillars that make up the index. Whilst South Africa scores highest for global depth (48.3 against the global median of 50) and global breadth (36.9); Mozambique scores highest for regional depth (27.3); and Kenya has the highest score for regional breadth (40.9). Notably, none of these scores achieves the global median of 50. Thus, while the economic transformation among these African countries is impressive, the index results flag the need for further structural improvements.

Figure 7 and Figure 8 reflect scores at the country level for global depth and breadth as well as regional depth and breadth.

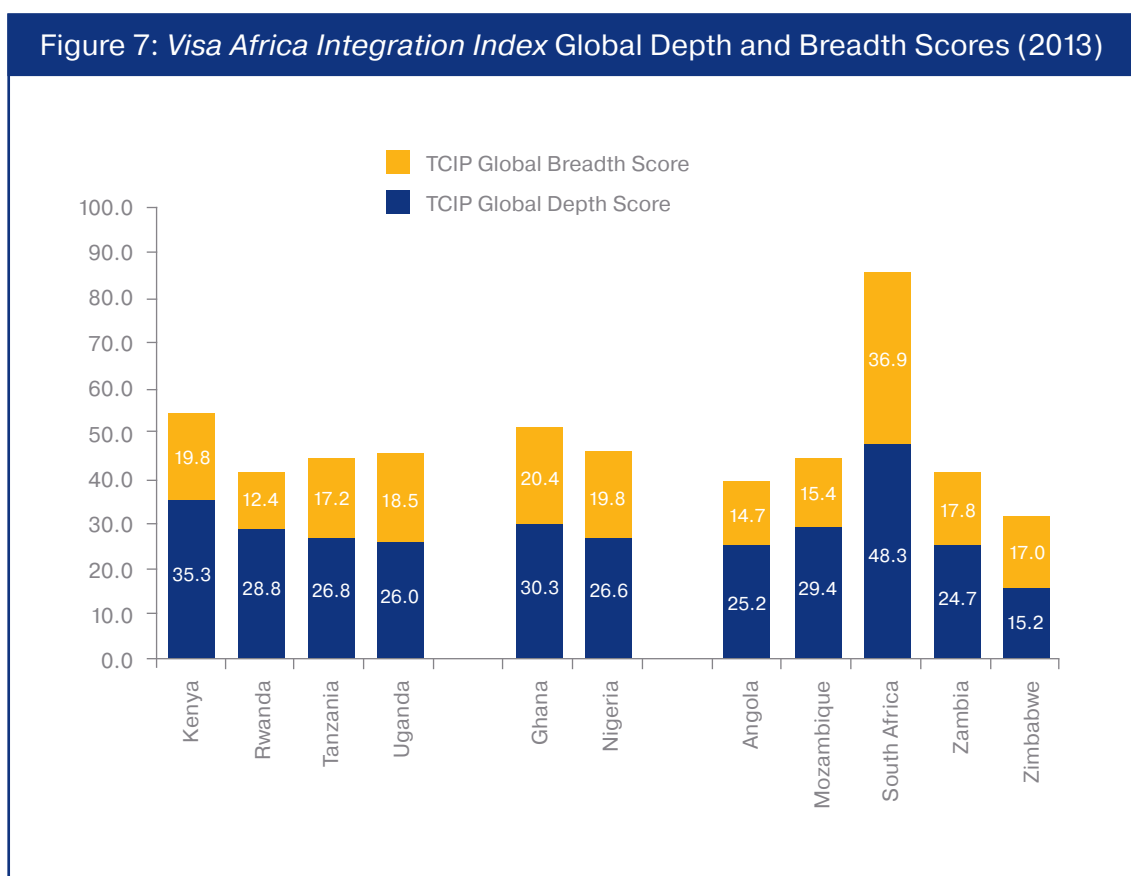
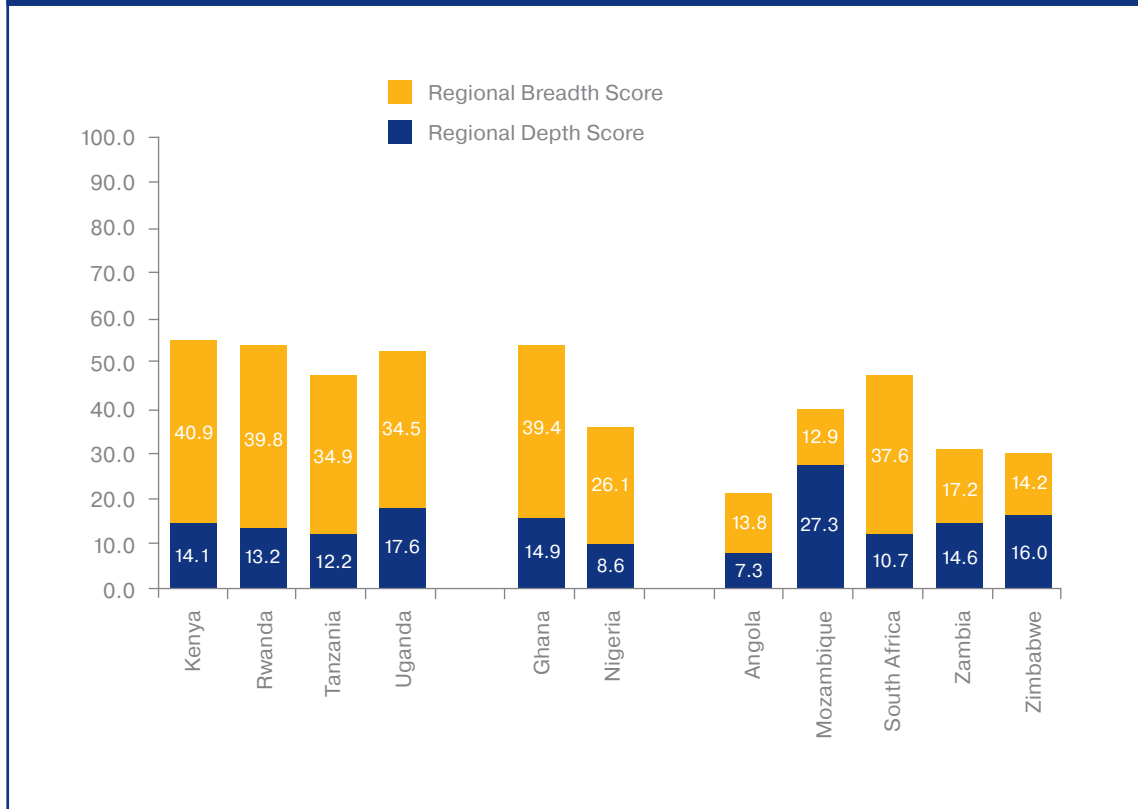


Figure 8: *Visa Africa Integration Index* Regional Depth and Breadth Scores (2013)



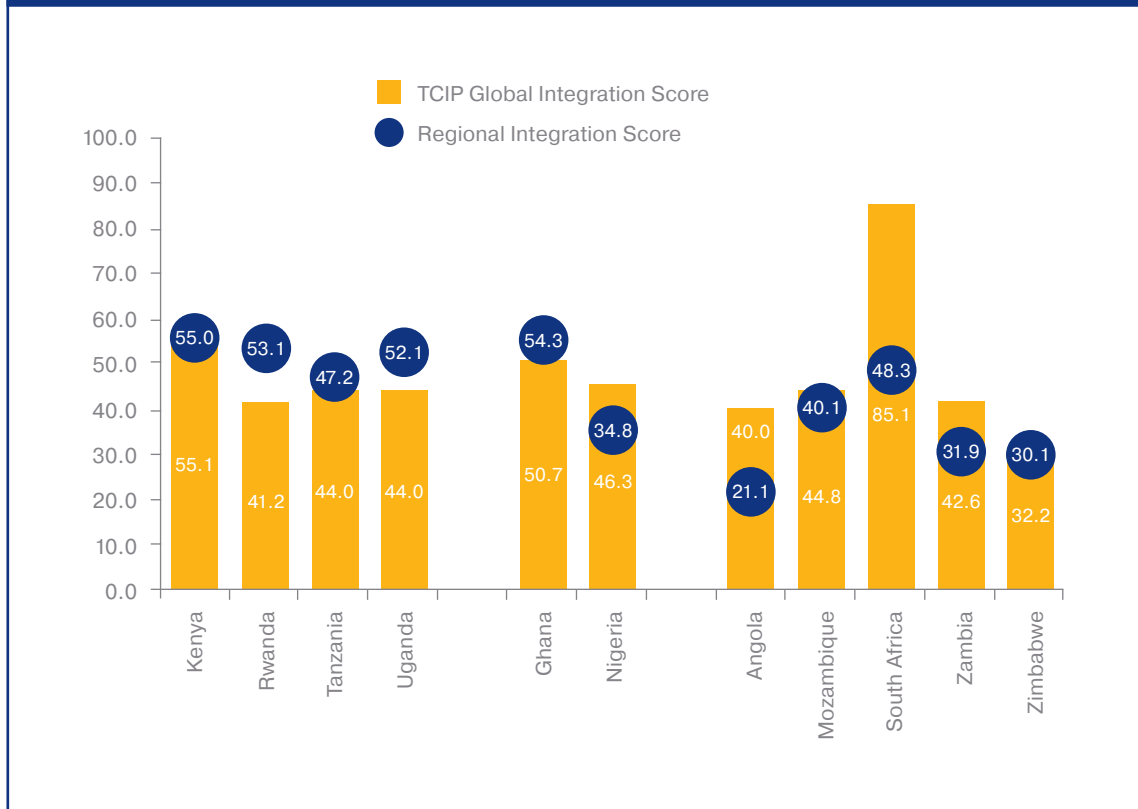
Third, the drivers of integration have some common elements. For example, over the survey period regional integration is a consistently more important contributor toward economic progress and social development than global integration. However, the pillars – in the form of contributions made by the TCIP elements – vary. In the West African cluster the most important driver is people. While in East Africa it is information and in Southern Africa it is trade and information that make the greatest contributions to rising integration. These variances in the TCIP pillars make for interesting analysis. More notable, though, is that it is regional integration – over global integration – that explains most of the index gains.

Fourth, there are relevant disconnects in some countries that do not follow the anticipated trend results. As a rule, the countries tend to have similar degrees of regional and global integration. However, some notable anomalies arise, in particular the cases of Angola and South Africa, where wide divides exist between global and economic integration, as shown in Figure 9. Note that the scores in this table are rebased to 100 to allow for ease of comparison; in the index each is weighted at 50 percent. That aside, this evidence speaks of the nature, health and consistency of economic integration.

The fifth aspect that stands out most clearly is that Africa – and more specifically according to these results sub-Saharan Africa – is not “one country” or “a place”. The region is not one amorphous aggregate, distinguished from the rest of the world as “being different”. Rather, the findings enforce the point that each of the 11 countries that make up the index, and their three regions, have unique and discernible attributes that influence and inform the way in which they integrate with the world economy



Figure 9: Global and Regional Elements of *Visa Africa Integration Index* (2013)

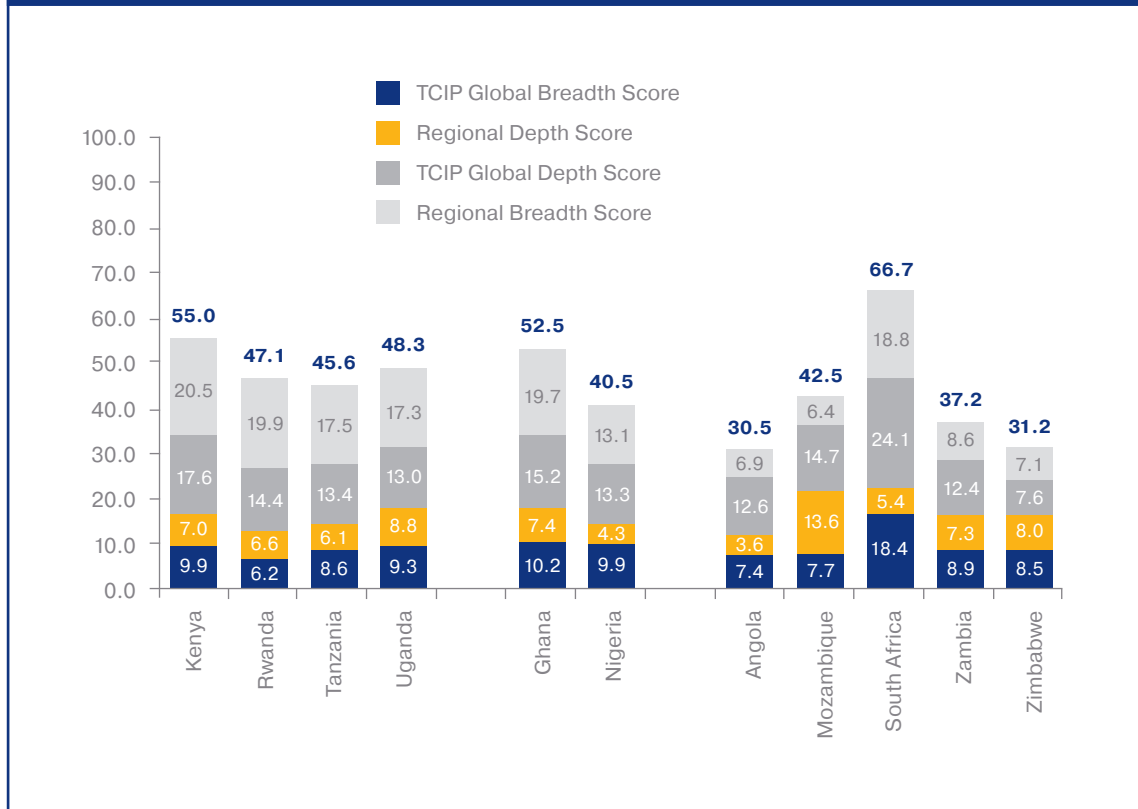


and with whom they connect. As cases in point, the two Lusophone countries in the index, namely Angola and Mozambique, each achieve relatively modest index scores, yet the relationships that generate these scores and contributing factors are materially different. For instance, a large component of Mozambique’s integration is explained by a regional connection with South Africa whilst, by contrast, Angola’s economic integration is materially influenced by connections outside of the region, especially Portugal and Brazil.

To be sure, each of the 11 countries – and each of the three regions – is made up of unique elements with their own economic, geographic, institutional and structural forces at work. These are informed by their histories, a diversity of resources and contrasting possibilities.

Thus, whilst economic integration is a driver of socio-economic advance, the influence and impact it has differs from region to region and country to country, which evolves with regional and global integration. This speaks to the value of the *Visa Africa Integration Index*, emphasising the fact that it is simply not possible to approach Africa with a “one size fits all” mindset. The work done in compiling the index reveals that each region and every country that makes up the index presents its own opportunities and challenges, with idiosyncrasies and rewards, and each needs to be assessed in its own right. This is captured in part by illustrating the relative contribution of each component of economic integration to that country’s integration index score. Figure 10 helps illustrate this point.

Figure 10: Component Contributions to the *Visa Africa Integration Index* (2013)



Whilst the surge in demand for natural resources experienced since the late 1990s may have kickstarted the process of rapid economic growth that has come about for the countries that comprise the *Visa Africa Integration Index*, the available evidence and arguments identify structural change as an increasingly powerful driver of sustained socio-economic advance in Africa.

The arguments underpinning the index and the analysis that follows from its construction show that the countries in the *Visa Africa Integration Index* are embracing modernity and necessary structural change. The strengthening of institutions like the role of the state, improved legislation, macroeconomic policies, fiscal management and the entrenchment of individual rights are just some of the factors that have helped move these 11 economies in a positive direction, while achieving greater integration with each other and with the world. This has become a driver of socio-economic advance.

On this last point, the results of the *Visa Africa Integration Index* suggests that much still needs to be done, but the social and economic gains are evidence of steady gains through economic integration. These gains will come through deepening their economic relationships. This means doing more business with the rest of the world as well as with their neighbours, while widening economic relationships and achieving greater breadth through new markets and new partners.

The 11 countries and the three clusters that make up the *Visa Africa Integration Index* are reported on in detail on the pages that follow.

## East African Cluster

To establish an index for the East African cluster we assign equal weights to the four countries from the region that are measured in the index, namely Kenya, Rwanda, Tanzania and Uganda.

As shown on the following page, the *Visa Africa Integration Index* for the East African cluster has improved steadily from 45.5 at the start of 2011 to 49.0 by the end of 2013, extending the gains noted in the first report. All four countries measured contributed to this steady success. Most notable, however, are the gains recorded by Rwanda which has sustained the largest increase for economic integration out of the three African clusters on the index. In the period since the first report, Rwanda's rising regional breadth makes the greatest contribution to Rwanda's ongoing integration, whilst other elements remain relatively steady in terms of contribution.



The overall index for the cluster shows that the country's improved rankings are a result of a marked rise in regional integration along with a steady – albeit small – increase in global integration.

In terms of regional drivers, the depth of integration has improved, which indicates greater activity between the East African countries. But the marked improvement is the increased breadth and diversity between the four countries in dealing with each other. In particular, Rwanda's regional integration score improves impressively from 40.3 at the start of the index series to 53.1 by the end of 2013. However, Kenya, Tanzania and Uganda also recorded steady gains over the survey period, albeit less pronounced, which underscores the robustness of the East African cluster's rising economic integration. It is not simply the case of once country connecting with neighbours, but rather each of the neighbours connecting to the neighbourhood.

The policies behind the East African Community (EAC), which strive to widen and deepen economic, political, social and culture integration in East Africa seem to have kicked in to active practices and real transfers or transactions among the countries of the EAC. These policies are geared toward building competitive economies of scale, value added production, trade and investment that, in turn, explains the cluster's rising connectedness.

The *Visa Africa Integration Index* therefore illustrates the effective functioning of the EAC agreement, with a record of increasing flows and activities between those countries.

Table 3 below summarises the cluster's index results and the individual country reports follow.

		2011H1	2011H2	2012H1	2012H2	2013H1	2013H2
<b>100.0</b>	<b><i>Visa Africa Integration Index</i></b>	<b>45.5</b>	<b>47.7</b>	<b>48.0</b>	<b>48.8</b>	<b>48.4</b>	<b>49.0</b>
25.0	Kenya	12.9	13.1	13.3	13.5	13.6	13.8
25.0	Rwanda	10.0	11.6	11.8	11.8	11.5	11.8
25.0	Tanzania	10.9	11.2	11.2	11.3	11.3	11.4
25.0	Uganda	11.7	11.8	11.8	12.2	12.0	12.1
<b>100.0</b>	<b>TCIP Global Integration Score</b>	<b>44.7</b>	<b>45.0</b>	<b>44.8</b>	<b>45.3</b>	<b>45.8</b>	<b>46.2</b>
25.0	Kenya	13.1	12.9	12.9	13.2	13.5	13.8
25.0	Rwanda	10.0	10.1	10.1	10.2	10.3	10.3
25.0	Tanzania	10.6	11.0	10.7	10.8	10.9	11.0
25.0	Uganda	11.1	11.1	11.1	11.0	11.1	11.1
50.0	Depth	28.4	28.8	28.7	28.9	29.0	29.2
50.0	Breadth	16.3	16.3	16.1	16.4	16.8	17.0
17.5	Trade	12.5	12.4	12.4	12.3	12.2	12.4
17.5	Capital	9.7	9.5	9.4	9.3	9.8	9.6
32.5	Information	8.7	9.1	8.9	9.5	9.8	10.2
32.5	People	13.9	14.0	14.1	14.2	14.0	14.0
<b>100.0</b>	<b>Regional Integration Score</b>	<b>46.3</b>	<b>50.3</b>	<b>51.2</b>	<b>52.3</b>	<b>50.9</b>	<b>51.8</b>
50.0	Regional Integration Depth	12.3	13.1	13.2	14.3	14.1	14.3
50.0	Regional Integration Breadth	34.0	37.2	38.0	38.0	36.8	37.5

## East African Cluster: Kenya

Kenya's *Visa Africa Integration Index* score has risen consistently over the period of the survey, resulting in Kenya achieving the highest score for the region, having moved further ahead of the other three East African countries in the period since the first report. This result follows some improvement in global integration and more robust advances in regional integration as Kenya, the largest economy in that sub-region, drives broader and deeper integration in the EAC.

Interestingly, Kenya's depth of global integration is far greater than the depth of regional integration. But the breadth of the country's economic relationships with its neighbours is far stronger than its breadth with the rest of the world. This suggests that despite the progress recorded in the EAC in recent years, there is still substantial opportunity for Kenya to deepen its regional economic relationships in all the areas in which it is already active. This bodes well for Kenya and the East African cluster as there appear to be easy wins from pursuing extant relationships.

A greater challenge may be for the country to broaden existing relationships with economies outside of the region through a greater diversification of products and partnerships. Currently, more than one third of Kenya's global merchandise trade is represented by three products: tea, cut fresh flowers and raw coffee. These trade flows are dominated by three countries: the United States, the United Kingdom and the Netherlands.

Table 4: *Visa Africa Integration Index* for Kenya

		2011H1	2011H2	2012H1	2012H2	2013H1	2013H2
100.0	<i>Visa Africa Integration Index</i>	51.5	52.4	53.0	53.9	54.4	55.0
100.0	TCIP Global Integration Score	52.2	51.6	51.8	52.9	54.1	55.1
<b>50.0</b>	<b>Depth Component</b>	<b>34.5</b>	<b>33.9</b>	<b>34.1</b>	<b>34.3</b>	<b>35.1</b>	<b>35.3</b>
17.5	(T) Trade	6.7	6.6	6.5	6.2	6.2	6.3
17.5	(C) Capital	7.1	7.1	7.3	7.3	7.2	7.2
32.5	(I) Information	10.9	10.4	10.5	11.0	11.7	11.8
32.5	(P) People	9.7	9.7	9.8	9.8	10.0	10.1
<b>50.0</b>	<b>Breadth Component</b>	<b>17.8</b>	<b>17.7</b>	<b>17.7</b>	<b>18.6</b>	<b>19.0</b>	<b>19.8</b>
17.5	(T) Trade	5.7	5.8	5.8	5.8	5.8	5.8
17.5	(C) Capital	3.9	3.6	3.5	3.4	4.3	3.7
32.5	(I) Information	2.5	2.6	2.7	3.6	3.2	4.6
32.5	(P) People	5.7	5.7	5.7	5.7	5.7	5.7
100.0	Regional Integration Score	50.8	53.1	54.3	54.9	54.8	55.0
<b>50.0</b>	<b>Depth</b>	<b>10.7</b>	<b>11.9</b>	<b>13.1</b>	<b>14.3</b>	<b>14.0</b>	<b>14.1</b>
<b>50.0</b>	<b>Breadth</b>	<b>40.0</b>	<b>41.2</b>	<b>41.2</b>	<b>40.6</b>	<b>40.7</b>	<b>40.9</b>

## East African Cluster: Rwanda

With a *Visa Africa Integration Index* score increasing from 40.0 to 47.1, Rwanda has shown substantial improvements in its integration over the period, making it the most improved integrator of the 11 countries measured since 2011, although Rwanda's gains have stalled in the last year. This is explained mainly by Rwanda's modest improvement in global integration being offset by a decline in regional integration between 2012 and 2013. Whilst this stalling is unfortunate, the size of the offsets is modest, which hints that this is perhaps a pause for breath rather than a reversal of fortune. This hypothesis is supported by the recognition that Rwanda's slightly longer-term gains, from 2011 to 2013, means that the country's score is akin to that of Uganda. Over this broader period the climb in integration is driven by a remarkable rise in regional integration over a relatively short time, perhaps attributed largely to Rwanda's accession to the EAC in 2007.

Whilst Rwanda has risen off a modest base, it is Rwanda's diversity of partners and products, more than its depth of relationships, which explains this rise. At the end of 2013 Rwanda scored highly for breadth of regional integration – the second highest in the East African region and the third highest of the 11 countries measured, after Kenya and Ghana. This is evidence of the impact from progressive integration and healthy regional partnerships.

Rwanda is demonstrating gains from regional flows of goods, services, capital, information and people. But Rwanda's integration is held back by weak scores for global integration – indeed, the lowest in the region. This is compounded by shallow regional integration.

There are significant “catch ups” that the economy needs to achieve, not just with its existing business partners – dominated by Germany, the United States and China – across existing industries like agriculture and tourism – but also with new partners in new industries. The shallow nature of Rwanda's integration, however, may be the result of its level of industrialisation and degree of economic diversity in the country, where it still produces a limited range of products and services – in fact, just a handful – which it successfully manages to export to all its regional partners, but not to a broad range of international markets.

Table 5: *Visa Africa Integration Index* for Rwanda

		2011H1	2011H2	2012H1	2012H2	2013H1	2013H2
100.0	<i>Visa Africa Integration Index</i>	40.0	46.3	47.1	47.3	46.0	47.1
100.0	TCIP Global Integration Score	39.8	40.2	40.4	40.7	41.3	41.2
<b>50.0</b>	<b>Depth Component</b>	<b>28.0</b>	<b>28.2</b>	<b>28.4</b>	<b>28.6</b>	<b>28.6</b>	<b>28.8</b>
17.5	(T) Trade	5.8	6.0	6.1	6.2	6.1	6.2
17.5	(C) Capital	3.1	3.1	3.0	3.0	3.3	3.3
32.5	(I) Information	4.7	4.7	4.7	4.7	5.0	5.0
32.5	(P) People	14.3	14.5	14.6	14.7	14.3	14.3
<b>50.0</b>	<b>Breadth Component</b>	<b>11.8</b>	<b>12.0</b>	<b>12.0</b>	<b>12.1</b>	<b>12.6</b>	<b>12.4</b>
17.5	(T) Trade	5.1	5.1	5.1	5.2	5.2	5.2
17.5	(C) Capital	1.9	1.9	1.9	2.0	2.5	2.2
32.5	(I) Information	0.7	0.7	0.7	0.7	0.8	0.8
32.5	(P) People	4.1	4.3	4.2	4.3	4.2	4.3
100.0	Regional Integration Score	40.3	52.3	53.9	53.9	50.7	53.1
<b>50.0</b>	<b>Depth</b>	<b>11.6</b>	<b>13.4</b>	<b>12.5</b>	<b>12.9</b>	<b>13.1</b>	<b>13.2</b>
<b>50.0</b>	<b>Breadth</b>	<b>28.6</b>	<b>38.9</b>	<b>41.4</b>	<b>41.0</b>	<b>37.6</b>	<b>39.8</b>

## East African Cluster: Tanzania

With a *Visa Africa Integration Index* reading of 45.6, Tanzania is the least integrated of the East African countries in our survey. The low score comes about despite a steady (but very slight) improvement in the country's integration during the measurement period.

Whilst coming off a modest base, the depth of Tanzania's global integration is rising, led by improvements in the flows of people and information. The increasing contribution of the tourism sector to the Tanzanian economy is a key element in this regard. However, Tanzania's economy still depends largely on agriculture, which accounts for more than half of the country's GDP and about three-quarters of its exports. Thus, the narrow portfolio of traded goods dominated by primary products traded with a small number of partners explains the low score Tanzania achieves for global breadth.

Some evidence suggests that Tanzania is benefiting from small but steady improvements in the breadth of its regional integration as a result of its membership of the EAC. However, Tanzania's regional integration is compromised by very low regional depth, which is a notable aspect given the potential of Dar es Salaam to serve as a key port for Tanzania's landlocked neighbours. Therefore, recent announcements of investments in regional road and rail infrastructure should contribute toward lifting Tanzania's low regional depth score. Included in this is a \$350 million upgrade and modernisation of Tanzania's railway network, a \$5 billion investment in rail infrastructure with Rwanda and Burundi and a \$400 million expansion of the Port of Dar es Salaam. There is some evidence of improving infrastructure since the first report, helped by a 17 percent increase in fixed investment spending – aimed especially at transport and communications. However, Tanzania has important improvements to make to infrastructure, including improving the extent and stability of power supply. Notably, the government's 2013/14 budget emphasises increasing availability of electricity, developing transport infrastructure and strengthening information and communication technology. All of these factors are likely to aid economic integration, and help turn economic headwinds into economic tailwinds.

Table 6: *Visa Africa Integration Index* for Tanzania

		2011H1	2011H2	2012H1	2012H2	2013H1	2013H2
100.0	<i>Visa Africa Integration Index</i>	43.8	44.7	44.6	45.3	45.2	45.6
100.0	TCIP Global Integration Score	42.2	43.9	42.8	43.4	43.6	44.0
<b>50.0</b>	<b>Depth Component</b>	<b>25.3</b>	<b>27.1</b>	<b>26.0</b>	<b>26.7</b>	<b>26.6</b>	<b>26.8</b>
17.5	(T) Trade	7.7	7.7	7.7	7.7	7.5	7.6
17.5	(C) Capital	6.9	6.9	6.8	6.7	6.9	6.9
32.5	(I) Information	6.6	8.2	7.2	7.8	7.9	8.0
32.5	(P) People	4.1	4.2	4.3	4.5	4.3	4.4
<b>50.0</b>	<b>Breadth Component</b>	<b>17.0</b>	<b>16.9</b>	<b>16.7</b>	<b>16.7</b>	<b>17.0</b>	<b>17.2</b>
17.5	(T) Trade	5.8	5.7	5.7	5.6	5.8	5.8
17.5	(C) Capital	4.2	4.1	4.0	4.0	4.1	4.0
32.5	(I) Information	1.5	1.5	1.5	1.6	1.7	1.9
32.5	(P) People	5.5	5.5	5.5	5.5	5.5	5.5
100.0	Regional Integration Score	45.3	45.5	46.4	47.1	46.8	47.2
<b>50.0</b>	<b>Depth</b>	<b>11.2</b>	<b>11.2</b>	<b>11.7</b>	<b>11.6</b>	<b>12.0</b>	<b>12.2</b>
<b>50.0</b>	<b>Breadth</b>	<b>34.1</b>	<b>34.3</b>	<b>34.8</b>	<b>35.5</b>	<b>34.8</b>	<b>34.9</b>

## East African Cluster: Uganda

Uganda boasts the second highest *Visa Africa Integration Index* score of the East African cluster. However, at 48.3, it is some way off Kenya, the region's most integrated economy at 55.0. Uganda's integration has improved since the start of the survey period, driven mostly by increased depth and breadth of regional integration on the back of the country's EAC membership. However, since the first report in 2013, Uganda's integration has stalled. This is explained by a modest gain in global economic integration being offset by a pull back in regional depth and regional breadth.

Uganda's integration with its neighbours is stronger than its integration with the rest of the world. This is based primarily on a high score for regional breadth in contrast to the low score in global breadth. With Uganda's services sector having surpassed agriculture – principally coffee – in recent years, there is a meaningful prospect for developing global breadth in Uganda's integration. Interestingly, while the country's depth of global integration has remained steady over the measurement period, this is the result of a decline in trade and capital flows being offset by improvements in information flows. In turn, improving information flows are represented by growth in spend on data services, information and education in the last two years. That noted, Uganda's depth of global integration is the lowest score in the East African cluster. Oil discoveries in Uganda, which are yet to be exploited, could have a dramatic impact on its integration, especially with regard to trade flows and depth of global interaction. As a cautionary note, powerful single commodities, such as oil, run the risk of causing a concentration in integration toward a narrower cross section of partners and more shallow range of products or transfers.

Within the East African cluster, Uganda's depth of regional integration is the weakest in the group, while its breadth is the strongest. This outcome is explained in a large part by the significant roles that Kenya, Rwanda, Burundi, the DRC and Southern Sudan carry in Uganda's economic relationships. With ongoing economic reforms, Uganda's economy is growing steadily, allowing for increased investment in infrastructure and education, which augers well for rising economic integration and positioning Uganda – a landlocked country – to take advantage of growing market opportunities among its many neighbours.

Table 7: *Visa Africa Integration Index* for Uganda

		2011H1	2011H2	2012H1	2012H2	2013H1	2013H2
100.0	<i>Visa Africa Integration Index</i>	46.7	47.4	47.2	48.7	47.9	48.3
100.0	TCIP Global Integration Score	44.6	44.4	44.2	44.1	44.2	44.6
<b>50.0</b>	<b>Depth Component</b>	<b>25.9</b>	<b>25.9</b>	<b>26.1</b>	<b>25.9</b>	<b>25.8</b>	<b>26.0</b>
17.5	(T) Trade	6.9	6.7	6.6	6.5	6.4	6.6
17.5	(C) Capital	7.1	7.0	6.9	6.8	7.0	7.0
32.5	(I) Information	6.4	6.7	7.1	7.2	7.2	7.3
32.5	(P) People	5.5	5.5	5.5	5.4	5.1	5.1
<b>50.0</b>	<b>Breadth Component</b>	<b>18.7</b>	<b>18.5</b>	<b>18.2</b>	<b>18.3</b>	<b>18.4</b>	<b>18.5</b>
17.5	(T) Trade	6.2	6.2	6.1	6.1	6.1	6.2
17.5	(C) Capital	4.4	4.3	4.1	4.1	4.1	4.1
32.5	(I) Information	1.3	1.3	1.3	1.4	1.5	1.6
32.5	(P) People	6.7	6.7	6.7	6.7	6.7	6.7
100.0	Regional Integration Score	48.8	50.3	50.3	53.3	51.5	52.1
<b>50.0</b>	<b>Depth</b>	<b>15.5</b>	<b>16.0</b>	<b>15.6</b>	<b>18.4</b>	<b>17.2</b>	<b>17.6</b>
<b>50.0</b>	<b>Breadth</b>	<b>33.3</b>	<b>34.3</b>	<b>34.7</b>	<b>34.9</b>	<b>34.3</b>	<b>34.5</b>



## West African Cluster

For the West African cluster we assign equal weightings to Ghana and Nigeria, the two West African economies measured in the index.

As in the case of East Africa, the West African cluster's integration has improved at a similar rate (albeit off a lower base) from 43.4 at the start of 2011 to 46.5 by the end of 2013. Both Ghana and Nigeria contributed to progressive improvements in the regional and global scores, with the West Africa cluster trailing East Africa but ahead of Southern Africa on the overall *Visa Africa Integration Index*.

Like East Africa, the improvements in West Africa are a result of a marked rise in regional integration (a significant increase from 40.6 to 44.5 over the period measured) with a more modest increase in global integration.

Where West Africa is different to the East African experience is around the key driver behind rising regional integration over the period measured. While West Africa recorded a small increase in breadth, the real impact is seen in the increased depth of integration. This is to be expected given there are only two countries measured in the West African cluster, and the results indicate a higher degree of activity between Ghana and Nigeria during that period as well as growing activity with other African countries, such as South Africa in the case of Nigeria.

The marginal increase in global integration for the West Africa cluster is attributed almost entirely to a small increase in the breadth score with a lacklustre performance in depth over that period. This suggests a narrowing of global market linkages.

Table 8 below summarises the cluster's index results and the individual country reports follow.

Table 8: West African Cluster

		2011H1	2011H2	2012H1	2012H2	2013H1	2013H2
100.0	<i>Visa Africa Integration Index</i>	43.4	45.3	45.2	46.3	46.1	46.5
50.0	Ghana	24.5	25.5	25.4	26.1	26.1	26.2
50.0	Nigeria	18.8	19.7	19.8	20.3	20.0	20.3
100.0	TCIP Global Integration Score	46.1	46.7	46.8	47.3	48.2	48.5
50.0	Ghana	23.9	24.3	24.3	24.6	25.3	25.4
50.0	Nigeria	22.3	22.5	22.5	22.7	22.9	23.2
50.0	Depth	27.2	27.5	27.5	27.6	28.3	28.4
50.0	Breadth	18.9	19.3	19.3	19.7	19.9	20.1
17.5	Trade	10.4	10.4	10.5	10.5	10.4	10.5
17.5	Capital	14.9	15.0	15.0	15.3	15.5	15.4
32.5	Information	9.6	9.9	9.8	9.9	10.8	11.1
32.5	People	11.2	11.3	11.5	11.6	11.5	11.5
100.0	Regional Integration Score	40.6	43.8	43.5	45.4	44.1	44.5
50.0	Regional Integration Depth	9.1	10.8	10.7	12.7	11.6	11.7
50.0	Regional Integration Breadth	31.5	33.0	32.9	32.7	32.5	32.8

## West African Cluster: Ghana

Ghana has one of the highest levels of integration overall among the 11 countries measured – trailing only South Africa and Kenya – and is the more integrated of the two economies measured in the West African cluster. With a *Visa Africa Integration Index* score of 52.5, Ghana is above the West African average but well below the global median of 100. It has made substantial progress in recent years – especially toward its regional integration, where it has increased from 50.4 to 54.3 in the period measured, but still has a way to go in terms of greater global integration.

Ghana also has seen a rise in its global integration score from 2011 to 2013, albeit slightly less impressive than the country's regional score. The slight rise can be attributed almost entirely to a small increase in capital flows – mostly in the breadth component. This is on the back of growing economic prospects coupled with improving macroeconomic management in Ghana. New oil discoveries, a vibrant mining sector and growing agribusiness have all contributed toward greater breadth in capital flows.

But Ghana's relatively strong *Visa Africa Integration Index* score is based largely on its regional integration, and obviously its growing linkages and exchanges with Nigeria. This is not surprising given Ghana is the smaller of the two economies and is seeking economic gains from the exciting new market opportunities across the border in Nigeria. These developments bode well for Ghana and the broader West African region, and increased regional integration will allow Ghana to benefit enormously from Nigeria's extensive market.

The depth of Ghana's regional integration has increased notably from 11.3 to 14.9 over the period measured. Whilst this improvement has stuttered in the period since the first report, the trend remains positive, which is also a good indication of growth in diversity and exchanges with Nigeria, in particular, as the Ghanaian economy grows and develops.

Table 9: *Visa Africa Integration Index* for Ghana

		2011H1	2011H2	2012H1	2012H2	2013H1	2013H2
100.0	<b>Visa Africa Integration Index</b>	49.1	51.1	50.7	52.1	52.2	52.5
100.0	TCIP Global Integration Score	47.8	48.5	48.5	49.2	50.5	50.7
<b>50.0</b>	<b>Depth Component</b>	<b>28.9</b>	<b>29.1</b>	<b>29.1</b>	<b>29.0</b>	<b>30.2</b>	<b>30.3</b>
17.5	(T) Trade	7.2	7.1	7.2	7.1	7.2	7.3
17.5	(C) Capital	7.4	7.5	7.5	7.6	8.1	8.1
32.5	(I) Information	6.5	6.7	6.4	6.3	7.1	7.1
32.5	(P) People	7.9	7.9	7.9	8.0	7.8	7.8
<b>50.0</b>	<b>Breadth Component</b>	<b>18.9</b>	<b>19.4</b>	<b>19.5</b>	<b>20.2</b>	<b>20.4</b>	<b>20.4</b>
17.5	(T) Trade	3.4	3.5	3.5	3.6	3.5	3.5
17.5	(C) Capital	7.0	7.2	7.3	7.7	7.7	7.6
32.5	(I) Information	2.6	2.7	2.8	2.9	3.2	3.4
32.5	(P) People	5.9	5.9	5.9	6.0	5.9	5.9
100.0	Regional Integration Score	50.4	53.7	52.9	55.1	54.0	54.3
<b>50.0</b>	<b>Depth</b>	<b>11.3</b>	<b>13.8</b>	<b>13.5</b>	<b>15.9</b>	<b>14.6</b>	<b>14.9</b>
<b>50.0</b>	<b>Breadth</b>	<b>39.1</b>	<b>39.9</b>	<b>39.4</b>	<b>39.2</b>	<b>39.3</b>	<b>39.4</b>

## West African Cluster: Nigeria

Nigeria's *Visa Africa Integration Index* score of 40.5 is below the average of 45.2 recorded for the 11 countries. By far the largest economy in West Africa and, as recently reported, the largest economy in sub-Saharan Africa, prospects of Nigerian integration is relevant to the entire continent. Nigeria has made significant strides in regional integration efforts where its score increased from 30.8 to 34.8 during the period measured. This is likely to translate into broader integration across the continent and further afield in global integration.

Nigeria's gains in the country's global integration score was relatively more muted from the start of 2011 to the end of 2013, with the only real movements arising in the flow of people and information, albeit off a low base. The country's regional integration score improved markedly, but is still relatively low, with significant room for gains in broader and deeper integration.

The size and influence of Nigeria in Africa cannot be overstated. While the country's levels of regional and global integration still are relatively low, Nigeria is likely to be one of the key drivers of integration in Africa and one of the primary forces of African integration with the rest of the world. While the Nigerian economy is diversifying, aided by an increasing number of Nigerian multinationals emerging and expanding across the continent, it will be Nigerians themselves that will be the true catalysts of integration, which is evident by the improving depth of the people component.

Nigeria will benefit enormously from greater integration, as its growing market matures and modernises, and the demand for capital and a diversity of trade partners rises to address the needs of increasing industrialisation, a rising appetite for production and services and growing sophistication in lifestyles. All of this noted, it is likely that the recently announced revisions to the size of the Nigerian economy will have a negative effect on Nigeria's integration score when the index is next revised for the simple reason that trade and investment figures have not changed as dramatically as gross domestic product figures. Our back of the envelope estimate is that, all else equal, Nigeria's integration score could fall by as much as five points.

Table 10: *Visa Africa Integration Index* for Nigeria

		2011H1	2011H2	2012H1	2012H2	2013H1	2013H2
100.0	<b>Visa Africa Integration Index</b>	37.7	39.4	39.6	40.6	40.0	40.5
100.0	TCIP Global Integration Score	44.5	45.0	45.1	45.4	45.9	46.3
50.0	<b>Depth Component</b>	25.5	25.8	26.0	26.1	26.4	26.6
17.5	(T) Trade	6.4	6.3	6.4	6.4	6.1	6.2
17.5	(C) Capital	8.9	8.8	8.7	8.6	8.5	8.5
32.5	(I) Information	7.5	7.7	7.7	7.7	8.3	8.3
32.5	(P) People	2.7	3.0	3.2	3.4	3.5	3.5
50.0	<b>Breadth Component</b>	19.0	19.2	19.0	19.3	19.5	19.8
17.5	(T) Trade	3.9	3.9	3.9	3.9	3.9	3.9
17.5	(C) Capital	6.6	6.7	6.6	6.7	6.7	6.7
32.5	(I) Information	2.7	2.7	2.7	2.8	3.0	3.3
32.5	(P) People	5.8	5.8	5.8	5.9	5.8	5.9
100.0	Regional Integration Score	30.8	33.9	34.1	35.7	34.2	34.8
50.0	<b>Depth</b>	6.8	7.8	7.8	9.5	8.5	8.6
50.0	<b>Breadth</b>	24.0	26.1	26.3	26.1	25.7	26.1

## Southern African Cluster

The Southern African cluster comprises Angola, Mozambique, South Africa, Zambia and Zimbabwe. As with the other clusters, we assign an equal weighting among the five countries to construct a cluster index.

Whilst the Southern African cluster's *Visa Africa Integration Index* modestly improved from 39.0 to 41.6 over the period, having shown a notable gain in the last year. The gain is explained almost entirely by improvements in the South Africa index score, with a modest contribution made by Angola. Still, the region lags East Africa and West Africa on the index score. This is remarkable because Southern Africa has some of the most impressive outliers when it comes to index components. For instance the region has the most integrated country (South Africa) and the least integrated countries (Angola, Zambia and Zimbabwe) which display some of the most interesting dynamics as a result of history and resources, not to mention potential. These individual countries in Southern Africa – most notably Angola and South Africa – do not follow the trend of regional integration in Africa that dominates the index, and are testimony to the idiosyncratic nature of individual countries and – in that vein – the varying sub-regional characteristics on the continent.



While global integration tends to drive Southern Africa's *Visa Africa Integration Index* score, this is due largely to South Africa's dominance and high level of globalisation. As noted, regional integration plays a modest part, most evident in the case of Mozambique and South Africa. This is bound to change as talks toward a more integrated SADC region come to fruition and development corridors – such as the Maputo Development Corridor linking Mpumalanga in South Africa to southern Mozambique – coupled with rail and port networks improve.

Southern Africa's global integration has seen relatively sustained improvement in depth and breadth scores since the start of 2011, suggesting improvements in country partners and types of transfers or exchanges, while the depth of regional integration follows a similar pattern. Breadth among partner countries has been static.

Table 11 below summarises the cluster's index results and the individual country reports follow.

		2011H1	2011H2	2012H1	2012H2	2013H1	2013H2
100.0	<i>Visa Africa Integration Index</i>	39.0	40.0	40.2	40.4	41.2	41.6
20.0	Angola	5.7	6.1	5.9	5.8	6.1	6.1
20.0	Mozambique	8.2	8.3	8.3	8.5	8.4	8.5
20.0	South Africa	12.2	12.5	12.6	12.7	13.2	13.3
20.0	Zambia	6.8	6.9	7.1	7.3	7.3	7.4
20.0	Zimbabwe	6.1	6.3	6.3	6.2	6.2	6.2
100.0	TCIP Global Integration Score	45.7	46.5	46.7	47.2	48.4	48.9
20.0	Angola	7.4	7.7	7.6	7.8	8.0	8.0
20.0	Mozambique	8.7	8.8	8.9	8.9	8.9	9.0
20.0	South Africa	15.3	15.5	15.7	15.7	16.7	17.0
20.0	Zambia	7.6	7.8	8.0	8.5	8.4	8.5
20.0	Zimbabwe	6.7	6.7	6.5	6.4	6.4	6.4
50.0	Depth	26.9	27.5	27.7	27.8	28.4	28.6
50.0	Breadth	18.8	19.0	19.1	19.4	20.0	20.4
17.5	Trade	10.0	10.1	10.3	10.5	10.4	10.5
17.5	Capital	13.1	13.3	13.2	13.4	14.0	13.9
32.5	Information	10.2	10.6	10.7	10.6	11.5	12.0
32.5	People	12.3	12.5	12.5	12.7	12.5	12.6
100.0	Regional Integration Score	32.2	33.6	33.7	33.6	34.1	34.3
50.0	Regional Integration Depth	13.2	14.1	14.4	15.1	14.9	15.2
50.0	Regional Integration Breadth	19.0	19.4	19.3	18.5	19.2	19.1

## Southern African Cluster: Angola

Angola's *Visa Africa Integration Index* is the lowest of all 11 countries measured, with a score of 30.5. However, Angola's score has increased notably since the first edition of this report, rising from 28.9 to 30.5 over the last year. This is explained by a handful of factors, including increased depth in global capital flows and information and gains in regional breadth. Still, Angola's low levels of global and regional integration are a result of history and the country's high reliance on commodity exports, almost exclusively oil and, to a very modest degree, diamonds. But as one of the fastest growing economies on the continent over the past decade, and with a real interest in developing closer linkages and infrastructure with its neighbours, Angola is expected to integrate with its region and the world at a rapid pace. In turn, this will fuel Angola's next phase of growth as it attracts capital from new partners and emerging powers, like China and Brazil, and develops alternative sectors beyond natural resources in the areas of agribusiness, renewable fuels and services.

Global integration drives Angola's *Visa Africa Integration Index* score. This is no surprise given oil is Angola's principal export, which goes to international markets beyond the region. That said, Angola's oil importing partners are growing more diversified, which is evident in the increased breadth component of international integration from 14.0 to 14.7.

Regional integration has reversed its initial decline over the period, rising from 19.8 to 21.1, explained chiefly by a reversal of a declining trend in the breadth of partners.

This recovery is a valuable component of Angola's economic development. However, the very low level of Angola's integration is concerning, especially given the levels and increases in other regions. But much of this can be attributed to the lack of infrastructure and poor connectedness between Angola and its neighbouring economies. Massive infrastructure projects linking Angola with the region – and especially Angola to the copper belt between Zambia and the DRC – are underway. This, along with the ongoing modernisation of the Angolan economy, where we are seeing increasing flows of people and information, is likely to dramatically alter the dynamic in the region and materially shift Angola's current levels of integration.

Table 12: *Visa Africa Integration Index* for Angola

		2011H1	2011H2	2012H1	2012H2	2013H1	2013H2
100.0	<i>Visa Africa Integration Index</i>	28.5	30.4	29.6	28.9	30.5	30.5
100.0	TCIP Global Integration Score	37.1	38.5	38.2	38.8	39.9	40.0
<b>50.0</b>	<b>Depth Component</b>	<b>23.2</b>	<b>24.1</b>	<b>24.0</b>	<b>24.0</b>	<b>25.1</b>	<b>25.2</b>
17.5	(T) Trade	5.8	5.7	5.9	5.9	5.9	6.0
17.5	(C) Capital	8.4	8.4	8.4	8.5	8.9	8.9
32.5	(I) Information	5.5	6.5	6.2	6.1	6.8	6.8
32.5	(P) People	3.5	3.5	3.5	3.5	3.5	3.6
<b>50.0</b>	<b>Breadth Component</b>	<b>14.0</b>	<b>14.3</b>	<b>14.3</b>	<b>14.7</b>	<b>14.8</b>	<b>14.7</b>
17.5	(T) Trade	2.5	2.6	2.7	2.8	2.8	2.8
17.5	(C) Capital	6.8	7.0	6.8	7.0	7.1	7.0
32.5	(I) Information	1.4	1.5	1.5	1.6	1.7	1.7
32.5	(P) People	3.2	3.2	3.3	3.3	3.3	3.3
100.0	Regional Integration Score	19.8	22.3	21.0	19.1	21.2	21.1
<b>50.0</b>	<b>Depth</b>	<b>5.7</b>	<b>6.6</b>	<b>7.1</b>	<b>7.5</b>	<b>7.3</b>	<b>7.3</b>
<b>50.0</b>	<b>Breadth</b>	<b>14.1</b>	<b>15.7</b>	<b>13.9</b>	<b>11.7</b>	<b>13.9</b>	<b>13.8</b>

## Southern African Cluster: Mozambique

Mozambique has made great strides in terms of economic growth and development over the past two decades. Boasting impressive levels of economic growth since the mid-1990s, Mozambique is set to sustain current annual growth rates in excess of seven percent for the next decade. While much of Mozambique's anticipated growth may be based on natural resources, including coal and new oil discoveries off its northern coastline, the country has benefitted enormously from targeted integration since the early 2000s and looks set to broaden and deepen its integration regionally and globally.

Mozambique's *Visa Africa Integration Index* score of 42.5 is relatively evenly divided between global integration and regional integration. The global component is driven largely by a surge in interest from the likes of China, Brazil and India in the resource boom that is underway in Mozambique. This is bringing with it new capital and an influx of expatriate workers as well as new technologies. In turn, as the results indicate, Mozambicans are being trained and employed and are becoming increasingly mobile in conjunction with their rapidly changing economy.

But it is the regional integration component for Mozambique that is particularly interesting. This has increased from 38.1 to 40.1 during the period measured. The depth comprises the bulk share of regional integration while breadth of partners is relatively small. This is based on at least two features. First, Mozambique's regional integration benefits enormously from mega-projects like the Mozal aluminium smelter, which links into the Maputo Development Corridor and provides an effective agent of integration between Mozambique and South Africa. The discoveries of oil and gas in the north, along with the development of coal deposits, are encouraging further mega-projects that will drive Mozambique's integration with other countries in the region as well as international integration through improved port and rail facilities.

However, and second, Mozambique's regional integration is very narrow, with a limited breadth score of just 12.9, unchanged from the first report. This suggests a regional concentration of transfers and activities that happen to be with South Africa which accounts for a large majority of the flows from Mozambique.

Table 13: *Visa Africa Integration Index* for Mozambique

		2011H1	2011H2	2012H1	2012H2	2013H1	2013H2
100.0	<i>Visa Africa Integration Index</i>	40.8	41.3	41.7	42.4	42.1	42.5
100.0	TCIP Global Integration Score	43.5	44.0	44.3	44.6	44.6	44.8
<b>50.0</b>	<b>Depth Component</b>	<b>28.1</b>	<b>28.5</b>	<b>29.0</b>	<b>29.2</b>	<b>29.2</b>	<b>29.4</b>
17.5	(T) Trade	7.1	7.1	7.1	7.1	6.9	7.0
17.5	(C) Capital	8.0	8.0	7.7	7.7	9.3	9.3
32.5	(I) Information	5.8	5.8	6.2	6.1	5.6	5.6
32.5	(P) People	7.3	7.6	7.9	8.3	7.4	7.5
<b>50.0</b>	<b>Breadth Component</b>	<b>15.4</b>	<b>15.4</b>	<b>15.3</b>	<b>15.3</b>	<b>15.4</b>	<b>15.4</b>
17.5	(T) Trade	5.9	5.9	5.9	5.8	5.7	5.7
17.5	(C) Capital	3.3	3.3	3.2	3.2	3.3	3.2
32.5	(I) Information	0.6	0.6	0.6	0.6	0.8	0.8
32.5	(P) People	5.6	5.7	5.6	5.7	5.6	5.6
100.0	Regional Integration Score	38.1	38.6	39.0	40.2	39.7	40.1
<b>50.0</b>	<b>Depth</b>	<b>26.1</b>	<b>26.4</b>	<b>25.6</b>	<b>27.3</b>	<b>27.0</b>	<b>27.3</b>
<b>50.0</b>	<b>Breadth</b>	<b>12.0</b>	<b>12.2</b>	<b>13.4</b>	<b>12.9</b>	<b>12.7</b>	<b>12.9</b>

## Southern African Cluster: South Africa

South Africa has the highest score on the *Visa Africa Integration Index*, improving from 61.1 at the start of 2011 to 66.7 at the end of 2013. This gain is explained by increased depth in global trade, information and people flows and increased breadth in global information flows. Whilst the improvements in information flow's depth and breadth are explained by improvements in telecommunications infrastructure, it should be noted that the increased trade score is a result of a rising trade deficit. This attribute is not a positive element. Also, changes in legislation and regulation in 2014 are likely to help reverse the improved index score for people flows in 2013.

That aside, like Angola, South Africa is an outlier that does not follow the conventional trend of matched regional and global integration seen elsewhere in the *Visa Africa Integration Index*. Instead, South Africa has significant imbalances between the spread of global integration and region integration. Arguably, this is a result of history, higher levels of infrastructure development around ports and rail that support relationships with historically advanced economies (compared with other locations in Africa) and the types of markets South African firms and citizens traditionally pursued.

South Africa is by far the most globally integrated economy in Africa. With a global integration score of 85.1, South Africa is converging toward the global median of 100. South Africa's impressive depth and breadth component is indicative of the country's long process of liberalisation dating back to the early 1990s, higher levels of industrialisation and economic diversification and pursuit of trade agreements and use of preferential market access arrangements around the globe – from the European Union to the common markets of South America, such as Mercosur, and AGOA with the United States.

But South Africa's regional integration score is lower than expected at 48.3, bringing down its overall *Visa Africa Integration Index* score. This is somewhat concerning and relevant to both South Africa's economic growth prospects and African development. As one of the primary sources of investment on the African continent, South Africa's integration with its region is important for future provisions of capital, skills and other developmental elements. Africa, in turn, is an essential part of South Africa's economic growth prospects. Improving its regional integration is an important part of connecting Africa with the world, while also using South Africa's position more effectively in forums such as BRICS and the Group of 20 (G20) to elevate Africa on the global agenda.

Table 14: *Visa Africa Integration Index* for South Africa

		2011H1	2011H2	2012H1	2012H2	2013H1	2013H2
100.0	<b>Visa Africa Integration Index</b>	61.1	62.4	63.1	63.3	66.0	66.7
100.0	<b>TCIP Global Integration Score</b>	76.4	77.4	78.5	78.3	83.5	85.1
<b>50.0</b>	<b>Depth Component</b>	<b>44.7</b>	<b>45.1</b>	<b>45.6</b>	<b>45.5</b>	<b>48.1</b>	<b>48.3</b>
17.5	(T) Trade	7.1	7.1	7.2	7.3	7.4	7.5
17.5	(C) Capital	8.3	8.5	8.8	9.0	9.2	9.2
32.5	(I) Information	13.9	13.9	14.1	13.6	15.6	15.6
32.5	(P) People	15.4	15.5	15.5	15.6	15.9	15.9
<b>50.0</b>	<b>Breadth Component</b>	<b>31.8</b>	<b>32.3</b>	<b>32.9</b>	<b>32.8</b>	<b>35.3</b>	<b>36.9</b>
17.5	(T) Trade	6.1	6.2	6.2	6.3	6.2	6.3
17.5	(C) Capital	7.8	8.4	8.6	8.6	9.2	8.8
32.5	(I) Information	10.1	10.0	10.3	10.2	12.1	14.0
32.5	(P) People	7.7	7.7	7.8	7.8	7.7	7.8
100.0	<b>Regional Integration Score</b>	45.8	47.4	47.7	48.4	48.5	48.3
<b>50.0</b>	<b>Depth</b>	<b>7.9</b>	<b>9.5</b>	<b>10.3</b>	<b>11.4</b>	<b>10.7</b>	<b>10.7</b>
<b>50.0</b>	<b>Breadth</b>	<b>37.8</b>	<b>37.9</b>	<b>37.4</b>	<b>37.0</b>	<b>37.8</b>	<b>37.6</b>



## Southern African Cluster: Zambia

With a *Visa Africa Integration Index* score of 37.2, a steady increase from 33.8 at the start of the period measured, Zambia's level of integration is at the low end of the 11 countries sampled. Showing potential in new sectors like manufacturing, agribusiness and renewable fuels, Zambia's integration with the Southern Africa region and the world is essential to boosting this new-found diversity of exports and investment, and escape the traps associated with being landlocked and a single commodity exporter. That commodity, in the case of Zambia, is copper.

Zambia's overall integration score is based predominantly on its global integration, which climbed from 38.1 at the start of 2011 to 42.6 at the end of 2013. This was the result of an improving depth component (from 21.7 to 24.7), an indication of the progressive shift toward a greater diversity in exports along with Zambians benefiting from the growth and modernisation of their economy through increased flows of information.

Zambia's lacklustre regional integration score of 31.9 is significant to the economic development of the country, given Zambia's dependence on its neighbours due to its landlocked status. But, like Angola and other countries in the region, large infrastructure development initiatives planned to link the eastern seaboard of Africa with the west and – more specifically – the rich copper belt to nearby ports in Angola would have a real impact on Zambia's socio-economic progress. This, along with the ongoing improvements in border posts and crossings, promises to contribute enormously toward Zambia's integration with its Southern African neighbours.

Table 15: *Visa Africa Integration Index* for Zambia

		2011H1	2011H2	2012H1	2012H2	2013H1	2013H2
100.0	<i>Visa Africa Integration Index</i>	33.8	34.6	35.3	36.4	36.5	37.2
100.0	TCIP Global Integration Score	38.1	39.0	40.1	42.4	41.9	42.6
<b>50.0</b>	<b>Depth Component</b>	<b>21.7</b>	<b>22.8</b>	<b>23.8</b>	<b>25.1</b>	<b>24.3</b>	<b>24.7</b>
17.5	(T) Trade	4.9	5.2	5.6	6.0	5.6	5.8
17.5	(C) Capital	5.8	5.8	5.8	5.8	5.9	5.9
32.5	(I) Information	5.5	6.2	7.0	7.7	7.5	7.6
32.5	(P) People	5.6	5.5	5.4	5.6	5.4	5.4
<b>50.0</b>	<b>Breadth Component</b>	<b>16.3</b>	<b>16.3</b>	<b>16.3</b>	<b>17.4</b>	<b>17.6</b>	<b>17.8</b>
17.5	(T) Trade	2.6	2.5	2.5	3.4	3.6	3.7
17.5	(C) Capital	8.7	8.7	8.7	8.7	8.7	8.7
32.5	(I) Information	1.4	1.5	1.5	1.6	1.7	1.8
32.5	(P) People	3.6	3.6	3.6	3.6	3.6	3.6
100.0	Regional Integration Score	29.5	30.2	30.5	30.4	31.1	31.9
<b>50.0</b>	<b>Depth</b>	<b>12.5</b>	<b>13.0</b>	<b>13.3</b>	<b>13.3</b>	<b>13.9</b>	<b>14.6</b>
<b>50.0</b>	<b>Breadth</b>	<b>17.0</b>	<b>17.2</b>	<b>17.2</b>	<b>17.1</b>	<b>17.2</b>	<b>17.2</b>

## Southern African Cluster: Zimbabwe

Zimbabwe's *Visa Africa Integration Index* score of 31.2 is hamstrung by relatively poor results across global integration and regional integration, and the economy has struggled to record gains since our first report was released. That said, there remain some signs of moderate progress in the country's regional integration, especially with Southern Africa. On this front, Zimbabwe's degree of global integration declined from 33.5 at the start of 2011 to 31.2 at the end of 2013. This was on the back of a marked decline in the depth of information (from 4.8 down to 3.0) and, along with that, a small drop in the trade pillar.

In spite of Zimbabwe's relative decline in global integration, its regional performance showed some signs of advance. As a landlocked country, dependent on its neighbours for economic connections, Zimbabwe's regional integration with Southern Africa is an important part of its socio-economic development and a prerequisite "stepping stone" toward global integration.

In this regard, Zimbabwe improved its regional integration score from 27.9 to 30.1 over the period measured. This improvement can be attributed exclusively to depth of activities in transactions with its neighbours, suggesting some progress in recovering productivity and trade growth in the Zimbabwean economy.

Increased depth of regional integration is an important development for Zimbabwe on which to build. Whilst much needs to be done, when coupled with greater breadth in neighbouring partners, and followed by deeper and broader global integration, this bodes well for Zimbabwe's economic future.

Table 16: *Visa Africa Integration Index* for Zimbabwe

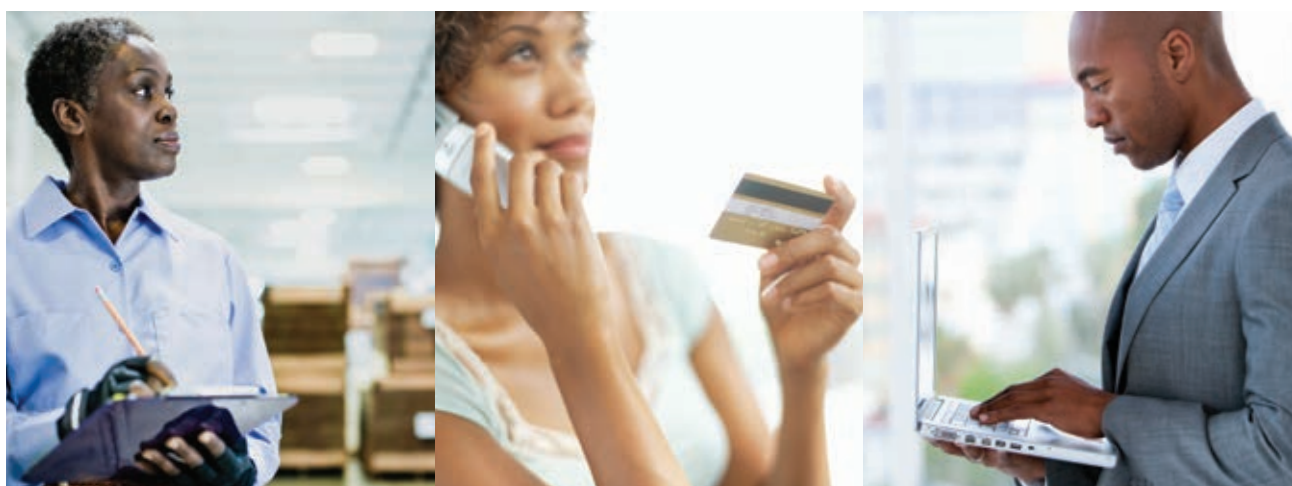
		2011H1	2011H2	2012H1	2012H2	2013H1	2013H2
100.0	<i>Visa Africa Integration Index</i>	30.7	31.4	31.4	31.1	30.9	31.2
100.0	TCIP Global Integration Score	33.5	33.5	32.6	32.0	31.9	32.2
<b>50.0</b>	<b>Depth Component</b>	<b>16.8</b>	<b>16.8</b>	<b>16.0</b>	<b>15.2</b>	<b>15.1</b>	<b>15.2</b>
17.5	(T) Trade	4.1	4.0	4.0	3.9	3.9	3.9
17.5	(C) Capital	3.0	3.0	3.0	3.0	3.1	3.1
32.5	(I) Information	4.8	4.8	4.0	3.2	3.0	3.0
32.5	(P) People	4.9	5.0	5.0	5.0	5.1	5.2
<b>50.0</b>	<b>Breadth Component</b>	<b>16.6</b>	<b>16.7</b>	<b>16.6</b>	<b>16.8</b>	<b>16.8</b>	<b>17.0</b>
17.5	(T) Trade	4.2	4.2	4.1	4.1	4.1	4.1
17.5	(C) Capital	5.3	5.2	5.1	5.3	5.2	5.2
32.5	(I) Information	2.3	2.3	2.3	2.5	2.6	2.7
32.5	(P) People	4.9	5.0	5.0	5.0	5.0	5.0
100.0	Regional Integration Score	27.9	29.3	30.1	30.2	30.0	30.1
<b>50.0</b>	<b>Depth</b>	<b>13.6</b>	<b>15.1</b>	<b>15.6</b>	<b>16.0</b>	<b>15.8</b>	<b>16.0</b>
<b>50.0</b>	<b>Breadth</b>	<b>14.2</b>	<b>14.2</b>	<b>14.5</b>	<b>14.2</b>	<b>14.2</b>	<b>14.2</b>

# Conclusion

The past fifteen years has been witness to a collective rush forward amongst African economies which, for a long time, had lagged the advances made by the world economy. Whilst cyclical factors play some role in explaining the economic gains that have been achieved, there is an increasing body of evidence that points to structural factors as being the key ingredients in this “rush forward”. Whilst the influence of factors vary from country to country, there is a growing recognition of at least four structural factors that have played – and continue to play – an important role in this regard. These factors include robust commodity prices and new sources of demand coming out of dynamic markets; material improvements in economic management and policy platforms; debt relief and substantial, sustained debt improvement amongst many economies; and early evidence of Africa’s “demographic dividend”. Notably, in recent times a fifth structural factor has begun to makes its influence felt, namely economic integration which refers to the economic connections that are made through international trade (T), cross-border capital movements (C), information and knowledge flows (I) and the movement of people (P).

The so-called TCIP framework which describes the nature and influence of these connections identifies economic integration – oftentimes simply labelled “globalisation” – as a key driver of material improvements in a country’s economic and social welfare. Yet, in the case of African economies this element of economic integration largely has been ignored. Arguably, this is because of an uneven understanding of the true role and influence that economic integration plays, compounded by the low level of economic integration historically displayed by African economies as well as large gaps in our access to data and information that measures such relationships. Moreover, cross-border economic relationships have many dimensions, including their intensity, makeup, geographic nature and degree of sophistication. Thus, the multi-dimensional nature of economic integration compounds the problem of achieving reliable and robust measures of such relationships.

However, by virtue of having access to proprietary data, that represents more than four million observations across each of the elements identified above, we are able to develop the *Visa Africa Integration Index* as a reliable and robust measure of economic integration for 11 of Africa’s largest and fastest growing economies. As such, the *Visa Africa Integration Index* makes a new – and arguably important – contribution to our understanding of the nature and extent of economic relationships





amongst some of Africa’s largest economies. Amongst other things, by developing the index we achieve a sophisticated measure of economic integration that incorporates the four pillars of economic connectedness, namely trade, capital, information and people (TCIP) flows. In addition to measuring these pillars at the country level, the granularity of the data to which we have access allows us the ability to measure economic integration at global and regional levels, and also to measure the depth and breadth of these relationships.

Whilst the results provide for rich, varied and detailed insights into the nature of economic integration amongst Africa’s biggest economies, there are five key findings that stand out. First, whilst improving off a modest base, the countries that make up the index have undergone positive structural transformation over the past decade. Second, given the rapidly improving economic environment and composition, the socio-economic gains that come with rising integration will translate into rising investment opportunities and prospects for new business relationships in the 11 countries covered. Third, regional integration demonstrates itself to be one of the more powerful drivers of integration. This is an important outcome given that regional integration is a consistently more important contributor toward economic progress and social development than global integration. Fourth, there are cases of material disconnects in some countries that do not follow the anticipated trend results. This allows for useful insights into country dynamics, economic challenges and prospects. Fifth, Africa – and more specifically, according to the results of this study, sub-Saharan Africa – is not “one country” or “a place”. The region is not one amorphous aggregate. Rather, the findings enforce the point that each of the 11 countries that make up the index, and their three regions that we measure, represent a rich tapestry of economies that have unique and discernible attributes that influence and inform the way in which they integrate with the world economy and with whom they connect. These observations remain unchanged since our first edition of the *Visa Africa Integration Index*, with the updated results reported in this edition underscoring the strength of these key observations.

However, regardless of how we approach the results, as reported in the first edition of the the *Visa Africa Integration Index*, and updated here, our findings are unambiguous in at least two regards. First, whilst coming off a modest base, the economies that we measure are rising in terms of the degree and sophistication of economic integration. Second, although the economies to a case have some way to go in terms of catch up, they are catching up with the aid of structural – or entrenched – drivers. As such, while the leap forward that has been taken by so many African economies over the past fifteen years is a significant one, they have a long way to go still. These attributes represent remarkable social, economic, business and investment prospects for Africa and her citizens.



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