Barclays Africa Trade Index

Openness and opportunity

Contents

Introduction

Sub-Saharan Africa (SSA) has become much more open to international trade over the past decade. The increase and diversification of trade flows have been driven by a range of factors, including evolving partnerships with fast-growing emerging markets and substantial investment in extractive sectors and associated infrastructure.

It has also been bolstered by rapidly growing consumer markets in major African cities, and supported by budding intra-regional trade and better integration into global value chains.

Much is now being done to bolster trade. The region has taken positive steps to improve the transport and logistics environment, for example, albeit from a very low base. This includes investment in hard infrastructure such as road and rail, as well as soft infrastructure such as administrative procedures and trade policies which are essential to make the most of improving transport networks.

Strong progress across the region

While many obstacles remain, Sub-Saharan Africa has made strong progress in terms of creating a more open and lucrative environment for realising business investments. In addition, many states are making in-roads into lowering tariff and other non-tariff barriers, pursuing a pro-business reform agenda and addressing the skills gap through better health, education and training services.

Against this backdrop it's no surprise that the trader and investor appetite for engagement with Sub-Saharan Africa has picked up considerably in recent years. Companies from the UK are competing with rivals from Europe, the Americas and Asia, to build up their trade ties within the continent.

Yet the fact remains that, outside of a handful of larger African countries, relatively little is known about Africa's trade openness, or the size of the trade opportunity. The Barclays Africa Trade Index aims to provide an informative guide to trade openness and opportunity across Sub-Saharan Africa which we hope will help existing and potential importers understand both the opportunities and challenges to trading in the region and inspire discussion about its validity as a serious trade partner for UK business.

Sub-Saharan Africa has made strong progress in terms of creating a more open and lucrative environment for realising business investments.

John Winter
Chief Executive
Corporate Banking
Barclays

Overall rankings and results

Barclays Africa Trade Index 2015

The Barclays Africa Trade Index combines a wide range of measures to assess opportunity and openness across 31 Sub-Saharan African countries, and allows them to be ranked on their relative performance with the most open and potentially lucrative countries coming out on top. Market opportunity is characterised by increasing unmet demand from consumer markets and rapidly expanding value chains, while market openness reflects the absence of major barriers to cross-border trade.

Overall rank		Score/100
1	South Africa	73.3
2	Nigeria	62.6
3	Kenya	56.2
4	Ghana	53.4
5	Tanzania	52.4
6	Ethiopia	49.2
7	Angola	48.7
8	Côte d'Ivoire	48.5
9	Sudan	48.4
10	Senegal	48.3
11	Uganda	46.9
12	Zambia	46.4
13	Zimbabwe	45.9
14	Botswana	45.9
15	Mozambique	45.7
16	Mauritius	44.8
17	Cameroon	44.5
18	Namibia	43.2
19	DR Congo	42.4
20	Burkina Faso	41.6
21	Benin	40.6
22	Malawi	38.8
23	Madagascar	38.8
24	Rwanda	38.5
25	Congo	36.5
26	Gabon	35.2
27	Lesotho	33.2
28	Guinea	30.3
29	Chad	29.9
30	Burundi	28.2
31	Gambia	23.4

Opportunity		Score/50
1	Nigeria	43.5
2	South Africa	38.7
3	Ethiopia	33.1
4	Angola	32.8
5	DR Congo	32.5
6	Tanzania	32.0
7	Kenya	31.4
8	Ghana	31.1
9	Sudan	30.1
10	Côte d'Ivoire	29.4
11	Uganda	28.8
12	Mozambique	28.1
13	Zambia	28.1
14	Cameroon	27.8
15	Zimbabwe	24.7
16	Senegal	24.6
17	Burkina Faso	23.7
18	Madagascar	23.3
19	Congo	21.3
20	Benin	21.0
21	Chad	20.9
22	Rwanda	20.8
23	Malawi	20.4
24	Botswana	19.9
25	Namibia	19.7
26	Guinea	19.3
27	Gabon	19.2
28	Mauritius	15.2
29	Burundi	14.1
30	Lesotho	13.0
31	Gambia	8.2

Openness		Score/50
1	South Africa	34.6
2	Mauritius	29.6
3	Botswana	26.0
4	Kenya	24.8
5	Senegal	23.7
6	Namibia	23.5
7	Ghana	22.3
8	Zimbabwe	21.3
9	Tanzania	20.4
10	Lesotho	20.2
11	Benin	19.6
12	Nigeria	19.1
13	Côte d'Ivoire	19.1
14	Zambia	18.4
15	Malawi	18.4
16	Sudan	18.3
17	Uganda	18.1
18	Burkina Faso	17.9
19	Rwanda	17.7
20	Mozambique	17.5
21	Cameroon	16.7
22	Ethiopia	16.1
23	Gabon	16.0
24	Angola	15.9
25	Madagascar	15.4
26	Gambia	15.2
27	Congo	15.2
28	Burundi	14.1
29	Guinea	11.0
30	DR Congo	9.9
31	Chad	9.0

Intra-African connectivity		Score/100
1	South Africa	72.2
2	Kenya	63.9
3	Tanzania	53.9
4	Côte d'Ivoire	53.8
5	Zambia	52.6
6	Botswana	51.9
7	Rwanda	50.8
8	Zimbabwe	50.4
9	Uganda	50.0
10	Senegal	48.8
11	Namibia	47.8
12	Benin	46.7
13	Burkina Faso	45.8
14	Ethiopia	45.0
15	Ghana	43.7
16	Nigeria	43.4
17	Cameroon	42.1
18	Mozambique	42.0
19	Malawi	40.7
20	DR Congo	38.2
21	Congo	38.1
22	Angola	34.8
23	Burundi	34.3
24	Lesotho	34.1
25	Sudan	32.8
26	Madagascar	31.1
27	Gabon	29.6
28	Mauritius	28.6
29	Chad	24.5
30	Gambia	14.1
31	Guinea	10.6

Country highlights

While South Africa is the standout performer in the overall index, Nigeria arguably represents the most exciting long-term opportunity for UK businesses in Sub-Saharan Africa. The country already imports around USD$2.4bn (about £1.51bn) in goods from the UK each year, making it the second largest market for exporters after South Africa.

However, its performance in terms of openness (12th) and intra-African connectivity (16th) means that Nigeria still has a long way to go before it can hope to compete with South Africa as a regional trade hub or as a gateway to other African markets.

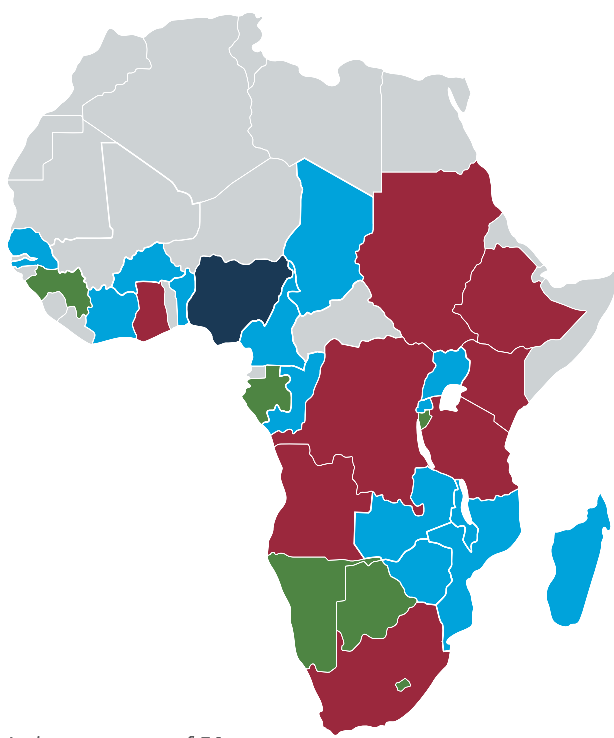
Addressing Nigeria's infrastructure

In order to achieve a higher degree of trade openness, Nigeria needs to address a range of business environment deficiencies that create great uncertainty and hidden costs for foreign firms, while investing heavily in transport networks and power provision to reduce non-tariff barriers to trade. Currently, Nigeria is potentially a profitable market for UK-based companies that know how to operate in its complex regulatory environment and that can overcome the logistical difficulties posed by the inadequate infrastructure, for example, by providing their own power and water supplies.

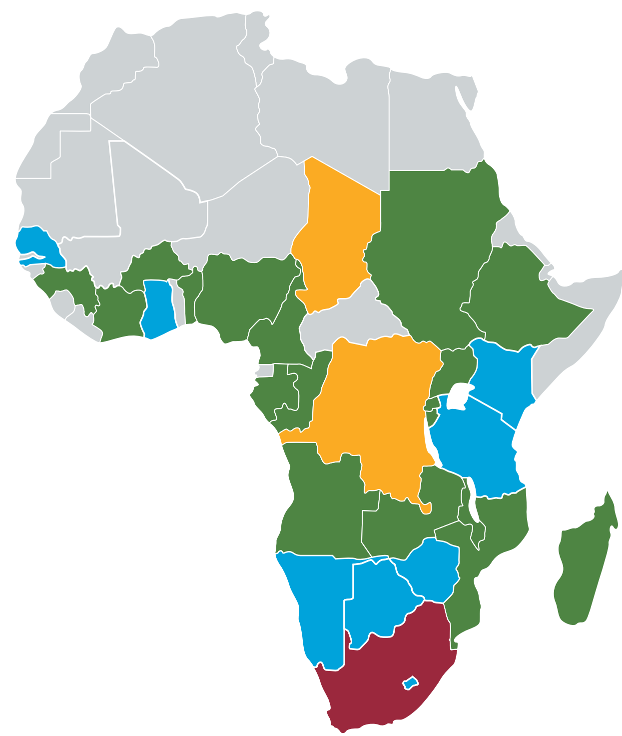
The two maps opposite show the geographical spread of scores on openness and opportunity across Sub-Saharan Africa from our index.

Barclays Africa Trade Index

Opportunity



Openness



Index score out of 50

40-50 | 30-40 | 20-30 | 10-20 | 0-10

Regional overview

The majority of Southern African countries, excluding South Africa and Angola, are found in the middle of the overall index, which reflects strong performance on trade openness but relatively smaller populations that hold back trade opportunity.

Southern Africa's performance lags behind its potential

Tariff policy is a particularly strong point for most of Southern Africa and transport networks are best in this region, although centred on South Africa. Clearly, South Africa is leading by example and having a positive impact on bringing less developed and smaller neighbouring economies along with it. Countries such as Botswana, Namibia and Zimbabwe appear to have effectively piggy-backed South African trade policy and logistics infrastructure offering. "Whatever South Africa does it gets mimicked across the region," says Grant Mandigora, Regional Trade Coordinator for Southern Africa at UK Trade and Investment (UKTI). "Other countries take the view that 'South Africa has done this. It's worked really well. We want to copy that.'"

The rise of East Africa as a trade hub

East Africa performs well on the overall index, a reflection of the region's large populations and fast-growing economies together with some positive aspects of trade openness. East Africa benefits most from relatively strong border administration and a fast-growing regional market. Erich Kieck, Director for Capacity Building of the World Customs Organization (WCO) pointed out that "the [EAC] introduced a single customs territory last year… [and]… has done remarkable work simplifying the control of goods moving across the customs union."

Kenya ranks third in the overall index and plays the role of a regional leader, offering logistics routes and administrative solutions to facilitate cross-border trade, as well as pushing for regional policy on areas of policy, infrastructure and administration. Importantly, Kenya's role as a central trade hub for East Africa is evident in strong transport related scores, particularly regional and global air connectivity. The potential of East Africa as a promising hub for international and intra-regional trade is confirmed by the appearance of fast-growing Tanzania and Ethiopia in the top 10 performing countries on the overall index.

Southern and East Africa dominate the index

Countries from Southern and East Africa dominate the Barclays Africa Trade Index on intra-African connectivity, with each region having four countries in the top 10 on this measure. These regions are benefitting from growing and better-connected consumer markets and supply chains, which will increasingly be facilitated by the implementation of ongoing and planned transport and logistics infrastructure development.

"South Africa is leading by example and having a positive impact on bringing less developed and smaller neighbouring economies along with it."

Grant Mandigora, Regional Trade Coordinator for Southern Africa at UK Trade and Investment (UKTI)

Great potential within Africa's 'sleeping giants'

West and Central African countries underperform on the overall index, with the exception of Nigeria, Ghana, Côte d'Ivoire and Senegal. The region performs reasonably well on market size and growth but falls short in terms of tariff policy and border administration, where it dominates the bottom half of the rankings. West and Central Africa take up a similar position in intra-African connectivity, which confirms the view that they are two of the less integrated regions in terms of intra-African trade. In addition to Nigeria, there are some smaller promising countries in West Africa, which are captured in the Barclays Africa Trade Index. Ghana, Côte d'Ivoire and Senegal are among the most populous of West Africa and have rapidly growing economies and large trade sectors. In the case of Senegal, it edges into the top performers on account of its relative openness vis-à-vis other African states and despite its smaller market size. These countries are focused on facilitating international and intra-regional trade.

West and Central Africa underperforms

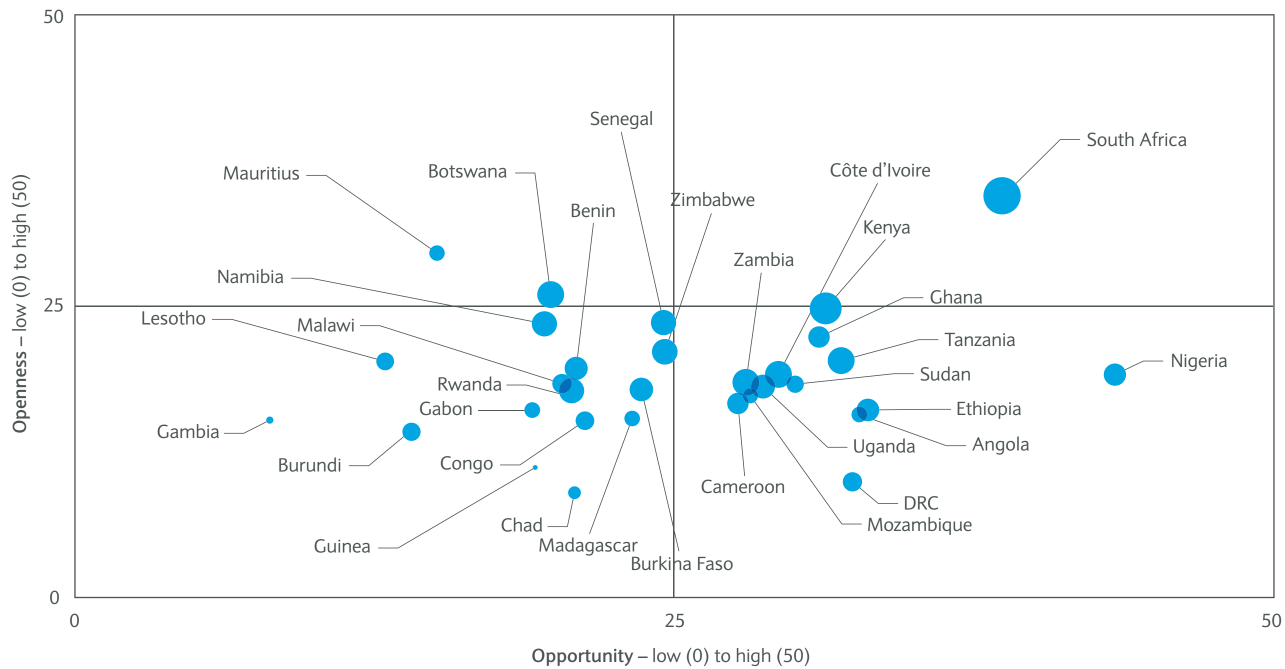
The most populous states are the most prominent in terms of trade opportunity in the Barclays Africa Trade Index and their future prospects on the whole suggest rising incomes, an expanding middle class and much larger and more sophisticated consumer markets. For instance, Nigeria, Ethiopia, DR Congo, South Africa and Tanzania all rank in the top six performing countries on trade opportunity, while Ethiopia, DR Congo, Tanzania and Nigeria together with Ghana and Mozambique lead the way in terms of average GDP growth over the past five years.

Most of these countries (with the exception of South Africa and Nigeria) are considered Africa's 'sleeping giants' and are playing catch-up after significant political and economic upheaval. All of these countries are increasingly attractive to foreign firms and international investors with an eye on long-term returns from fast-growing markets for a range of consumer facing goods and services.

The chart below illustrates the relative performance of all 31 countries covered by the Barclays Africa Trade Index in terms of their overall openness and opportunity. The chart also highlights the relative intra-African connectedness of each country indicated by bubble size.

All of these countries are increasingly attractive to foreign firms and international investors with an eye on long-term returns from fast-growing markets for a range of consumer facing goods and services.

African trade openness, opportunity and intra-connectivity



Bubble size represents intra-African connectivity; largest = more connected.

Uncovering African trade: key themes and trends

Major trade patterns

Balancing East and West

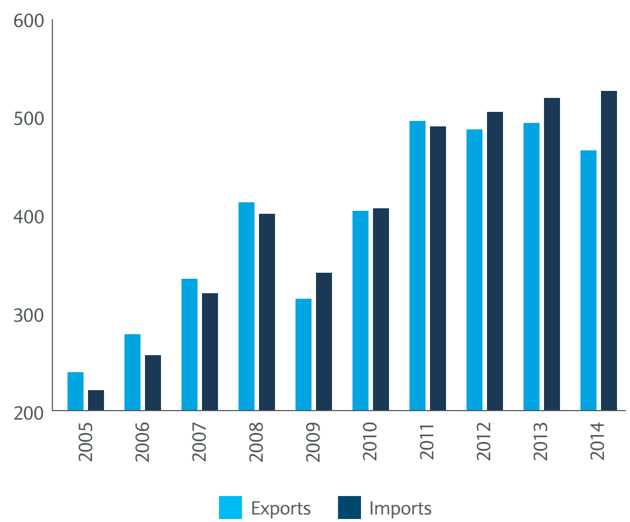
The direction and volume of Sub-Saharan Africa's trade flows have changed considerably over the past decade. The total value of goods and services traded from countries in Sub-Saharan Africa has almost doubled since 2005,[1] which largely reflects the financial windfall caused by the latest (albeit waning) commodity super-cycle, new relations with fast-growing emerging markets such as China, India and Brazil, and renewed interest from traditional partners in Europe, North America and the Middle East. However, this growth has only been enough to keep pace with global trends and the region continues to contribute just 2% to global trade.

The total value of goods and services traded from countries in Sub-Saharan Africa has almost doubled since 2005.[1]

Sub-Saharan Africa has experienced a marked shift in trade flows from traditional Western partners to faster-growing Asian countries. In terms of imports, the region received 19% of its goods imports from Asia in 2004 but this rose to 32% by 2013, largely driven by increased trade with China. European firms have a relatively low share of the import market in East Africa, but have retained a sizeable share of trade with West, Central, and Southern Africa as illustrated in Chart 2.

Chart 1

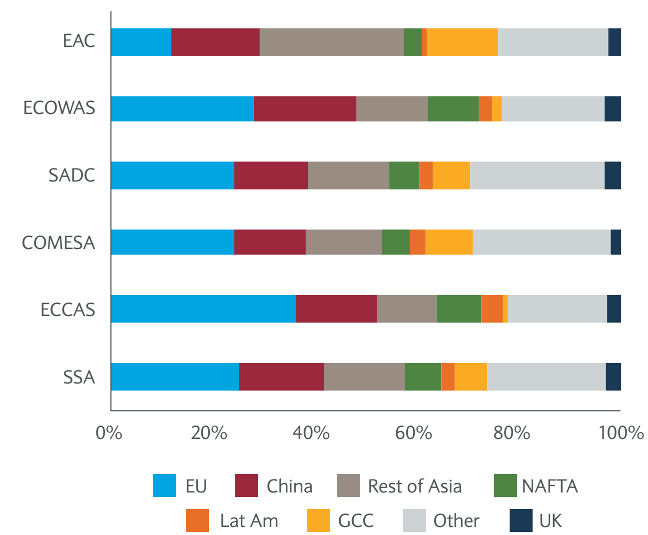
SSA trade in goods and services (USD$bn)



Sub-Saharan Africa's goods imports have expanded rapidly across most major product groups over the past decade. The total value of goods imports increased by a compound annual growth rate (CAGR) of 13% from 2004-2013, with fuels, metal manufactures and electrical machinery representing sectors that currently make up a relatively large share of goods imports and which have grown above the regional average over the past decade.

Chart 2

SSA origin of goods imports (2013 % total)



Other, smaller but very fast-growing product lines have included rubber and plastics, food and beverages, chemical products, fertilisers, textiles and furniture. Currently, manufactured goods represent around 63% of all goods imports by value, which is a slightly lower share than in 2004 owing to the rapid increase in the value of fuel products. However, the fall in global oil prices since mid-2014 is likely to contribute to a reversal of this trend in the years ahead.

[1] UNCTAD International Trade Statistics estimates the value of goods and services exports from Sub-Saharan Africa at USD$240bn in 2005 and USD$460bn in 2014, representing a CAGR of 7.6%. The value of goods and services imports to Sub-Saharan Africa is estimated at USD$220bn in 2005 and USD$520bn in 2014, representing a CAGR of 10.1%.

The majority of UK exports traded with Sub-Saharan Africa are destined for South Africa, followed by Nigeria, Botswana, Angola, Kenya, Ghana and Senegal. The UK tends to account for between 4-5% of total imports in these seven countries and has a foothold of between 1-3% in the fast-growing countries of Tanzania, Côte d'Ivoire, Ethiopia, Zambia and Cameroon. In some sectors, UK and other European-based firms have retained a competitive advantage by offering tailored products at competitive prices, channelled through effective marketing and supply chains. For example, the UK drinks manufacturer Diageo derives 13% of its total sales from Sub-Saharan Africa and is looking to grow this to 20% in the coming years.[2]

Expanding markets

The growth potential for UK and other international producers across Sub-Saharan Africa is considerable. Consumer spending totalled around USD$1trn (£630bn) in 2014 and could grow by a CAGR of around 4-5% over the next five to 10 years. Even accounting for expected emerging currency weakness, softer commodity prices and slightly slower economic growth rates in 2015 and possibly 2016, household consumption per capita is expected to rise by a CAGR of 3-4% over the next five years.

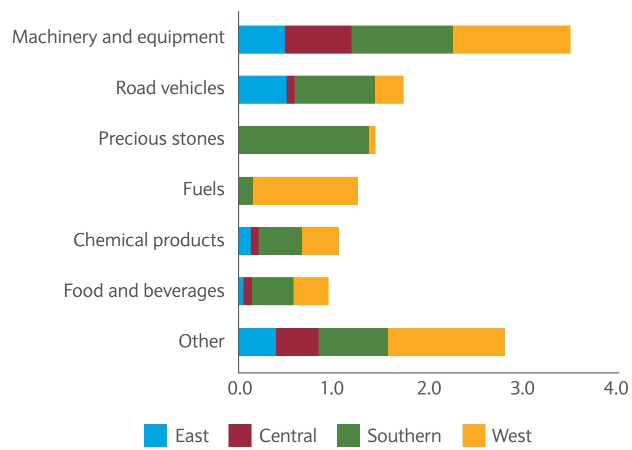
The rise of more formal shops, malls and supermarkets will allow consumers to 'trade up' when they have additional income, while rapidly expanding mobile and internet services are creating new avenues for online retailers. Hotspots have already been identified across West and Central Africa (including Lagos, Abidjan, Abuja, Douala, Accra and Dakar), East Africa (including Nairobi, Kampala, Mombasa, Addis Ababa and Dar es Salaam) and Southern Africa (including Johannesburg, Cape Town, Durban, Luanda, Maputo and Lusaka).

[2]http://www.bloomberg.com/news/articles/2015-02-27/diageo-s-ceo-menezes-sees-africa-rising-to-20-of-global-sales

UK-Africa trade in focus

- The UK exported around £8.2bn (USD$12.8bn) worth of goods to SSA in 2013, made up of high-value manufactured products including machinery and equipment, road vehicles and chemical products, as well as fast-moving food and beverages
- Currently, the UK exports a wide range of products across the region, particularly manufactured products, which are shipped mostly to Southern and West Africa (see chart below)
- In 2013, machinery and equipment were the largest single area of export trade representing 27% of total goods exports (exported to all major sub-regions), followed by road vehicles (14%; mainly to South Africa), precious stones (11%; predominantly to Botswana), fuels (10%; largely to Nigeria), chemical products (8%), and food and beverages (7%)

UK exports to SSA (USD$bn, 2013)



- Exports from the UK to the region have increased by about 6% annually between 2004 and 2013
- UK-based firms have a strong presence in South Africa, Nigeria, Botswana, Angola, Kenya, Ghana and Senegal where the UK's share of goods imports is typically between 4-5% of total imports
- UK-based firms have a strong foothold in the smaller but fast-growing economies of Tanzania, Côte d'Ivoire, Ethiopia, Zambia and Cameroon, typically between 1-3% of imports
- UK-based firms have a distinct advantage in terms of being able to leverage cultural and linguistic commonalties and political connections
- They can also call upon technically advanced goods, highly professional services, effective supply chains and marketing expertise to tap into Sub-Saharan Africa's emerging markets.

UK-based firms seeking to enter or expand their market presence are confronted by a particularly challenging business environment, great diversity in terms of market demand and increasingly intense competition from international and regional suppliers.

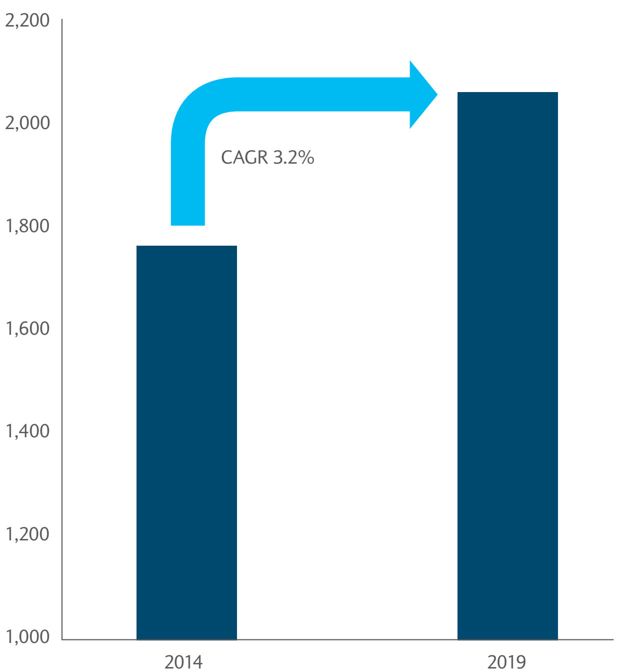
Tailoring products to local needs, getting the price/quality balance right, and creating strong working relations with local partners which have a nuanced understanding of market demand and regulatory conditions are often cited as key ingredients to establishing a successful venture. In this respect, UK-based firms have a distinct advantage in terms of being able to leverage cultural and linguistic commonalties and political connections, and can also call upon technically advanced goods, highly professional services, effective supply chains and marketing expertise to tap into the region's emerging markets.

Changing value chains

Sub-Saharan Africa has made some progress in terms of global supply chain integration, although this remains limited and tends to be in isolated pockets where governments have followed a clear industrial strategy and made a concerted effort to promote greater international and intra-regional trade. Members of the Southern African Custom Union (SACU) and EAC present regional bright spots in terms of better global supply chain integration, especially South Africa, Ethiopia, Kenya and Tanzania.

These countries have had some success in incorporating industries such as manufacturing, agriculture and agri-business, transport and tourism into global value chains. On the other hand, the region's major oil exporting countries and some solid mineral dependent countries are lagging behind here, which could reflect an overdependence on one or two commodity exports that undermine other trading sectors of the economy, as well as policy inertia towards greater trade openness and diversification.
Idris Bello, an ICT entrepreneur based in Lagos, explains: "Countries such as Nigeria have transformed the oil sector, so there's not that willingness to develop other sectors compared to places like Kenya or Rwanda."

SSA household spending per capita (current USD$)



"Countries such as Nigeria have transformed the oil sector, so there's not that willingness to develop other sectors compared to places like Kenya or Rwanda."

Idris Bello, ICT entrepreneur in Lagos

Regional value chains are emerging as a result of infrastructure development, financial integration and the freer movement of people across regional economic communities, particularly within the EAC, SADC and ECOWAS. Intra-African investments are increasing, led by South African, Kenyan, and Nigerian firms, with most investments to date in manufacturing, services, ICT and consumer goods. Between 2009 and 2013, the share of announced cross-border green-field investment projects originating from within Africa rose to 18% of the total, from less than 10% in 2003-2008.[3]

8%

The rise in intra-African investments between 2009 -2013.

Part of this investment has been in private firms developing their own energy and logistics solutions to overcome existing barriers to market entry and expansion. Jean-François Arvis, a Senior Transport Economist with the World Bank Group Trade and Competitiveness Global Practice, notes that: “Some private sector firms are taking the initiative, [and] are active in breaking the barriers and trying to address logistics issues.” In the case of the South African based retailer Shoprite, for example, the company has expanded its operations from South Africa to 16 countries across Africa by investing heavily in distribution centres including power and transport infrastructure to make the most of its automated and centralised supply distribution operation. Maersk and Bolloré Group are also prominent examples of firms helping develop and improve trade in the region.

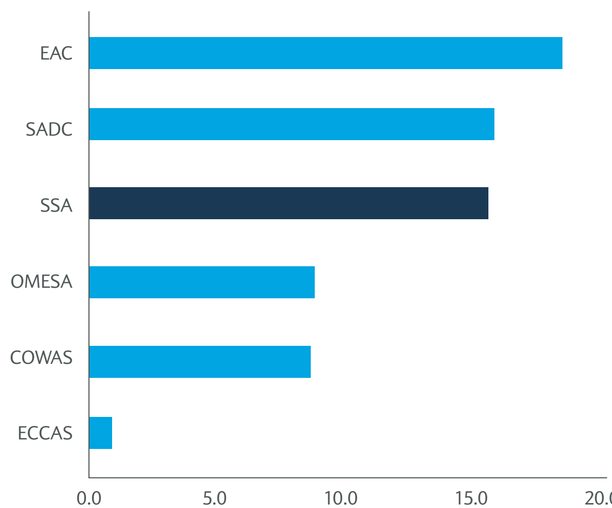
Intra-African flows

Intra-regional trade is taking a more prominent role in the trade landscape of Sub-Saharan Africa, but the region as a whole and all of its economic communities still lag far behind other regions of the world in terms of intra-regional trade flows. Intra-regional exports have grown by a robust CAGR of 16% from 2004 to 2013 but these trade flows still only represent around 17% of total trade flows in Sub-Saharan Africa. This compares poorly with other regions such as Europe (66%), Asia (48%), North America (32%) and Latin America (20%).

However, there is a large caveat with any intra-regional trade data emerging from Sub-Saharan Africa. Informal or unofficial cross-border trade plays a significant role in both imports and exports and some estimates accounting for these illegal flows place intra-regional trade closer to 40% of total trade for Sub-Saharan Africa.[4]

Intra-regional trade (% total 2013)

Referenced on page 12



Intra-African connectivity is dominated by established or aspiring regional trade hubs. The top-performing countries on intra-African connectivity are South Africa, Kenya, Tanzania and Côte d’Ivoire. These countries have realised or plan to realise substantial cross-border investment in hard and soft transport solutions to facilitate trade with neighbouring countries and foreign markets. Increased interconnectivity tends to go hand in hand with trade diversification, as a greater depth and variety of trading industries incentivises countries to find ways to boost trade with other African states.

The top-performing countries on intra-African connectivity are South Africa, Kenya, Tanzania and Côte d’Ivoire.

Until recently, there had been relatively little incentive for African countries to prioritise trade with their neighbours over bigger, potentially more lucrative markets. “Regional integration only makes sense up to a point,” says Alan Winters, Professor of Economics at the University of Sussex. “The important thing is the size of the market; 10 years ago the sum total of the Sub-Saharan African economies, other than South Africa, was equivalent in GDP terms to Belgium. If Africa develops into a very dynamic market, as it may well do, everyone will want to have a part of it.”

[3] UNCTAD World Investment Report 2014.

[4] The African Development Bank estimates that informal cross-border trade (ICBT) contributes between 30-40% of total intra-SADC trade (mainly foodstuffs) and could be higher at 40-50% of total intra-regional trade in the EAC. Also, ICBT in West Africa was found to range from 20% of total cross-border trade in Nigeria to 80% in Benin. ICBT products tend to be unprocessed food products, low quality manufactures and processed products, and re-export of low quality goods from Asia.

Agreements and cooperation

Sub-Saharan Africa has a wide range of multi-lateral and bi-lateral international and intra-regional trade agreements in place, or under negotiation. The vast majority of countries are now active members of the World Trade Organization.

International trade and investment partners have been keen to re-engage with the region and evolve their relationships with an eye on securing access to key natural resources (including oil, gas, solid minerals and agricultural commodities), leveraging its low cost labour force (particularly in light manufacturing), and gaining a foothold in fast-growing consumer markets.

International trade agreements

For instance, the European Commission (EC) finalised full Economic Partnership Agreements (EPAs) with members of Sub-Saharan Africa's three main trade blocks in 2014, the SADC, the EAC and ECOWAS. These deals are likely to be followed by a response from the US, China, India, Japan and other countries with an eye on African markets and supply bases. The US's African Growth and Opportunity Act (AGOA) is expected to be extended for another 10 years in September 2015 when the current legislation ends. Importantly, the renewal legislation could include a more reciprocal trade arrangement in line with the thrust of the EPAs with the EC, as opposed to unilateral access for African imports into the US.

Asia's giants are engaging with Africa in a different way. Having primarily viewed the region as a resource play, Chinese investors are increasingly looking to consumer-oriented sectors which target the region's expanding lower middle class and seeking avenues to establish production bases to supply home markets and access markets in Europe and the US, taking advantage of established trade deals. Meanwhile, India and Japan are playing catch-up on the African continent by offering technical support and financial assistance to enhance agricultural, industrial and human capital development. Finally, the Middle East and particularly Gulf States have a long-standing interest in Sub-Saharan Africa and have stepped up their engagement with the region in areas such as air transport, seaport management, logistics services, trade facilitation, real estate development and consumer goods processing.

> The US's African Growth and Opportunity Act (AGOA) is expected to be extended for another 10 years.

Regional integration

Sub-Saharan Africa's regional economic communities have taken some positive steps towards regional integration over the past decade which has supported the growth of international and intra-regional trade and investment. Some countries and economic communities are much more advanced in their economic and trade-related integration plans than others and have benefitted from reduced tariff and non-tariff barriers to international and intra-regional trade.

Sub-Saharan Africa's major trade and economic zones

Region	Members
SADC	15 states, 310m people, £428bn (USD$680bn) GDP: Angola, Botswana, DR Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.
EAC	5 states, 150m people, £95bn (USD$150bn) GDP: Burundi, Kenya, Rwanda, Uganda and Tanzania.
COMESA	19 states, 480m people, £422bn (USD$670bn) GDP: Burundi, Comoros, DR Congo, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia and Zimbabwe. Plus Djibouti, Egypt and Libya.
ECOWAS	15 states, 330m people, £457bn (USD$725bn) GDP: Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo.
CEMAC	6 states, 45m people, £57bn (USD$90bn) GDP: Cameroon, Central African Rep., Chad, Republic of Congo, Equatorial Guinea and Gabon.

Source: Economist Intelligence Unit estimates, 2014.

Importantly, Sub-Saharan Africa's more regionally integrated countries are helping make it easier for firms to achieve economies of scale in production and distribution, as well as offer much larger and better connected markets for end products and services.

Unsurprisingly, countries from Southern and East Africa are the most advanced in terms of building trade and investment ties with each other. Eight countries from Southern and East Africa (South Africa, Kenya, Tanzania, Zambia, Botswana, Rwanda, Zimbabwe, Uganda and Namibia) appear in the top 10 on intra-African connectedness. An expert from the African Development Bank's Regional Integration and Trade Division, who asked to remain unnamed, explains: "Southern and East African governments are more inclined to pool their resources together in terms of developing regional strategies, agriculture, transport and services."

At a national level, many countries are focused on industrialisation policy as a means to tap into global value chains.

Members of the SADC are looking beyond free trade areas and customs union towards industrial policy as the next step in trade facilitation. An economist at the African Development Bank, who asked to remain unnamed, says: "The SADC has eliminated tariffs to minimal levels on most tariff lines, and there is now a big industrialisation agenda they are trying to push." This entails creating a more enabling environment in terms of port capacity and efficiency, internal transport networks, energy and water supplies, and trade administration, "which are essential to harness the benefit of zero tariffs." At a national level, many countries are focused on industrialisation policy as a means to tap into global value chains.

The EAC has integrated rapidly, driven by a recognition of the benefits of closer trade policy and procedures, and strong political will. Grant Mandigora at UKTI in Johannesburg draws attentions to the EAC as the fastest integrating region in Sub-Saharan Africa. "I wouldn't be surprised if East Africa completely takes over this region [SADC] in terms of being a lot more integrated. They seem to really be getting things going, including the spread of railways and port efficiency." Kenya is spearheading regional trade integration initiatives in East Africa, including the Northern Corridor Transport and Transit Authority, which ultimately aim to leverage its strategic location as a logistics gateway to East and Central Africa.

Poorer West Africa lags behind

West Africa lags behind East and Southern Africa in terms of regional integration, which, at a basic level, reflects the complex cultural and linguistic make-up of the region. In the words of one senior Western diplomat based in the region: "It's difficult to speak about West Africa when you've got French West Africa and English West Africa." As he explains, historic differences have translated into modern-day competition between countries in the region, many of which are relatively poor and have a number of key export products in common.

Despite the increased efforts of West African governments to foster regional cooperation and trade, competing national agendas, coupled with a lack of inter-connecting infrastructure, continue to hinder integration plans. These characteristics of the trading environment in West Africa are reflected in the sub-region's poor overall performance in intra-African connectivity and openness. The African Development Bank's spokesperson confirms that "West Africa has had a much slower integration process [and] disputes between governments undermine regional cohesion."

These characteristics of the trading environment in West Africa are reflected in the sub-region's poor overall performance in intra-African connectivity and openness.

In Central Africa, there is little trade harmonisation and liberalisation across the wider Economic Community of Central Africa States (ECCAS) despite monetary union amongst the core six country group of CEMAC. The ECCAS has the largest geographic area of Africa's economic communities and holds around 160 million people but covers some of the poorest countries in Africa and lags far behind other areas in terms of regional trade and investment integration.

Opening up?

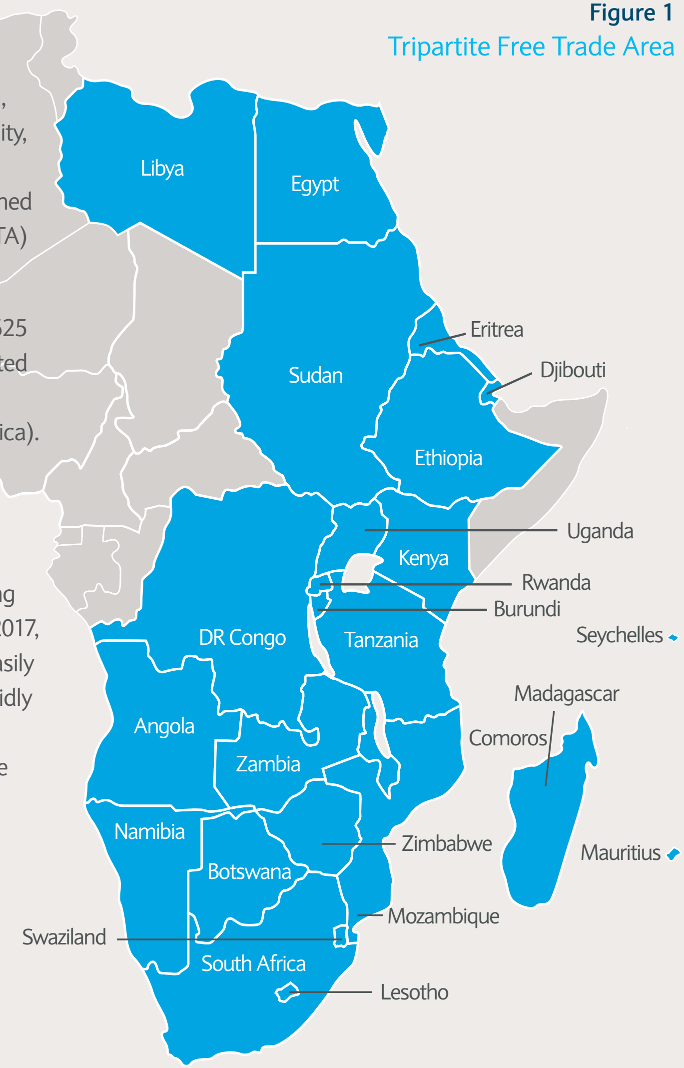
The Tripartite Free Trade Area starts to develop

In a major step towards pan-African trade integration, the 26 states that make up the East African Community, Southern African Development Community and the Common Market for Eastern and Southern Africa signed up to the principle of a Tripartite Free Trade Area (TFTA) in June 2015.

The agreement covers 26 countries (see map), over 625 million people and a combined GDP currently estimated at around USD$1.2trn (two thirds of which is concentrated in 22 countries across Sub-Saharan Africa).

The agreement intends to facilitate intra-regional movement of goods during phase one, eventually followed by the freer movement of African business people, services and investment across all participating states. Phase one could be implemented as soon as 2017, although negotiations will be protracted and could easily be subject to delay. The TFTA has the potential to rapidly increase intra-regional trade although this will also require a vast improvement to transport infrastructure and other non-tariff barriers to trade.

Figure 1
Tripartite Free Trade Area



Trade facilitators

The common view amongst international traders, investors and development partners is that Sub-Saharan Africa continues to suffer from a significant transport and energy sector infrastructure gap to the detriment of its international and intra-regional trade potential.

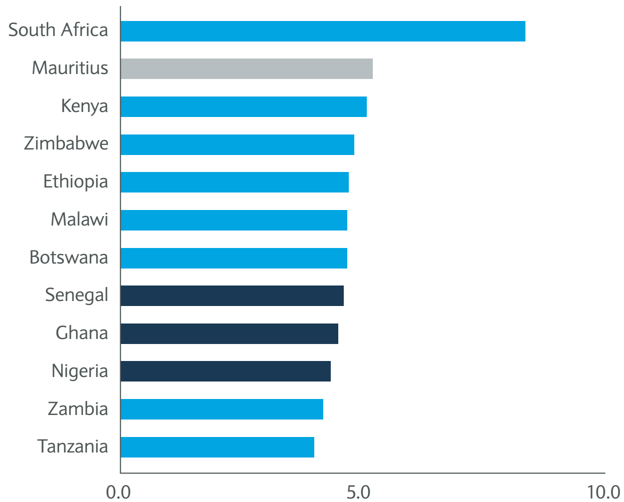
Transport infrastructure

"It's clear that infrastructure is important," says Alan Winters, Professor of Economics at the University of Sussex. "It's a quieter problem because Africa is sparsely populated. The first step is urbanisation and getting the cities to function a bit better. From there you can then start to supply infrastructure more easily, start to get a bit more buzz and have finite bits of Africa that can link up with the rest of the world." However, some considerable progress has been made in enhancing the logistics environment and more is in the pipeline, which should help reduce transport costs, speed up transit times and increase reliability and traceability over the coming years.

East and Southern Africa lead the way in terms of major planned multimodal transport developments.

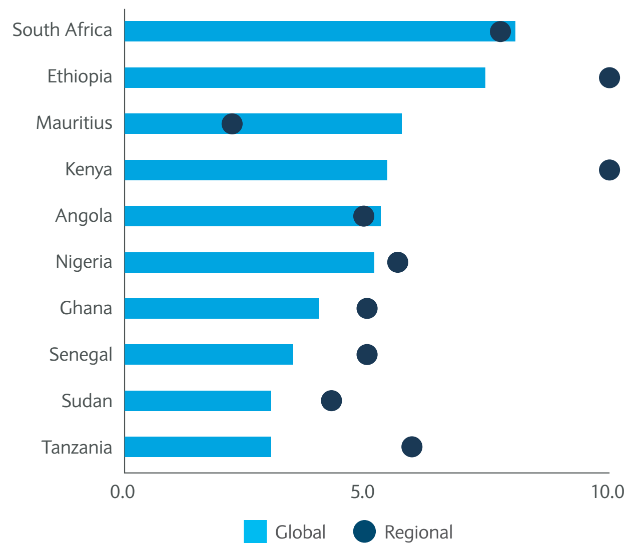
A number of Southern African states perform well in terms of transport infrastructure in the Barclays Africa Trade Index, but the greatest progress has arguably been seen in East Africa. "On the whole, goods are moving across the region much better," says Frank Matsaert, CEO of TradeMark East Africa. "Five or six years ago it used to take around 18 days to move a container from port in Mombasa to Uganda; now you can do it in around six." In contrast, the only countries appearing among the top performers in terms of transport infra-structure from West Africa are Senegal, Ghana and Nigeria.

Transport (0 weak to 10 strong)



East and Southern Africa lead the way in terms of major planned multimodal transport developments which include: the fast-growing transport link across the Ethiopia to Djibouti Corridor; the trade corridor running from the Tanzanian port of Dar es Salaam; the Nacala corridor linking the DR Congo, Zambia and Malawi to the port of Nacala in Mozambique; the Beira corridor linking the Mozambique port of Beira with its interior and landlocked countries of DR Congo, Zimbabwe, Zambia and Malawi; and the Lobito corridor connecting Angola with DR Congo and Zambia.

Air connectivity (0 weak to 10 strong)



However, there are also positive transport developments coming out of West Africa. The African Development Bank's expert highlights Côte d'Ivoire as "making good use of the Lagos-Abidjan corridor and acting as a port city for the land-locked countries in West Africa." Adding that "the Lagos-Abidjan corridor still has a lot of challenges and requires development [but] pursuing a corridor approach to development is important and could help the whole region grow."

Air transport is an underdeveloped sector across the region, which is reflected in low international and intra-African route availability and relatively high airfares. The regional head of IATA in Africa and Middle East, Adefunke Adeyemi, says: "We're still not where we should be regarding air connectivity across countries in Africa." This is evident in the air transport sub-categories of the index, where only six countries (South Africa, Ethiopia, Mauritius, Kenya, Angola and Nigeria) score above five on a scale of one (weak) to 10 (strong) in terms of international air connectivity and seven countries (Kenya, Ethiopia, South Africa, Tanzania, Nigeria, Côte d'Ivoire and Senegal) score above five on regional air connectivity.

Many countries across Sub-Saharan Africa are implementing air transport infra-structure upgrade and expansion plans.

Adefunke Adayemi says: "[Air transport] can act as a catalyst to unlock the potential for trade and exchange of services and goods in Africa," and draws attention to the improved routes between Nigeria and Ghana which "have transformed the way the two countries do business." And importantly, she sees a positive future for the industry, with 11 key countries working to remove all restrictions on air travel. Also, many countries across Sub-Saharan Africa are implementing air transport infrastructure upgrade and expansion plans, as well as seeking new partnerships with international carriers to enhance their passenger and freight services. Most notably, large, planned investment in airports in Central and East Africa (Kenya, Ethiopia, Uganda, Tanzania and Rwanda), Southern Africa (South Africa and Zambia) and West Africa (Nigeria, Ghana and Côte d'Ivoire) have the potential to increase travel, trade and investment at a national and sub-regional level.

ICT development

A strong communications infrastructure has a positive impact on both trade openness and opportunity. The top eight African countries in terms of internet penetration (Mauritius, Botswana, South Africa, Zimbabwe, Ghana, Namibia, Kenya, Senegal), achieved an average score of 6/10 for trade and investment flows, compared with a 31-country average of just 5.2. "ICT has been improving constantly," says Jean-Francois Arvis, a senior transport economist with the World Bank Group. "You find a computer in every customs bureau now."

A solid ICT framework can create a platform for businesses to showcase their products to African consumers in a way that wasn't possible a few years ago. Yann le Beux, a director at CITC, a government-backed ICT incubator programme in Dakar explains:

"The internet gives you a connection with a large part of the population, especially the middle class," he says. "Suddenly you have a dialogue with a lot of people with the desire and means to buy things, interact, communicate and entertain themselves online."

In addition to this, ICT systems are crucial to streamlining logistics operations and easing the passage of goods across national borders. Erich Kieck of the WCO draws attention to the organisation's work across East, Southern and West Africa. "In the EAC we're supporting an authorised economic operator programme, which will enable them to access certain preferences, faster treatment, and expedited clearance of goods through the harbours and land borders."

ICT systems are crucial to streamlining logistics operations and easing the passage of goods across national borders.

While in "the Southern African Customs Union we're supporting them with an interconnectivity project, which will result in the different custom automated systems being linked electronically." Meanwhile, "in West Africa we're working with four countries clustered around Côte d'Ivoire to help them build an electronic transport system, which is some of the next generation of reform," he says.

Soft infrastructure

Physical infrastructure development sets the foundation for greater and more efficient freight capacity but improvements in soft measures are crucial to make full use of the logistics infrastructure. Issues, such as burdensome border administration, lack of inter-departmental coordination, poor cross-border cooperation and corruption present significant obstacles for firms wishing to trade with and across Sub-Saharan African countries. The African Development Bank's spokesperson echoes this view. "The challenge is that the physical infrastructure alone doesn't help. Countries are beginning to realise that soft infrastructure is also extremely important."

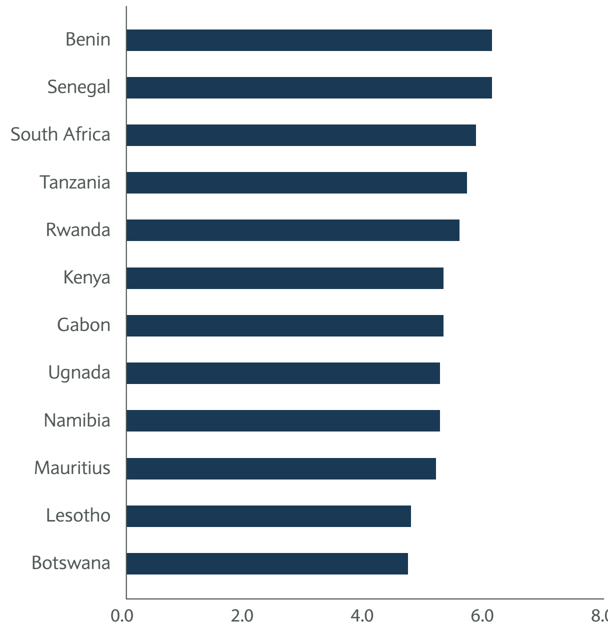
> "Over the past five years some of the changes we have seen in SSA in upskilling and professionalising administrations, and investing in risk management, technology and upgrading border infrastructure has been really impressive."

Erich Kieck, Director for Capacity Building, WCO

Slow processing times and hidden transaction costs add to the already high transport costs for many logistics operations, a concern shared by UKTI's Mandigora. "Having delays at various border posts is a major source of frustration for the UK companies we work with," he explains. "Clearly time is money; they can't afford to have a truck stopped for three days at a time. Sometimes people request bribes to go through. It slows down the entire operation."

However, many countries have made some positive steps to improve their soft infrastructure in strategies that include

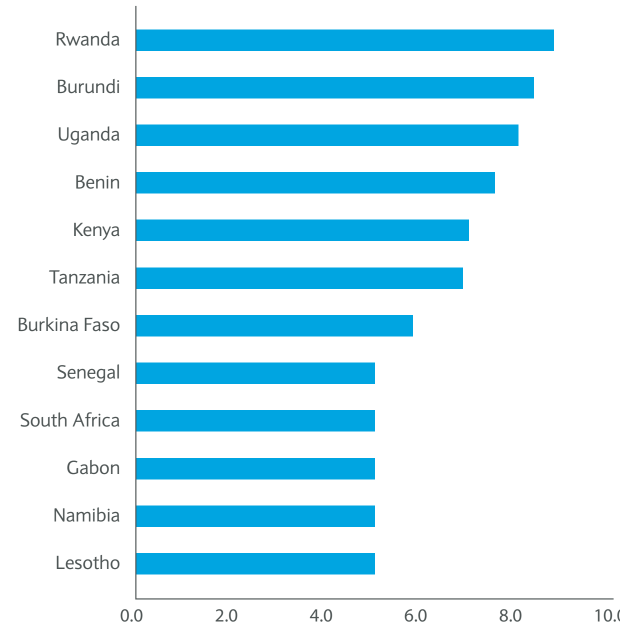
Border administration (0 weak to 10 strong)



harmonisation of regulations along corridors, reducing dwell times at ports and delays associated with custom control points, harmonising and coordinating customs processes across regional economic communities. The WCO's Kieck points out that "over the past five years some of the changes we have seen in SSA in upskilling and professionalising administrations, and investing in risk management, technology and upgrading border infrastructure have been really impressive." He adds that a number of administrations have also started investing in coordinated border management, introducing single-window systems.

Currently, performance on border administration is much more evenly spread than other measures across the sub-regions, although some of the smaller, less

Internal border procedures (0 weak to 10 strong)



resource-dependent states take up a higher rank in the border administration index, and even more so in the internal border procedures index. These countries are likely to be pursuing policies that reduce the burden on cross-border trade to help ensure better access to larger neighbouring markets.

Finally, in addition to opening up borders and lowering tariffs, a number of states in Sub-Saharan Africa are pursuing industrial policies which include investment and export promotion activities. This often includes initiatives such as export processing zones and special economic zones, which have sprung up and focus on specific industrial clusters. Some examples of this already occurring are found in Ethiopia, Mauritius, Nigeria and Zambia and often with the assistance of Chinese finance and expertise.

Case study: Olam International

Singapore's Olam International is one of the world's most successful agri-businesses, with farming, processing and manufacturing operations across 65 countries, including 16 in Sub-Saharan Africa.

A deepening engagement across Africa

Given its focus on food and other raw materials, rising consumer demand has seen Olam play a pivotal role in the growth of the packaged goods sector. Today it helps manufacture and export products ranging from sugar and tomato paste, right through to pasta and olive oils.

Greater public sector involvement and investment is vital, most particularly in rail infrastructure, and especially for the continent's land-locked countries.

But the firm's rapid expansion across Africa continues to raise both new opportunities, and significant challenges, according to MD Ramesh, the company's Regional Head for Southern and East Africa. For one thing, weak transport infrastructure still presents a formidable barrier to trade and is one of the reasons why more than 90% of African produce is currently exported to non-African buyers.

Rail infrastructure is a particular concern for the bulk goods which the company trades in. Many routes are overly reliant on inadequate road networks, given the limited number of rail options. Along with taking longer to transport, it also raises additional security and checkpoint issues, with goods more likely to get stuck at the border.

"It's usually quicker for us to ship sugar from Brazil to Mombasa port, than to take it on to Kampala from Mombasa," notes Mr Ramesh.

Olam has been working extensively with local communities to overcome these issues: "Wherever a farm is built, we are creating the roads and infrastructure around that by ourselves," says Mr Ramesh. Accordingly, the company invests heavily in its supply chain. But greater public sector involvement and investment is vital, most particularly in rail infrastructure, and especially for the continent's land-locked countries.

While many governments are limited by their capacity to raise funds for expensive infrastructure projects, Mr Ramesh notes that significant other gains can be achieved through smarter policy incentives – to bolster trade growth and participation. For example, Mr Ramesh suggests allowing a duty-free import quota in exchange for greater exports; or a tax break in exchange for allowing greater local value-added manufacturing. "When you do things like that, then the investor is willing to overcome all the other lower-level issues and hardships to make it," he says.

"50% of the world's farmers are sitting on 60% of the world's arable land."

MD Ramesh, Regional Head for Southern and East Africa, Olam International

Increased involvement from Africa's governments in developing the region's supply chain is also essential. And global awareness is growing about Africa's vast potential assets. As Mr Ramesh notes: "50% of the world's farmers are sitting on 60% of the world's arable land. That is the opportunity."

Conclusion: opening up Africa's potential

Sub-Saharan Africa has become a much more open and attractive opportunity for international trade and investment over the past decade. This has been reflected in a sharp increase in trade and investment flows across Africa.

This rise in the value, volume and variation of goods and services traded is expected to continue – and could accelerate in the coming decade. A key driver will be the ability of African states to secure much-needed infrastructure investment along with vital business sector and trade policy reforms.

Big developments for hard and soft infrastructure

Major efforts are being dedicated to expand and upgrade transport and energy infrastructure across the region. These developments entail much more extensive road, rail, port and airport capacity, and will create the potential for more efficient regional transport corridors. In addition to 'hard' transport infrastructure, there is also widespread recognition that the 'soft' infrastructure environment requires vast improvement to take advantage of ongoing and planned investment in the physical infrastructure. Many states are also planning to improve customs clearance procedures, ensure better-aligned government departments and facilitate greater cross-border cooperation. Together, these efforts could transform the prospects for the region's trade growth potential, although progress is often slow on the ground.

Importantly, there is a serious push for greater regional integration which could encourage more extensive value chains and larger consumer markets. Regional free trade areas are becoming more effective in eliminating intra-regional tariff and non-tariff barriers, while a more collective approach to international trade policy is emerging aimed at securing market access and improving international competitiveness.

Rising household incomes and improving access to finance create the potential for fast-growing and increasingly lucrative consumer markets.

The opportunity is certainly clear. The region has large, young and fast-growing populations. Together with rapid economic growth, rising household incomes and improving access to finance this creates the potential for fast-growing and increasingly lucrative consumer markets. Many international firms are already beginning to invest in production and distribution bases which leverage abundant and low-cost labour, and improving business and logistics environments. From a sector perspective, the potential is widespread: unmet or underserved demand across a range of sectors as diverse as industrial machinery and equipment, automotive parts, healthcare and pharmaceuticals, chemical products, food and beverages, and business and financial services, all of which provide increasingly attractive opportunities for UK businesses.

British firms hold secure position in region

Of course, competition for African consumers is also intensifying, not least as China, India and Japan all reshape their focus on the region. However, UK-based firms are not being left behind and have built a strong foothold in the region's most promising markets. Importantly, British companies will be able to leverage long-established cultural and political links to many parts of the region, and follow this up by offering highly valued and technically advanced goods, internationally renowned professional services, effective supply chains and extensive marketing expertise.

Key takeaways

- **Broaden your focus.** Major African economies, such as South Africa, Nigeria and Kenya, have been the primary focus for many UK companies so far, but a set of 'sleeping giants' present significant new opportunities. Ethiopia, Democratic Republic of Congo, Mozambique, Tanzania and Ghana, for example, all hold major growth potential
- **Don't miss out on a rapidly growing consumer market.** Although many exporters focus on industrial sectors, such as mining and energy, a key transformation underway within Sub-Saharan Africa is the growth of a thriving consumer market, with rapid expansion in fast-moving consumer goods (FMCG) and financial services, among many others
- **Take advantage of improving border controls.** One recent trend is the rise of so-called one-stop border posts (OSBPs) – a single customs check run jointly by neighbouring countries, rather than a two-point check by each country. For example, at the Chirundi border post, Zambia clears any northbound trade, whereas Zimbabwe clears southbound trade. East Africa, in particular, is seeing a rise in OSBPs, with seven operational or in development in Tanzania, six in Uganda and Kenya, five in Rwanda, and three in Burundi
- **Exploit rapidly developing airline connections.** Not long ago, air connections across Africa were extremely patchy, but a growing number of connections are transforming the air connectivity of key markets. Ethiopia, for example, now has links to 33 African destinations and Kenya has 35, both well ahead of South Africa's 26. Businesses can now send someone from Lagos to Ghana for a meeting and get back the same day, transforming trade in those countries. Similarly, air trade is transforming options for high-value, non-bulky goods, such as ICT equipment
- **Localise both approach and products for local markets.** It will be essential for UK firms to continue to tailor their products and services to the diverse range of local needs, establish strong working relations with local partners and align business plans with local development and integration objectives.

Appendix: research and methodology

About the research

The Barclays Africa Trade Index was commissioned by Barclays and carried out by Longitude Research. The index compares and ranks 31 Sub-Saharan African countries based on their attractiveness for cross-border trade. The countries are the largest in the region in terms of GDP and population.

A broad range of experts were also consulted as part of this research to help develop the methodology and subsequently to provide context to the results and findings of the index. Barclays and Longitude Research would like to thank these regional experts for their time and valuable insight. For more information about the methodology please contact your Relationship Director.

To find out more about how Barclays can support your business, call 0800 015 4242* or visit barclays.com/corporatebanking

barclays.com/corporatebanking

*To maintain a high quality of service, your call may be monitored or recorded for training and security purposes. Calls to 0800 numbers are free of charge, when calling from a UK landline and consumer mobiles. If you are outside of the UK please call +44 (0) 1606 563 191. Charges may apply when calling from abroad. Lines are open from 8am to 6pm Monday to Friday.

August 2015.