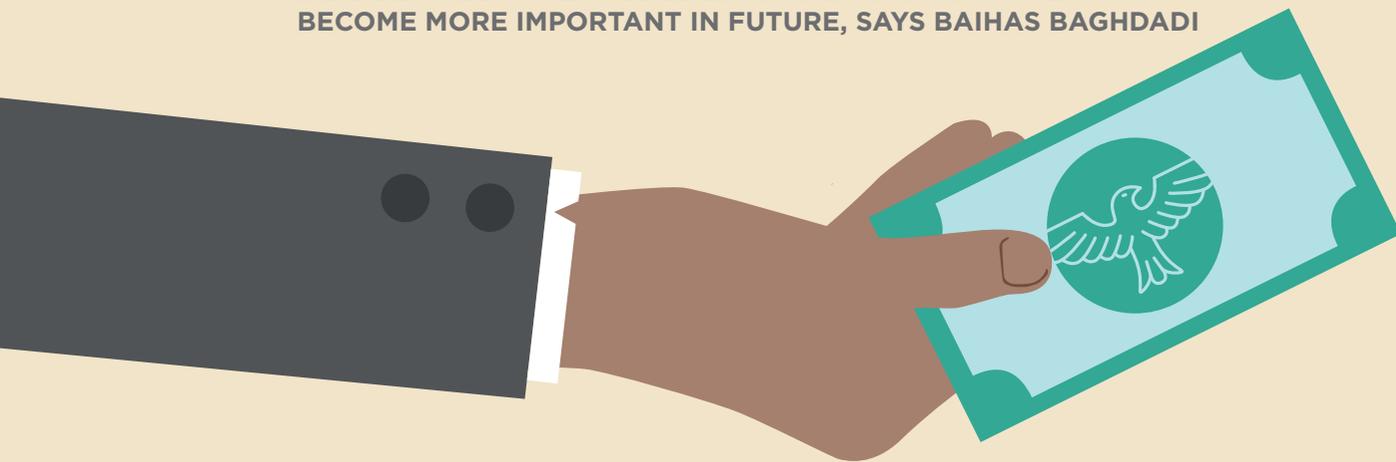




# THE LION AND THE FALCON

TRADE BETWEEN THE MIDDLE EAST AND AFRICA IS ONLY GOING TO BECOME MORE IMPORTANT IN FUTURE, SAYS BAIHAS BAGHDADI



Africa is, without a doubt, the territory where the biggest opportunities in international trade are arising. Nevertheless, perspectives differ as to the strength of the opportunities that exist and the best selection of countries to invest in within the region.

Much has been written about Africa and its potential. This is not surprising, since Africa is the region that has experienced the biggest growth in trade within the past 15 years. The continent already represents 6% of the trade activity in the world, and an estimated \$1.1 trillion of trade is linked with Africa, according to the World Trade Organization. Furthermore, Africa has a population of 1 billion, including 52 cities with a population of more than 1 million, and huge reserves of raw materials.

It is a mistake to consider Africa as a single, unique region, however. In reality, there are several different 'Africas'. Certain countries in the Middle East and North Africa may share a language and a culture but, with the exception of the Gulf Cooperation Council (GCC), they have very different trade frameworks. If businesses consider all African countries as a whole when they formulate their strategy, then that strategy is bound to fail.

## African hubs

In international trade, there are three radically different strategies towards trading within Africa:

1) The first strategy is to directly trade with each of the 54 countries – to 'go where the opportunity

is' and take advantage of recent improvements in business conditions. Since 2005, all countries in the region have been adapting their laws to meet the requirements of the World

Bank. Progress has been especially significant in countries such as Angola, Botswana, Ghana, Namibia and Nigeria.  
2) The second strategy is to trade through South

## AFRICA'S GLOBAL TRADE FLOWS

Annual trade (\$bn)  
2002/2014



Source: World Trade Organization (2014), Barclays Research

Africa, a country that resides within the African continent while having its own traditions and being an important market in its own right.

- 3) The third strategy is based on the principle that the United Arab Emirates (UAE) is the gateway to Africa, thanks to its strategic geopolitical position and its developed infrastructure.

### South Africa (the lion)

South Africa, with its population of 53 million inhabitants, enjoys the most diversified economy in Africa. After developing its mining industry, it is now beginning to grow its energy sector. For this, it needs to build all types of infrastructure and improve its telecommunications, which represents an important strategic step forward for the country. In terms of attracting investment, South Africa has the clear advantage of being part of the African continent itself as well as being a major player with a demonstrated track record.

### UAE (the falcon)

The UAE currently serves as the epicentre for the key trade corridors of Asia-Africa, Asia-Middle East and Europe-Africa. Furthermore, multinational companies favour the UAE's strategic geographical location, stable banking and financial environment, advanced logistics (supported by modern airports and seaports as well as storage facilities), free trade zones, business-friendly regulatory framework, and the access that they get to a qualified and professional labour force. It is for these reasons that many global corporates have established their regional treasury centres in the UAE.

The UAE has increased the diversification of its non-oil

## GCI IN THE UNITED ARAB EMIRATES AND SOUTH AFRICA

	UAE	SOUTH AFRICA
<b>Global Competitiveness Index (GCI) 2014-2015</b> (1 min - 7 max)	<b>5.33</b>	<b>4.35</b>
<b>GCI</b> (rank out of 144)	<b>12</b>	<b>56</b>
<b>Change in GCI position since 2010</b>	<b>+15</b>	<b>+6</b>
<b>Stage of development</b> (rank 1 out of 3)	<b>3</b> (efficiency driven)	<b>2.5</b> (transition)

Source: World Economic Forum (2014), Barclays Research

exports over the past decade. Meanwhile, the country's successful bid for Expo 2020, and its strong drive towards reforms, have anchored many initiatives that enhance competitiveness.

The UAE's differentiating factor is its socioeconomic future outlook, along with the pipeline of major infrastructure projects that distinguish the country from its rivals that are competing for the position of gateway to Africa.

### Trade between Africa and the Middle East

Africa and the Middle East are benefiting from a clear shift in the direction of global businesses, which are increasingly emphasising intra-emerging market (or 'south-south') trade and investment.

Between these two regions, there are two evident synergies. The first is the growing number of investments from the Gulf region into Africa and the second is the increasing number of exports of machinery and equipment into Africa from the Gulf.

Slowly, but surely, Middle Eastern investors are expanding their African portfolios. Investment by Middle Eastern firms in Africa has so far been based on oil and gas, agricultural products and telecommunications. There has been a growing interest in more diversified investments across the continent, however.

The burgeoning relationship between the Middle East, particularly the Gulf, and Africa is borne out by the numbers. Data is patchy, but according to most analysts, trade between the Middle East and Africa has increased fivefold over the past 10 years, to record around \$60bn. South Africa is a good example of this growing dynamic. In 2014, 10% of imports into South Africa originated from the Middle East region.

According to a survey conducted by Barclays at the ACT Middle East Conference in November 2014, corporates from the Gulf currently hold a favourable opinion about the opportunities in Africa.

A significant number of corporates in the GCC seem to be expanding their exports and operations into Africa (Egypt, Kenya and South Africa are the most mentioned markets). Furthermore, the survey revealed that 25% of our clients in the Gulf region already have businesses in Egypt and 28% of them have operations in Kenya.

Yet survey respondents highlighted the principal obstacles that they face when entering the African market. These include the overcomplicated payment systems (20%), the legal and regulatory hurdles (34%), and liquidity and access to credit (20%). Interestingly, the lack of the right banking partners was the most

common challenge that faced corporates when they were looking for banks in Africa (40%).

In the future, the five key sectors that will drive growth in trade between the Middle East and Africa are natural resources, infrastructure, consumer goods, financial services and agriculture.

Opportunities for businesses are enormous if they correctly identify what to trade, which countries to invest in and which approach to follow (a hub in South Africa and/or the UAE).

### Conclusion

The Middle East and Africa is a region that is rich with possibilities. It has a very promising trade horizon that makes use of the two components of the south-south corridor – sub-Saharan Africa and the Middle East and North Africa.

There are several government initiatives in the region that are dedicated to improving political and macroeconomic stability, which would eventually create a healthier business climate. Furthermore, due to positive trends within the global economy and within Africa's domestic economies, it is safe to say that the continent's long-term growth prospects are strong.

Nevertheless, growth opportunities and challenges vary across countries within Africa depending on the individual country's level of economic diversification and the strength of its export engine. 📈



**Baihas Baghdadi** is a managing director for Barclays. He is also the head of trade & working capital international and a member of the Barclays Global Corporate Banking Council

This article first appeared in the summer 2015 issue of the *Middle East Treasurer*