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Seizing the opportunity

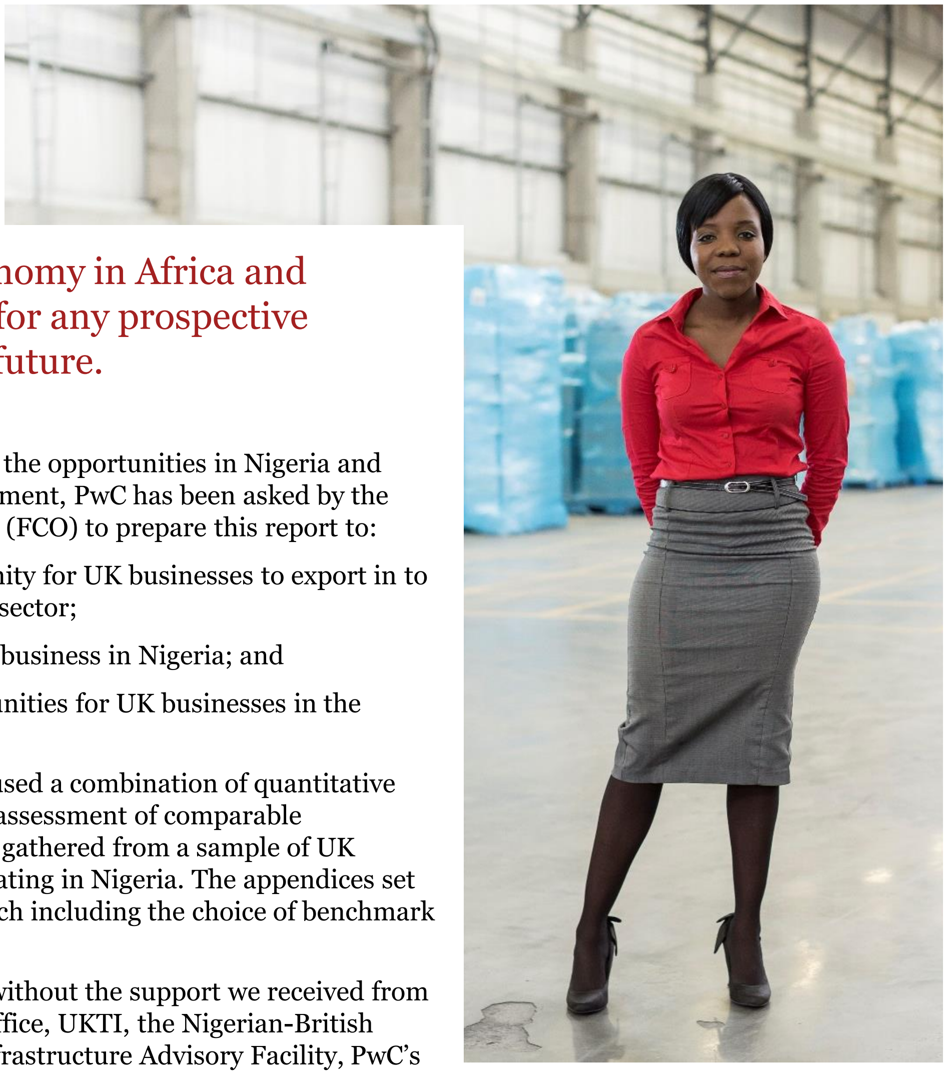
An economic assessment of key sectors of opportunity for UK businesses in Nigeria

Foreign & Commonwealth Office

March 2016

pwc

Foreword



Nigeria is the largest economy in Africa and promises a large market for any prospective business now and in the future.

To help UK businesses understand the opportunities in Nigeria and navigate the local business environment, PwC has been asked by the Foreign and Commonwealth Office (FCO) to prepare this report to:

- identify the sectors of opportunity for UK businesses to export in to Nigeria beyond the oil and gas sector;
- assess the constraints of doing business in Nigeria; and
- quantify the size of the opportunities for UK businesses in the period to 2030.

To form our conclusions, we have used a combination of quantitative analysis of publicly available data, assessment of comparable benchmark countries, and insights gathered from a sample of UK companies and PwC's experts operating in Nigeria. The appendices set out our full methodological approach including the choice of benchmark countries.

This report would not be possible without the support we received from the Foreign and Commonwealth Office, UKTI, the Nigerian-British Chamber of Commerce, Nigeria Infrastructure Advisory Facility, PwC's panel of experts and the businesses that we interviewed including Virgin Atlantic Ltd., BT Global Services plc and Guinness Nigeria plc.

Yours sincerely,

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Contents

Foreword	2
Executive Summary	4
1. The UK and Nigeria's trading relationship	6
2. Key sectors of opportunity	11
3. Business challenges	18
4. Sizing the opportunity	26
Appendix A: Methodological note	33
Appendix B: Selection of benchmark countries	35
Appendix C: Detailed main scenario	36
Appendix D: Business constraints international comparison	40
Appendix E: UK trade and investment specialism	43

Executive summary

Nigeria remains an attractive medium term export and investment destination for the UK, despite the current challenges it faces

At present, Nigeria is experiencing difficult macroeconomic conditions in an environment of 'lower for longer' oil prices. Government finances, the exchange rate and the inflation rate are all under significant adverse pressure. In these conditions, local and foreign businesses are less likely to take risks and invest. Nevertheless, the fundamentals of the Nigerian economy look very favourable for UK exporters and investors in the medium term due to three key factors:

- **the scale of Nigeria's economy** – Nigeria is the largest economy in Africa by size (£350bn) and population (177m). Between 2015 and 2030, we expect that Nigeria's economy could grow at a rate of around 5 to 7% a year and the population could increase by 50%.
- **Nigeria's resource wealth** – in addition to its oil reserves, Nigeria has fertile land and significant deposits of minerals such as tin, iron ore, coal, limestone, niobium, lead and zinc.
- **Nigeria's strategic geographical location** – Nigeria is well located to provide a gateway for trade expansion across the rest of Africa, and is also a natural hub for trade between America and Asia.

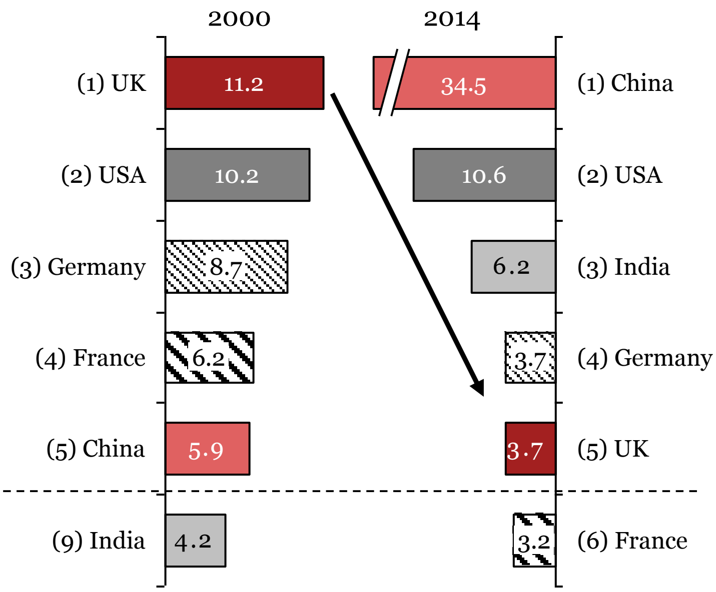
UK businesses are well placed to succeed in Nigeria

The UK's importance in Nigeria has been sliding. Since 2000, the UK has fallen from 1st to become only the 5th largest non-oil goods exporter to Nigeria behind China, US, India and Germany (see Figure 1). Similarly, the UK's share of the FDI stock in Nigeria has decreased from close to 7% to less than 2% between 2005 and 2014.

The UK's decline can be attributed to the growing importance of China and India in global trade, and an apparent decline in the UK's competitiveness relative to its developed economic rivals, most notably Germany. The German government appears to have been more effective at using closer cooperation at the ministerial level and trade delegations to bring together German and Nigerian businesses.

UK businesses remain well placed to succeed in Nigeria because of its familiar legal system, strong ties through the diaspora community, and the perception that UK brands offer high quality.

Figure 1: Ranking and market share of top 5 goods* exporters into Nigeria
(2000-2014, % share of total)



*Source: PwC Analysis, UNCTAD * excludes oil and gas goods*

The top export and investment opportunities for UK businesses in Nigeria

We've identified six goods and service exports that we expect will offer UK businesses the greatest potential for growth (see Box A on the next page). These goods and services reflect the UK's comparative advantage and Nigeria's likely import pattern as it develops. By 2030, we expect that these six sectors could account for more than two-thirds of all non-oil imports in Nigeria.

Box A: Six key goods and service exports the UK should focus on:

Goods	*Services*
Machinery and transport equipment: Power generating/electric machinery, road and other transport vehicles	***Telecommunication and information services:*** Internet and satellite provision, media content creation and distribution
Manufactured goods: Building fittings (heating/cooling, lighting), high-end apparel and fashion accessories	***Transportation and travel:*** UK transport, passenger and freight companies
Chemical and related products: Medical and pharmaceutical products, detergents, fertilisers and complex plastics	***Intellectual property:*** Licensing of intellectual property rights for franchises

Similarly, we have identified three sectors that we expect will provide the most promising FDI opportunities for UK businesses given the UK's existing strengths and the needs of the Nigerian economy going forward. These are:

- Technology, media and telecommunications.
- Retail and consumer products.
- Business and financial services.

UK businesses need to overcome a number of challenges when exporting to and operating in Nigeria

Nigeria is dogged by a perception as being a difficult place to do business. While these constraints certainly exist, businesses can thrive if they are ready to adapt to the local business environment. We have categorised the constraints into two groups:

- **Infrastructure constraints** – utilities (power, water), transport (roads, ports, rails and airports) and ICT (telecommunications and media connectivity).
- **Other business constraints** – expensive and scarce financing (trade and working capital), lack of skilled-labour, security concerns and higher cost of doing business.

Successful UK companies deal with these constraints in two ways: smaller companies tend to partner with local distributers and wholesalers, whereas larger companies typically establish a representative office in Nigeria and then build a supply chain locally.

The UK's non-oil exports to Nigeria could reach £7bn in 2030

In our main scenario, we project that UK non-oil exports to Nigeria could account for £7.1bn by 2030, up from £1.9bn in 2014, and split 75% and 25% between goods and services. In addition, we estimate that the UK's FDI footprint could increase to £4½bn from £1bn over the same period.

Recognising the inherent uncertainties in our market size projections, we have constructed four scenarios to provide a feasible range for the UK's non-oil export potential. The analysis suggests that the UK's export potential in 2030 lies within a range of £3½bn to £10½bn.

The critical success factors that will determine where in this range the UK's export potential in Nigeria will be, are:

- the speed at which Nigeria's government can overcome the current adverse economic conditions and make **progress on reforms**, particularly addressing corruption and infrastructure constraints;
- Nigeria's policies on **trade openness** to complement economic growth and provide more opportunities for UK exporters; and
- **UK competitiveness** relative to its advanced economy rivals.

The opportunity will only materialise if it is proactively pursued, by the UK government to 'myth bust' and facilitate cooperation, and by UK businesses to build relationships and partners in Nigeria.

1. The UK and Nigeria's trading relationship

Nigeria remains an attractive medium term export and investment destination for the UK, despite the current challenges it faces

Current challenges for business

At present, Nigeria is experiencing difficult macroeconomic conditions in an environment of 'lower for longer' oil prices. Government finances, the exchange rate and the inflation rate are all under significant adverse pressure. The unofficial exchange rate is trading at around 60% lower than the official rate as of February 2016, and access to foreign exchange has been increasingly scarce.

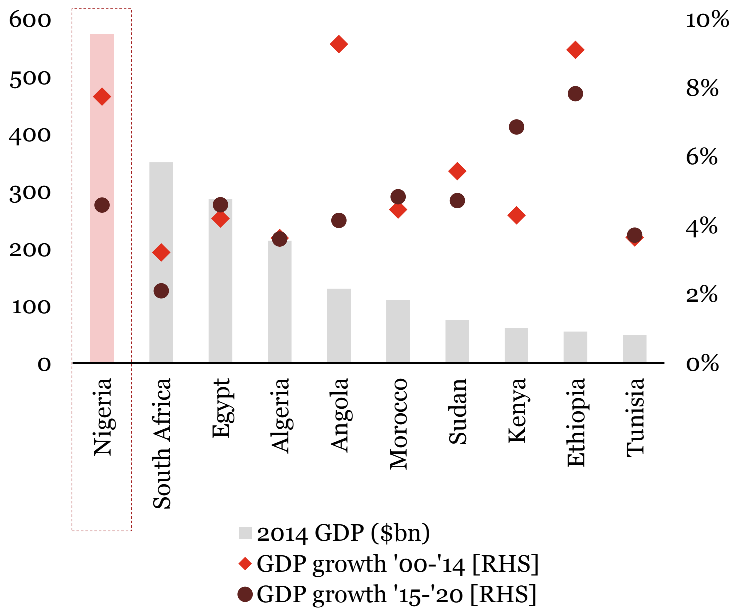
Foreign (and local) businesses cannot readily exchange local earning into sterling or dollars to pay for imported goods or to expatriate the earnings out of the country. In these conditions, local and foreign businesses are less likely to take risks and invest.

Nigeria's medium term trade and investment potential

Nevertheless, Nigeria remains an attractive export and investment destination for international businesses in the medium term because of its scale, resource wealth and location potential.

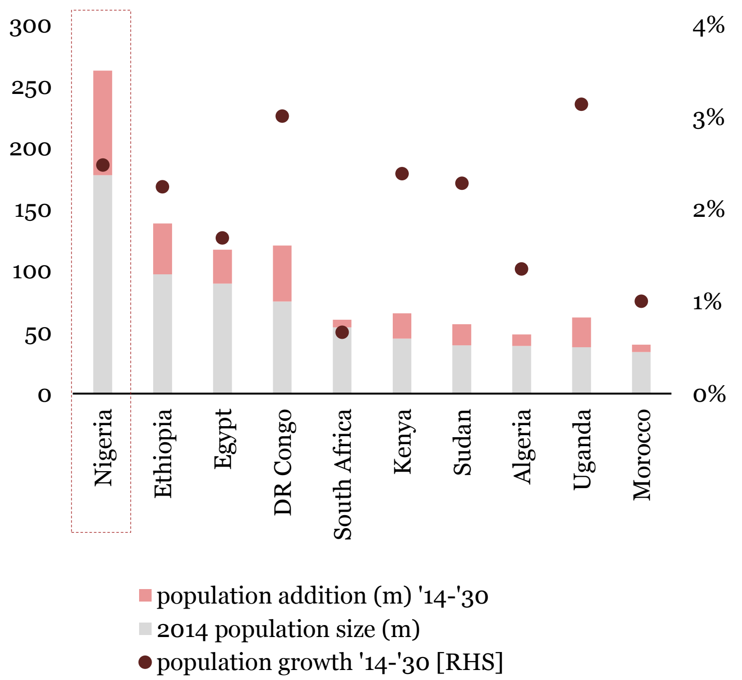
- **Scale of Nigeria's economy -** Nigeria is the largest economy in Africa by size ($574bn, £350bn) and by population (177m) (see Figures 2 and 3). The population is expected to expand by an extra 80 million people by 2030, and we project that the economy could grow by between 5% and 7% a year by 2030. Nigerian income levels could rise to almost $10,000 per person by 2030 (in PPP terms) from $6,500 today if the full potential of reforms is achieved.
- **Resource wealth -** In addition to its oil reserves, Nigeria has fertile land and significant deposits of minerals such as tin, iron ore, coal, limestone, niobium, lead and zinc. Therefore, businesses looking to set up local production will have access to locally produced raw materials.
- **Strategic geographical location -** Nigeria is well located to provide a gateway for trade expansion across the rest of Africa, and is also a natural hub for trade between America and Asia. Favourable trade agreements with countries such as the USA have encouraged some Asian businesses to locate production in Nigeria and benefit from lower custom duties on their exports to the United States.

Figure 2: Size and growth of 10 largest African economies
(2014, $bn, %)



Sources: PwC Analysis, IMF

Figure 3: Size and growth of population in 10 largest African countries
(2014, millions, %)



Sources: PwC Analysis, United Nations

The UK's importance in Nigeria has been sliding

The UK has fallen from being the 1st to the 5th biggest non-oil goods exporter in Nigeria

In 2000, the UK was the largest exporter to Nigeria, a position it held partly due to its historic, economic and political ties. The UK has since fallen to become only the fifth largest exporter to Nigeria behind China, US, India and Germany (see Figure 4).

The UK's decline can be attributed to the growing importance of China and India in global trade, and an apparent decline in the UK's competitiveness relative to its developed economy rivals.

China and India have grown in importance in trade worldwide and in Nigeria

China is the biggest exporter to Nigeria, accounting for more than a third of all non-oil goods imported. India has risen to third position since 2000. According to the High Commission of India in Abuja, Indian owned companies now employ the largest number of employees in Nigeria after the Federal Government of Nigeria.

This reflects a wider trend in which China and India have grown in importance in global trade (see Figure 5), and their increased focus on Africa and Nigeria specifically.

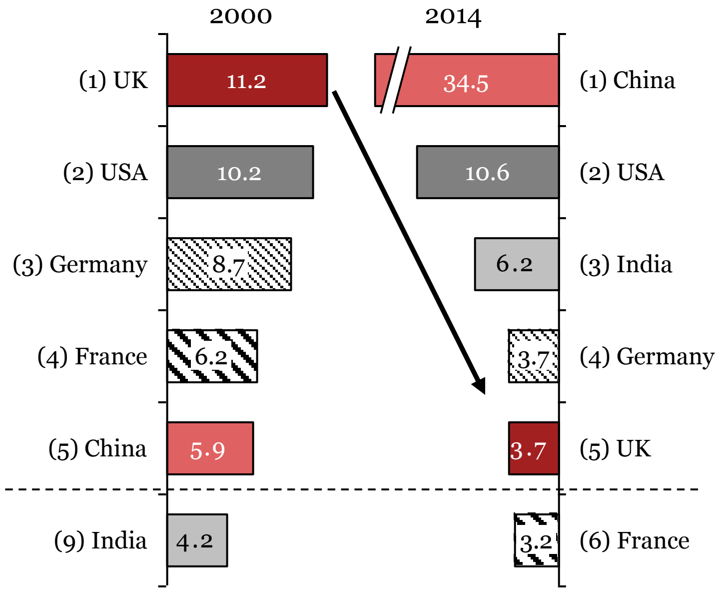
UK exporters appear to have lost competitiveness to developed country rivals

While the UK has fallen to the 5th position, the US has maintained its position as the second biggest goods exporter into Nigeria and Germany has dropped proportionately less than the UK.

There could be a number of reasons that explain the UK's decline, ranging from a loss in the competitiveness of its goods, to having less appetite to trade with Nigeria.

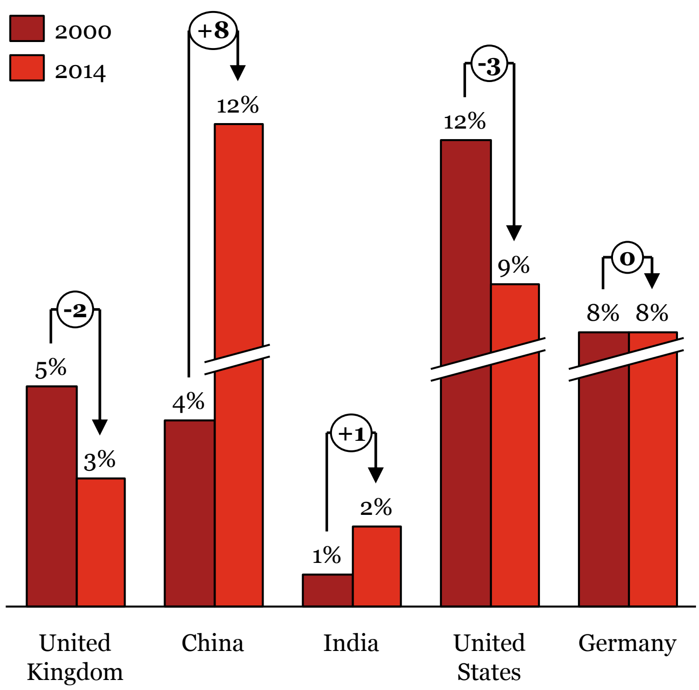
Despite this decline, the UK remains well placed to succeed in Nigeria in the medium term because of its familiar legal system, strong ties through the diaspora community, and the strength of the UK brand.

Figure 4: Ranking and market share of top 5 goods* exporters into Nigeria
(2000-2014, % share of total)



*Source: PwC Analysis, UNCTAD * excludes oil and gas*

Figure 5: Share of global goods exports
(2000-2014, % share of total)



Sources: PwC Analysis, UNCTAD

UK businesses are well placed to succeed in Nigeria

The UK has strong and long lasting ties with Nigeria

Nigeria is a commonwealth member and shares close ties with the UK through a common language and history. In practice, this means that UK businesses benefit from:

- *A familiar legal system* – the Nigerian judiciary and legal system are based on the UK's. This simplifies business set up processes and provides guidance in potential disputes.
- *Trade and investment support infrastructure* – the UK is one of 32 countries that has a bilateral investment treaty (including promotion and protection agreement) with Nigeria and it also benefits from EU-Nigeria trade treaties. Private trade associations such as the Nigerian-British Chamber of Commerce also facilitate and promote greater trade and investment between the two countries.

The UK is home to the 2nd largest Nigerian diaspora

In 2013, the UK was home to 184,000 of the 1.1 million officially registered first generation Nigerian diaspora, second only to the US (see Figure 6). Around 18,000 Nigerian students come to the UK, which is around 10% of total foreign students to the UK, the third largest after India and China.

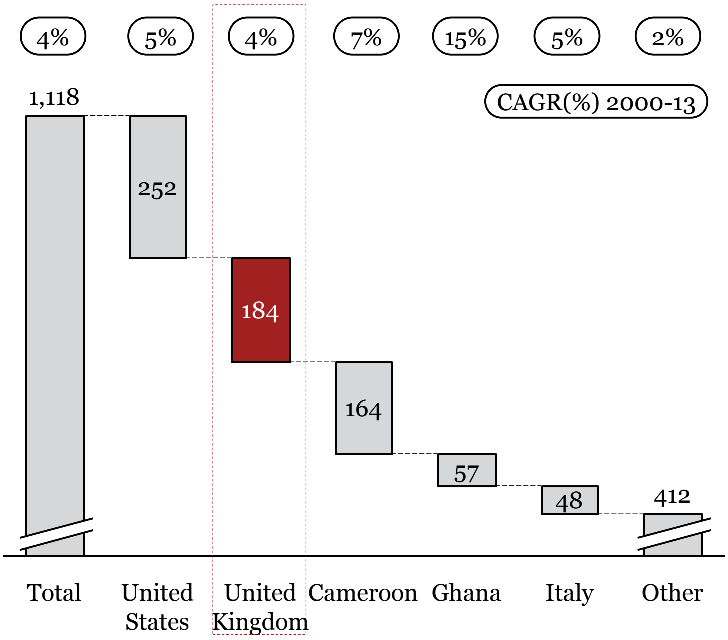
Nigeria's diaspora is an asset that can support the UK's export and investment activity. Our interviews with Nigerian entrepreneurs indicate that diaspora have a keen interest in transferring business ideas and practices from the UK into Nigeria.

UK brands are highly regarded and demanded in Nigeria

Our interviews with UK companies already operating in Nigeria revealed that Nigerian customers highly regard brands associated with the UK.

More established brands such as Guinness, Proctor & Gamble enjoy strong brand recognition across generations of customers and are seen as the guardian of high quality goods and services associated with the UK.

Figure 6: Top 5 destinations of Nigerian diaspora (2013, '000s)



Sources: PwC Analysis, World Bank

"UK brands and companies do not compete with the likes of the Chinese on scale – they compete on complexity and quality – and enterprise buyers know this."

- UK merchant bank

"The older generations have grown up with a number of UK's high-street names that have been active in Nigeria for a long time – they associate them with quality and reliability."

- UK consumer goods manufacturer

"Getting a perspective from living and studying in the UK how business should be done has been invaluable for my business success in Nigeria."

- UK entrepreneur of Nigerian origin

Focus: Examples of trade and investment promotion activity in Nigeria

Germany and Nigeria bring together public and private sector to promote trade/investments

Germany is one of the UK's key export competitors in Nigeria. Germany's main exports are similar to the UK's and include goods such as machinery for power generation, motor vehicles, chemical products and manufactured goods. Our panel of experts highlighted that the German government has been proactively focusing on increasing its trade and investment in Nigeria over the past decade. One of the sectors Germany has particularly focused on has been the power generation sector. We illustrate Germany's efforts through two examples, (i) the German-Nigerian Energy Partnership and (ii) recent contracts of German company Siemens in Nigeria:

i. **The German and Nigerian governments signed a German-Nigerian Energy Partnership in 2008**, and reaffirmed it by President Jonathan and Chancellor Merkel in 2012. As part of this partnership, ministerial groups from both countries work on energy reform in Nigeria. In addition to inter-governmental engagement, the German Nigerian Business Forums bring together energy entrepreneurs and companies from both countries to cooperate on practical commercial opportunities in the energy sector in Nigeria. Such partnerships and engagement of both public and private sector foster relationships and networks that are key to the success of German businesses in Nigeria.

ii. **Siemens has won a number of gas-turbine and solar power plant contracts in Nigeria.** Siemens has built strong links with the Nigerian government alongside the German-Nigerian Energy Partnership. Siemens entered into a strategic partnership with the Ministry of Power in 2012 to consider co-financing some of Nigeria's new power plants. In the last 12 months, Siemens has signed a contract to provide a power-turbine for a new gas-power plant in the South of Nigeria on top of servicing its turbines in three other plants built under the National Integrated Power Project. In addition, Siemens is also building a solar power plant in Plateau State.

China and Nigeria have undertaken public-private partnerships to provide financing for large scale infrastructure projects

China's growing interest and strengthening economic ties with Africa have been well-documented, Nigeria is no exception. The Chinese government has initiated various channels of developing relations with the Nigerian government. Apart from bilateral trade and investment agreements, the Chinese public-private partnership projects have provided financing for large scale infrastructure projects, including:

- **The Abuja-Kaduna Rail Modernisation Project** that aims to modernise 186km of rail, including 36 new bridges and 9 new fully developed stations along it. For the partnership, the Chinese government backed China Exim Bank provided a $550m concessionary loan, the Federal Government of Nigeria funded $374mn and the China Civil Engineering Construction Corporation was awarded the main contract.

- **The $5bn first phase of the Lekki Free Zone**, spreading across 3,000 hectares of land on the edge of Lagos, is owned 60% by Chinese government backed companies and 40% by Lagos state. The consortium would create the infrastructure for the free zone e.g. roads, power plants and water plants. The Chinese shareholders plan to use the land for manufacturing. Such partnerships allow firms to maintain private ownership but the government backing aids the creation of a strong local foothold. The total free zone, by the time it's completed, would span across 16,500 hectares of land bordered by the Atlantic Ocean and the Lagos and Lekki lagoons, which will include a deep-water sea port and a new international airport in close proximity.

2. Key sectors of opportunity

Identifying the top export opportunities for UK businesses in Nigeria

In this section, we look in more detail at past trends in goods and service imports and FDI into Nigeria to identify the main growth engines and sectors of the highest potential for the future. We then analyse the UK's competitiveness in both imports and FDI. To prioritise the best opportunities for the UK, we specifically choose sectors that:

a) we categorise as 'high-growth, low value' or 'high-growth, high value' based on current size and recent growth rates (see page 13);
b) will continue to have strong import demand or domestic FDI opportunity as Nigeria's economy develops in the period to 2030; and
c) the UK has an existing competitive advantage in (see Appendix E).

Based on this assessment, we have identified six goods and services that we think will provide the biggest opportunity for UK exports. Together these goods and services could account for more than two-thirds of all non-oil and gas imports to Nigeria by 2030. Similarly, we have identified three sectors that we expect will provide the most promising FDI opportunities for UK businesses given the UK's existing strengths and the needs of the Nigerian economy going forward. For FDI sectors we do not estimate the size of the 2030 potential due to lack of available data.

Goods export opportunities

Machinery and transport equipment: The largest import group in Nigeria that accounts for most (56%) of the UK's imports. Power generators and motor vehicles are in particular demand for commercial as well as individual use.

Manufactured goods: the UK's expertise in building fittings (heating/cooling, lighting), high-end apparel and fashion accessories will cater to both enterprise and retail side in trade and construction sectors.

Chemical and related products: Medical and pharmaceutical products, detergents, fertilisers and complex plastics are areas that the UK has strong heritage in and can fuel growth in sectors such as agriculture, manufacturing and healthcare.

Services export opportunities

Transportation and travel: Facilitating movement of people and goods will be even more important as Nigeria grows, UK passenger transport and freight companies are well placed to exploit this trend due to the strategic location of the UK.

Telecommunication and information (ICT) services: With rising incomes and international connectivity, internet/satellite provision and media content creation and distribution will be in high demand in Nigeria.

Intellectual property: Demand for UK brands is high in Nigeria. Licensing of intellectual property rights for franchises and other purposes will be even so stronger in Nigeria. Our analysis shows it could be the third biggest service import by 2030.

Figure 7: Illustrative size of the key export sectors in Nigeria by 2030

	Machinery and transport equipment	*Transportation and travel*	*Chemical and related products*	*Manufactured goods*	*Intellectual property*	*ICT services*
2030 value	***£50 bn***	***£25 bn***	***£23 bn***	***£22 bn***	***£3 bn***	***£2 bn***
2014-30 CAGR	***9%***	***7%***	***11%***	***8%***	***30%***	***5%***
2014 value	***£13.4 bn***	***£8.5 bn***	***£4.1 bn***	***£6.1 bn***	***£0.1 bn***	***£0.9 bn***

Our estimates for the indicative value of the six goods and services are based on our main scenario, see section four and appendix C for further detail.

Nigeria offers a number of mature as well as fast growing export opportunities

Over the past 10 years Nigerian imports have grown from £16.5bn to £51bn creating large import market. We have categorises Nigerian imports of goods and service into four categories according to their value in 2014 and growth rates since 2005 (see Figure 8).

The current import market is dominated by machinery and transport equipment followed by other goods that Nigeria cannot produce itself. Imports of services have grown very strongly albeit from a low base. This is due to Nigerians banking and travelling abroad more, being more connected to the world through information and telecommunication channels and starting to utilise other services including foreign intellectual property.

As local capabilities grow, import composition will likely change

From our interviews on the ground and analysis of the experience of benchmark countries, we also expect import composition to change for some of the import sectors. We have focused on financial and business services, agriculture and oil and gas to illustrate this shift:

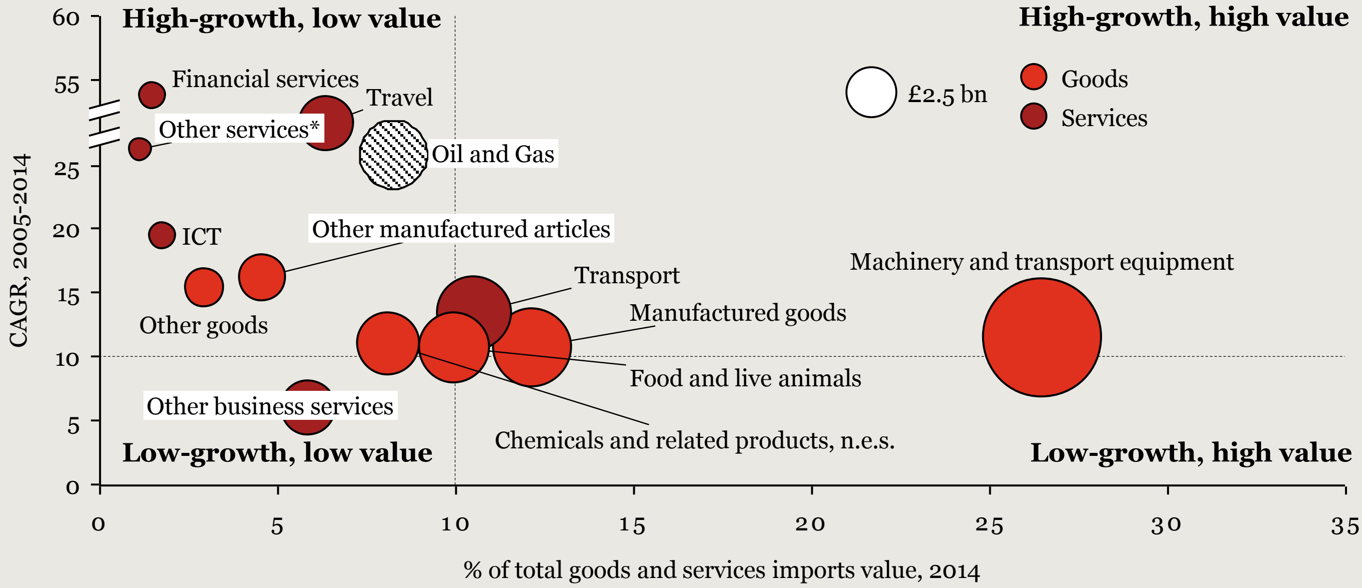
i. **Financial and business services:** Our interviewees emphasised that the strong growth of financial services imports reflects more Nigerians banking abroad and high local barriers for business services imports. Both of the sectors are growing fast domestically and opportunities will lie in delivering them locally through FDI.

ii. **Agriculture:** We expect that the agriculture sector will improve its yields going forward as the government strives for food self-sustainability. This will create opportunities in related products such as fertilisers and machinery but will limit food imports in the future that currently account for 10 % of all imports.

iii. **Oil and gas:** Despite its oil reserves, refined petroleum products such as gasoline account for over 8% of all Nigerian imports reflecting the lack of local refining capacity. While this sector has grown fast in the past, new planned refineries and infrastructure will help to address these imports.

To understand opportunities for UK companies in large as well as growing segments we look on the next pages at the UK's competitiveness across these sectors and subsectors and against its main competitors.

Figure 8: Nigerian import sector composition and annual growth rate
(%, size of the bubble refers to the value of 2014 imports per group in £bn)



*Sources: PwC Analysis, UNCTAD; ICT = Telecommunications, computer, and information services, Oil and gas includes goods from section 33 and 34 of Standard International Trade Classification (revision 3). * includes insurance and pension services; personal, cultural, and recreational services; charges for the use of **intellectual property** and construction services*

Value threshold: - 10% of total imports in 2014 - the four imports with more than 10% of the import market share accounted for 60% of the overall import market in 2014. Therefore, we believe 10% (or £5bn) is a reasonable indicator of a high value import sector.

Growth threshold: - 10% CAGR 2005-2014 - is illustrative and should be seen as directional. Due to the very fast growth of smaller sectors, 10% represents value that does not disqualify the remaining fast growing imports growing at around 10% per year. At this rate a sector would still grow 2.5 times over the period.

Nigeria imports from the UK more specialised goods such as machinery and transport vehicles

The UK's specialised exports are competitive and in high demand in Nigeria

The UK exports proportionately more machinery and transport equipment to Nigeria than Germany among the top six non-oil exporters (see Figure 9).

Nigeria's reliance on alternative power generation and its growing need for machinery across the economy drive high demand for independent power supply and transport and industrial machinery in this sector. In particular, in 2014 the UK's power generation equipment accounted for 23% of UK exports to Nigeria in this sector having grown at 16% per annum over the past 4 years alone.

The UK is also exporting a larger proportion of chemicals and related products than the United States and Germany. This trend is driven by strong local retail demand for UK brands in consumer products such as detergents and cleaning products and industrial chemicals drive this trend. Consumer products account for almost 30% of UK exports to Nigeria in this sector. The following product subsectors are growing at a fast pace of 45% per annum (2010-2014): medical and pharmaceutical products and complex plastics and fertilisers.

The UK's exports can play an important role in enabling Nigerian growth

As Nigeria reforms, its import composition will change. President Buhari's reforms, discussed in more detail in section 4, are likely to increase self-sufficiency in some industries that currently rely on imports. Agriculture is one such example where 40% of produce is wasted each year due to lack of appropriate warehouses and other infrastructure. Currently, food and live animals make up 16% of Nigerian imports but this is likely to fall as reforms take place. By 2030, we expect Nigeria's import composition to resemble more closely that of the benchmark countries (see Figure 10).

The UK's exports in know-how and specialised machinery could act as enablers of Nigerian industrial development and diversification. For example, the UK's specialised construction of buildings with temperature control is likely to improve warehousing and decrease agricultural waste. Similarly, greater use of advanced fertilisers from the UK can improve the local production of agricultural products.

Figure 9: Composition and size of goods* imports of top 6 importers into Nigeria
(2014, %, country export value = 100%, £ bn)

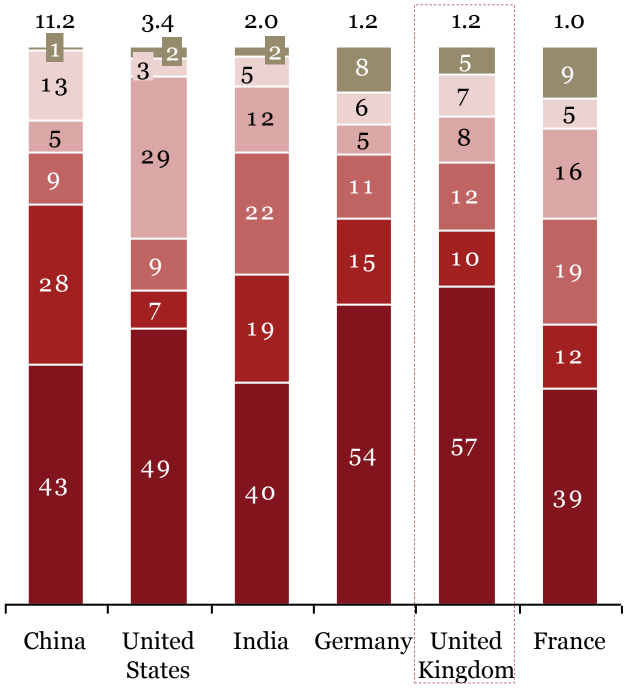
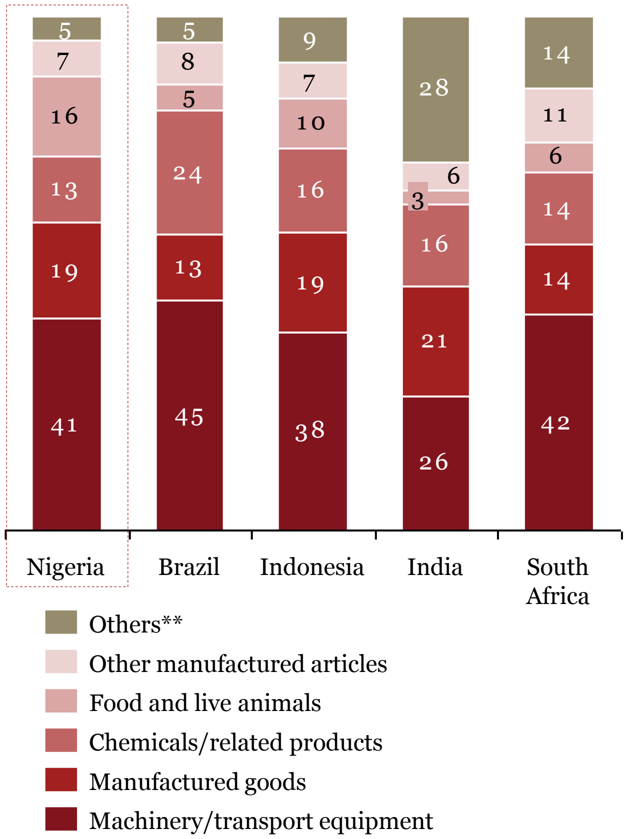


Figure 10: Composition of imports of goods* across benchmark countries
(2014, %, country export value = 100%)



Sources: PwC Analysis and UNCTAD
* Excludes Oil and Gas ** Others includes Beverages and tobacco, Coal, coke and briquettes, Electric current, Animal and vegetable oils, fats and waxes, Commodities and transactions

The composition of service imports in Nigeria plays to the UK's strengths and will be complimented by FDI

The UK's export opportunities in services will grow in line with the expanding economy

As Nigeria reforms and businesses grow, supporting services sectors are likely to grow. Nigeria already has a similar composition of its services imports to those of the benchmark countries (see Figure 11). By 2030, we expect Nigerian services to grow in line with the expansion of the economy rather than change drastically in composition. The detailed data for the source of the opportunity is scarce as services are not as well captured by the official statistics. For example, there is no breakdown of UK service exports into Nigeria.

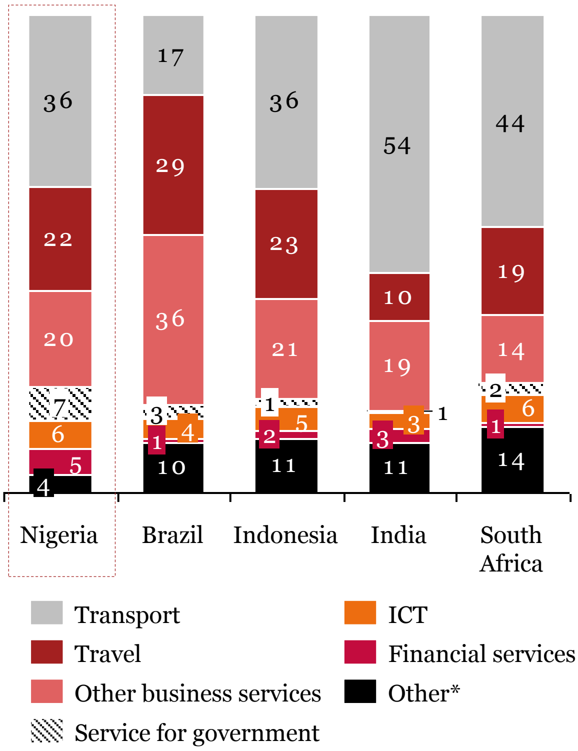
However, based on our three above mentioned criteria, interviews with our panel of experts and desk-based research of existing UK competiveness revealed that the following three sectors of opportunities for the UK's services exports in Nigeria:

- **Transportation and travel:** as the goods exports to Nigeria from the UK could rise five fold according to our main scenario, the demand for freight companies to move cargo from the shores of countries to and from Nigeria is likely to rise. The UK is home to a large number of freight companies that are likely to benefit from this opportunity. Similarly, we expect brands like British Airways and Virgin Atlantic to see increased traffic to and from Nigeria as business and tourist travel rises.
- **Intellectual property:** with the rise in protection of intellectual property rights in Nigeria, UK companies are likely to find export opportunities from:
  - ➢ Patented products e.g. pharmaceutical products, chemicals and detergents, software
  - ➢ Franchising trademark e.g. retail brands
  - ➢ Industrial designs e.g. machine designs
- **Telecommunication and information services:** Internet and satellite provision, media content creation and distribution will rise in line with the rise in consumption and incomes as well as digitalisation of the Nigerian economy.

Need for local presence will supplement imports with FDI

Our panel of experts suggest that Nigerian businesses increasingly want services companies to have a strong local presence, particularly in the financial and business services sectors. Wherein, UK services sectors are more likely to thrive from investing in Nigeria (FDI) rather than exporting into Nigeria.

Figure 11: Composition of services imports in Nigeria and benchmark countries
(2014, %, country import value = 100%)



Sources: PwC Analysis, UNCTAD
* includes insurance and pension services; personal, cultural, and recreational services; charges for the use of **intellectual property** and construction services

"Local presence allows us to understand local problems and create innovative solutions that work best for the Nigerian people."

- UK bank

"Nigerian customers will not do business with you unless you invest in building your company locally."

- large UK conglomerate

"Having local relationships and knowledge in Nigeria is of utmost importance."

- large UK business services company

The UK's strong position in FDI can complement the export opportunities

UK companies have been active in committing FDI to Nigeria

UK companies accounted for 11% of all newly proposed Nigerian FDI projects commencing between 2007 and 2013. This amounted to $4bn and the UK was the third largest single investor after the US and South Africa (see Figure 12).

This commitment is part of, but largely on top of, existing FDI stock of the UK companies in Nigeria, valued at £1.5bn in 2014. This put the UK's FDI stock at close to 3% of the total FDI stock in Nigeria in 2014. The Chinese are likely to account for significant share of the remaining FDI stock through its focus on infrastructure projects which are not captured through the general FDI statistics.

UK FDI opportunities lie in 3 key sectors that complement its export focus

Experts in industry have explained that there is a large demand from international companies for UK companies to provide services of international standards locally, in addition to just exporting. While most companies are optimistic about the long run, the extent of success will depend on the success of Buhari's reforms. We identify the following sectors of opportunity (see Figure 13):

- **Technology, media and telecommunications** sector is the main sector for investment from the UK so far, see Figure 13. On the enterprise side, multinational companies demand international standards of technology and services with strong local presence. On the retail side, investment in new spectrum and infrastructure will be essential for continuous growth of the sector as well as growing the customer choice in the media sector.
- **Retail and consumer products** (RCP) companies are likely to benefit from the rise in consumption and incomes in Nigeria. Many of the UK companies such as Diageo, Unilever, British American Tobacco and PZ Cussons have a strong presence with local production facilities and established supply chains. Wider manufacturing is the 3rd biggest single sector of UK outward FDI stock.
- **Business and financial services** are together the largest sectors of UK FDI globally. In Nigeria they make up a large proportion of UK FDI as well. Banks such as Standard Chartered have operated in Nigeria since 1894. Similarly consulting firms such as PwC have operated in Nigeria since 1953. Both of these sectors are well placed to deliver to the growing market for technological solutions and due diligence projects.

Figure 12: Share of Nigerian FDI projects and capital to be invested by country (2007-2013, % share of 306 projects =100%)

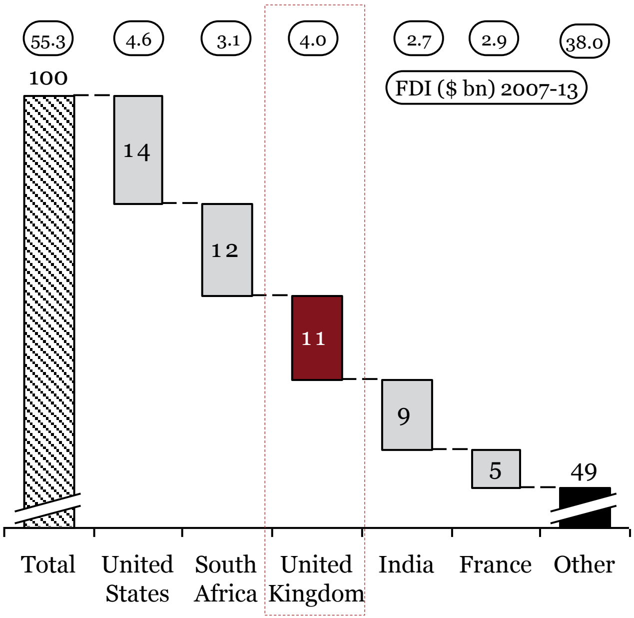
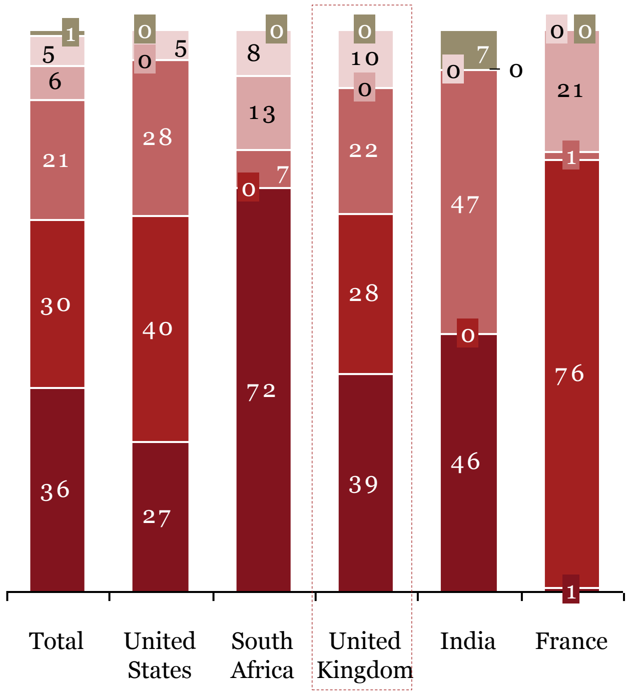


Figure 13: Share of Nigerian FDI by country and product (2007-2013, % share of total, FDI invested = 100%)



Sources: PwC Analysis, fDi Markets
RCP = Retail and consumer products
TMT = Telecommunications, media and technology
**real estate includes construction and hospitality*
***other includes mostly remaining uncategorised FDI*

Focus: Lagos is the key economic area in Nigeria, now and in the future

Given its size and location, Lagos is likely to remain Nigeria's economic powerhouse

Lagos is the only coastal megacity in Africa, and has the only international port in Nigeria making it especially attractive for goods exports. 17 million people live in Lagos compared to 5 million a decade ago, providing a significant consumer market and talent pool.

If Lagos were a country, its $80bn economy would be larger than that of Kenya making the city the 6th largest in Africa. According to fDi Markets, Lagos also receives most FDI projects from all cities in Nigeria.

The other significant economic areas with high GDP per capita include the coastal centre of Rivers State where the oil and gas sector is dominant and Abuja where the government resides (see Figure 14).

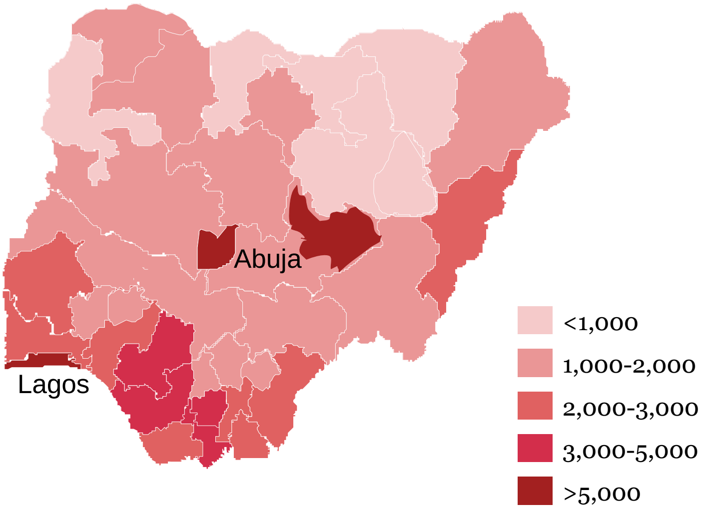
We expect other populous and resource rich regions that are currently dominated by informal and low value sectors (see Figure 15) to flourish as reforms take place and the economy grows. These regions include Port Harcourt, Aba, Warri, Onitsha, Enugu and Benin City in the South-East, Ibadan, Ilorin, and Ogbomosho in the South-West and Kaduna, Kano, and Zaria in the North.

Infrastructure is key and Lagos is well positioned to build on its current position of advantage

Nigeria has three ports into which large containers can be shipped: two medium sized ports are in Lagos and one in Port Hartcourt in Rivers State in the south of Nigeria. Both states also have an international airport each which make them attractive to foreign investors.

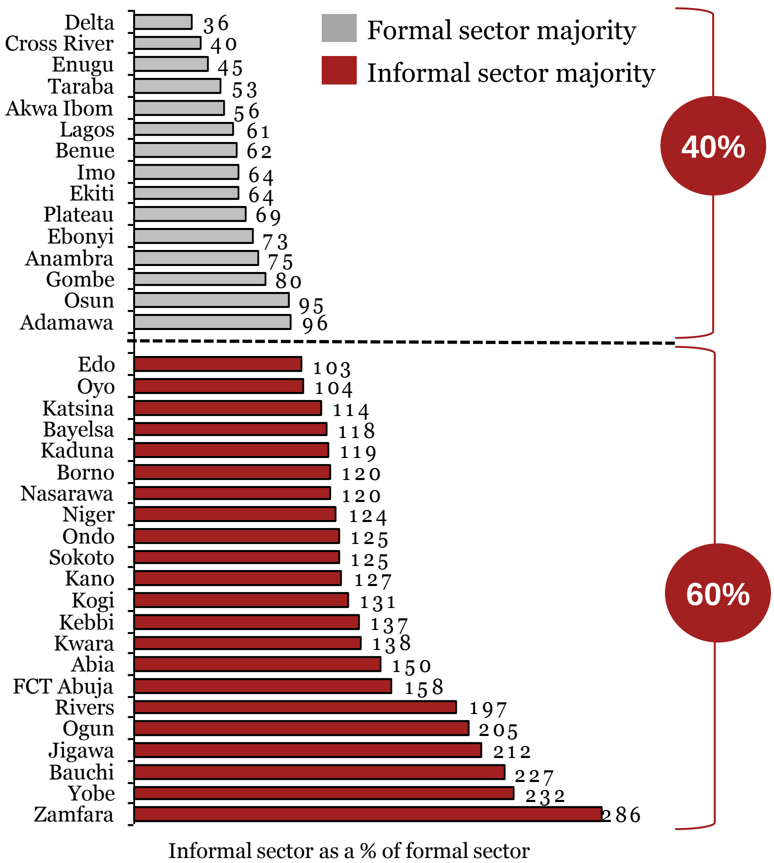
Future planned ports in Lekki and other areas in Lagos make Lagos a key area for UK trade now and in the future. In addition, Lagos state government has the reputation of being one of the most efficient in Nigeria. Therefore, despite constraints, Lagos is a key area of reform and opportunity going forward.

Figure 14: GDP per capita by state
(2010, $)



Source: PwC Analysis, National Bureau of Statistics Nigeria

Figure 15: Share of informal sectors Gross Value Added across 36 Nigerian states
(2010, % share of total)



Sources: PwC Analysis, National Bureau of Statistics Nigeria

3. Business challenges

UK businesses can be deterred from considering entering Nigeria due to unfavourable perceptions

Nigeria has a reputation as a difficult place to do business

Nigeria typically ranks towards the bottom end in international comparisons of the business environment (see Figure 16). In the Ease of doing business ranking from the World Bank, Nigeria is the third worst amongst countries with over 50 million, only ahead of Bangladesh and Democratic Republic of Congo. A wide-spread culture of corruption is generally regarded as the root cause of the many constraints to doing business in Nigeria. Speaking to UK businesses not currently operating in Nigeria, we found that unfavourable perceptions are a major deterrent for even considering entering the Nigerian market.

Business constraints are widespread and impact every aspect of doing business

We have categorised business constraints into two groups (see Figure 17):

Infrastructure constraints: Poor infrastructure represents a major constraint to investment in Nigeria. With a core stock of infrastructure estimated at 25% of GDP, this falls 45% points below the average value of infrastructure in middle income countries.

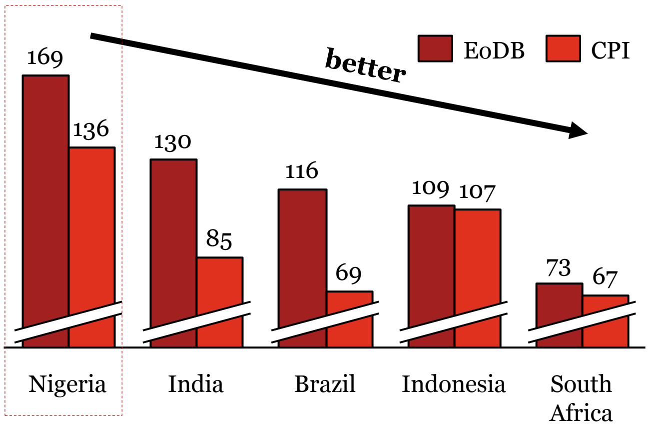
- Businesses can expect to lose up to 12% of sales to power outages, twice as much as in Kenya, through reliance on expensive alternative diesel aggregates.
- Transport and logistics is made difficult with road and rail density being a fifth of India's.
- The speed of the internet, at 3kb/s per user, is 50 times slower than in South Africa, limiting the amount of communication online and the potential of the digital economy.

Other business constraints: Businesses also need to account for expensive and scarce financing (trade and working capital), lack of skilled-labour, security concerns and culture of corruption.

- Access to foreign currency and credit has been severely restricted over the past 2 years associated with falling oil revenues.
- On average only every second Nigerian adult is literate compared to 92% and 90% in Indonesia and South Africa, respectively.
- While security concerns exist mainly in the north and in the oil rich regions, taking additional security precautions in all of Nigeria is part of everyday life.

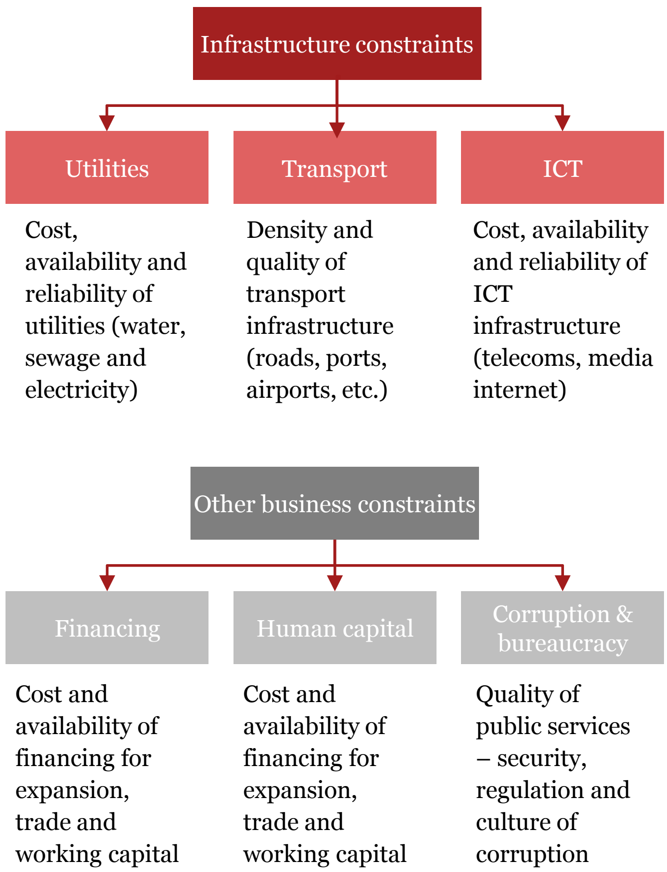
Appendix D provides more detail and international comparison of business constraints in Nigeria.

Figure 16: International business and corruption rankings
(2016, ease of doing business, out of 189, 1=best; corruption perception index, out of 175, 1=best)



Sources: PwC Analysis, World Bank and Transparency International

Figure 17: Categorising business constraints in Nigeria



Source: PwC Analysis

Large and small UK businesses have adopted different strategies to adapt to Nigeria's business environment

Finding a local partner and setting-up a business are seen as the main challenges for UK firms

We interviewed a sample of UK businesses operating in Nigeria to understand how they deal with the local business environment.

Successful UK companies deal with the local constraints in two ways (see Figure 18):

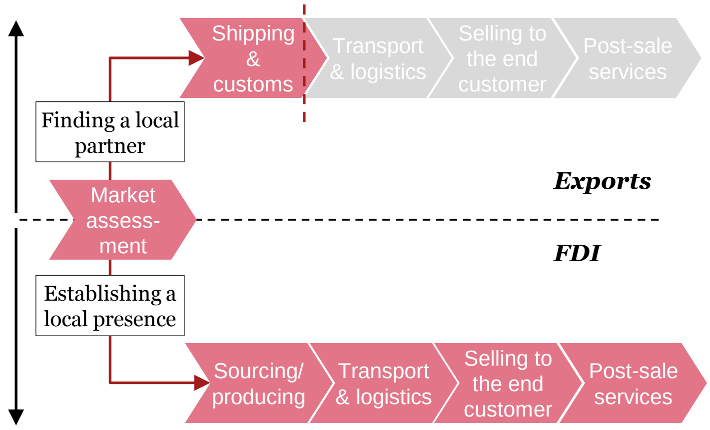
- smaller companies tend to partner with local distributers and wholesalers to export into Nigeria to avoid dealing with the local business environment; whereas
- larger companies typically establish a representative office in Nigeria and then build their supply chain locally step by step.

Table 1 summarises key constraints in key sectors of the economy. The case studies that follow provide further details on the opportunities and challenges for UK businesses in these key sectors.

"Partnering with local entrepreneurs and having local presence is really key in the eyes of customers, finding the trustworthy [ones] is a challenge."

- UK Telecommunications and Media company

Figure 18: Key constraints for UK companies exporting and investing in Nigeria



Sources: PwC analysis, company and subject matter expert interviews

Table 1: Key constraints for companies in each of our four case studies

Case study	*Key constraint*
Consumer goods	Building local **distribution channels** is a key challenge. Companies provide extended contracts and financing to local suppliers to build their capability along their supply chain.
TMT	Unfavourable and unstable **regulation** has resulted in businesses taking very cautious and phased approach to entering the market, despite strong local demand.
Financial services	Vast and opaque **regulation** on both the national and regional level adds the biggest burden to financial services firms in implementing innovative solution and reaching underserve clients.
Professional services	Professional services firms struggle to find enough local **talent** and bringing in foreign talent has proved to be difficult, expensive and insufficient for local needs.

Manufacturing and trade of consumer goods

"Nigeria is open for business…find a reputable local partner and local advisor. You have to get sound advice…" – Finance Director of a Large Consumer Goods company

Market overview

The consumer goods sector is part of the retail sector that is set to become a $74 billion market by 2019, up from an estimated $49 billion in 2015, representing an average growth rate of 10.5% per year according to Euromonitor. Most retail brands in Nigeria go to market with a range of products catering to the average low income earner as well as the growing middle class and upper class.

Extracts from our interviews with a consumer goods company

Why Nigeria? We see strong long term fundamentals in Nigeria. We think Nigeria will grow in global importance. In the short run, Nigeria sees massive swings in disposable incomes. This results in fluctuations in demand, which give us great upside opportunity as well as large downside challenges. Generally Nigeria is open for business. It is possible to come in, own land, and establish companies.

What are your biggest business constraints? Everything is possible, but takes longer and costs more than you expect. For example, as a manufacturer, you need to invest a large amount of capital in power generators and keep additional operating cost buffer for running the generators. Our biggest issue, which is much harder to overcome, is distribution. There are no real national transporters so we work with more than 100 distributers at a time. Each distributer is different in ability and circumstance.

How do you overcome these constraints? For manufacturing, we have a business model that allows us to invest in building up the local supply chain and deal with the local power situations. For distribution challenges, we spend a lot of time building relationships with our distributers. If need be, we show flexibility in supply contracts so as to relieve working capital for some of these distributers or give them a loan from time to time. This is because banks look for security and collateral to give them loans that the distributers are unable to offer.

What advice would you give others in the industry? If you have a sound business model, in a sector which you think will continue to be important, you must be prepared to invest in the country and its infrastructure to ensure you can survive. In addition, there is no substitute for local relationships and networks.

Key constraints along the product/service journey

- Physical Infrastructure
- Inconsistent enforcement of regulation
- Lack of data/information
- Financing
- Volatile demand
- Corruption
- Quality of education

Focus:

Distribution channels

- Distribution is very fragmented. UK companies may need to work with scores of distributors to get their products to market, as there are limited national logistic services and poor quality road and rail infrastructure.
- UK companies often need to invest a lot of time with distributor and supplier partners to get the services and support they need. In many cases UK companies will need to take responsibility for the service delivery of their partners.
- Working capital funding can be a challenge for distributors. Banks typically ask for substantial collateral and charge extremely high interest rates. Some of the larger UK companies provide financing deals to their distributors and suppliers.

Telecommunication, media and technology services

"It is expensive to be speculative about Nigeria, you need a well-researched and step-by-step approach to entering the market." – Head of a Large TMT Business

Market overview

Telecommunications is one of the success stories in Nigeria. Nigeria is increasingly connected and mobile. As a country it has the highest tele-density of 91.7 in Africa, 8 SIM cards for every 10 Nigerian and accounts for most shipments in smartphones in Africa in Q1 2015 according to the National Bureau of Statistics. On the media side, Nigeria has an established network of media channels but there is a demand for better quality intermediary services such as advertising.

Extracts from our interviews with companies

Why Nigeria? There is a strong demand on the enterprise side for our services from multinational clients who seek quality on par with international standards. In the short run, lower oil prices and unpredictable regulation has created barriers for us to operate in Nigeria. But we're generally optimistic about the longer term future.

Ultimately, if you're serious about operating across Africa, you need to be serious about operating in Nigeria, Kenya and South Africa.

What is your biggest business constraint? Nigerians like to do business with people they know and who can show commitment to the country. Therefore, serving the market remotely is not an option. However, changing regulation has been an obstacle to establishing local footprint with sufficient control over it. This has been the case particularly in the advertising industry – see box on right. Without reform of the regulatory landscape and protection of foreign interest, international companies will face much higher barriers to entry and operating.

How do you overcome these constraints? The uncertain regulatory environment and our consequent appetite to enter Nigeria limits the range and scale of services we are willing to offer to the market.

What advice would you give others in the industry? Having local knowledge and networks is key. Use the connections and local partners to enter the market with established networks. I wouldn't adopt a big bang, capital-heavy, market approach in Nigeria without being 100% sure that our strategy will succeed.

Key constraints along the product/service journey

Create the company ownership structure	• Perception of market maturity • Cultural barriers
Get office in good location	• Longer term and more expensive rental contracts
Obtain license to operate	• Unstable and unfavourable regulation
Offer products and services	• Lack of trained workforce • Lack of fair competition due to cartels

Focus on:

Unfavourable and unstable regulation

Example 1, media services:

- On 1st January 2013, the Advertising Practitioners Council of Nigeria (APCON) issued a proclamation specifying two categories of advertising agencies, national and foreign. Only the national agencies are allowed to serve the domestic market and Nigerians need to own no less than 74.9% in each national agency.

Example 2, telecommunications:

- In October 2015, Nigerian Communications Commission fined MTN $5.2bn for missing the deadline to disconnect 5.1 million unregistered SIM cards that cause security concerns.
- The fine amount is more than MTN's total sales in Nigeria in 2014 and about 37% of the group's total revenue across Africa.
- The fine has been reduced to $3.9bn on appeal ever since.

Financial services

"Majority of the Nigerian population is still unbanked. The bank that provides secure internet and mobile services will succeed" – Head of Operations of a Large Global Bank

Market overview

Financial services as a sector is well placed to thrive in Nigeria due to the country's large size, rising income levels and strong commerce sector related to the oil sector. However, challenges to further growth exist. 56% of the population over 15 years of age (or 43 million people) are unbanked. SMEs make up just 0.27% of total credit. Typically loan interest is around 20-24% per annum and there has been a shortage of foreign exchange rate related to the fall in the oil price. The success of the financial services sector going forward lies in harmonising the varied regulation and increasing its reach across the wider population through innovative technological solutions.

Extracts from interviews with FS organisations

Why Nigeria? The market opportunities for retail, commercial and investment banking are huge as the country develops. And financial services are at the heart of making this development happen. The more established you are in Nigeria and more domestically developed solutions you have, the greater benefit you will reap.

What is your biggest business constraint? Regulation is vast and opaque and overlays issues such as regional differences in taxation. While oversight from regulators has grown, the quality and maturity of regulation is still evolving.

How do you overcome these constraints? Staying close to the regulator and working along side them has proved very helpful. Especially, to explain what works for the industry. A hot area now is the uptake of mobile banking solutions in Nigeria. The uptake here is much faster than in countries where the basic infrastructure for financial services already exists, but we need to continue innovating.

What advice would you give others in the industry? A lot of companies have an idealistic perceptions of how companies should work. All those perceptions are challenged in Nigeria. My advice is to find a local partner who can help navigate business environment and spend time building relationships. Local partners can also help understand the problems of the Nigerian people that innovation in financial services can solve. Trade associations or local offices of international professional firms can help with due diligence and recommendations.

Key constraints along the product/service journey

Set up branch network	• Longer term and more expensive rental contracts
Acquire customer deposits	• Financial inclusion for unbanked/rural population and SMEs
Lending	• Lack of data • Unsophisticated risk models • Lack of clarity in regulation
Offer products and services	• Developing systems and processes to offer innovative solutions

Focus on:

Vast and opaque regulation

For example:

- National regulatory documents are unclear or at odds with international regulation. For example, the Central Bank of Nigeria (CBN) defines impairments differently to IFRS 9.[1]
- National regulation has state-level tax implications, which result in complexity.
- National regulation is unclear and ambiguous. In 2009, CBN introduced interest rate caps for lending and for deposit-taking, but due to ambiguous language in the CBN circular *introducing* the rule, some in the industry believed that interest rate caps *expired* in 2009.

Professional services

"Companies can struggle to find employees with the right skills and bringing in expatriates is expensive" - Taiwo Oyedele, PwC Tax Leader

Market overview

Professional services accounted for over 3.5% of GDP in 2014 and have grown almost at double the rate than the overall economy since 2010. Audit and Tax services are in high demand as the number of businesses in Nigeria grow in size and credibility. Consulting is a growing sector, especially for technological solutions.

From an international perspective, the market for business services is becoming more sophisticated, which should place the UK's renowned brands and quality of business services in a competitive position.

Extracts from an interview with Taiwo Oyedele, Tax Leader, PwC Nigeria

Why Nigeria? The demand for professional services in Nigeria is immense. The audit and tax markets are most mature as firms increasingly seek stronger due diligence and tax advice.

The tax system in Nigeria is fragmented and complex, which means most firms seek for experts to help them understand tax implications of their work. Consulting is likely to be a high value high growth market in the future, where technological solutions play a big part.

What is your biggest business constraint? People are our biggest assets and it can be hard to find the right skills at the right quantities across all levels of the firm. Professional services firms suffer most from this as we have a greater demand for people with a varied skillset and experience.

How do you overcome these constraints? We invest in training our staff across our offices. But sometimes we need to invite expatriates or deploy PwC staff from other teams in the world, which means the cost of doing businesses rises significantly (see Box).

What advice would you give others in the industry? The demand is extremely high but the quality of products are not servicing the demand entirely. There is a lot to be gained from entering this market and offering innovative solutions to clients.

Look for a business partner in Nigeria that has something to offer, for example technological skills or regulatory knowledge, and ensure that they have the same ethical values as you do.

Key constraints along the product/service journey

- Poor data quality
- Regulation and licensing is complex and time consuming
- Cultural barriers for servicing Nigerian clients may affect winning chances
- Varying levels of appetite for 'wining/dining' costs
- Lack of local skilled labour means international firms may hire expatriates

Focus on:

Talent Acquisition

Hiring an expat can cost more than £80,000 per year, before salary*

- 1 expat permit costs **£1,000**
- The expat needs to make two overnight trips to Abuja to obtain permit, costs **£1,000**
- Two economy class flights for an average expat family of four, London-Lagos, cost **£10,000**
- Cost of rent in expat areas cost **£50,000** per year
- Cost of financing rent in USD (10%) **£5,000**
- Cost of sending two school children to international schools **£15,000**

*Relocation costs, salary differentials and other perks are not considered

Focus: The economic impact of corruption

Corruption is widespread and a pressing issue in Nigeria

President Buhari launched an anti-corruption drive after taking office in May 2015. Corruption affects public finances, business investment as well as standard of living. The impact of corruption is pervasive and feeds through to the economy via the following channels:

- lower governance effectiveness, especially through poor fiscal revenue and expenditure;
- weak investment, especially FDI, as it's harder to predict and do business; and
- lower human capital as less, especially the poor, are able to access healthcare and education.

SMEs and foreign investors find it more difficult to deal with corruption

In Nigeria, big companies are able to access essential goods and services like electricity and water by leveraging their balance sheets. Whereas smaller firms cannot afford these and rely on the government for provision but corruption weakens public fund management and public goods provision.

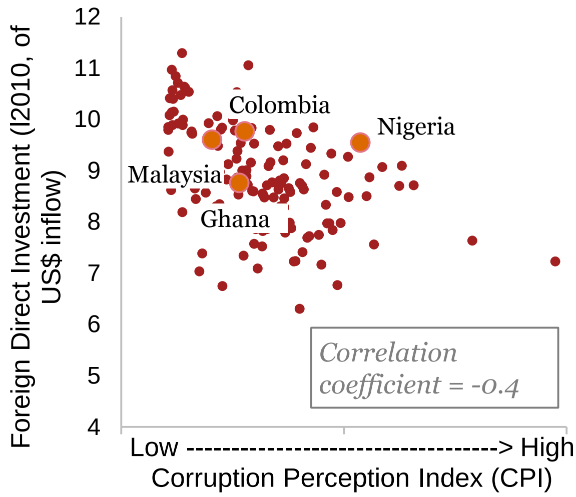
In addition, corruption:

- threatens property rights, discouraging investment that requires high capital expenditure as businesses are unwilling to place high capital at risk; and
- is associated with lower technological transfers as foreign companies are unable to protect intellectual property (see Figure 20).

Corruption could cost Nigeria up to $534bn by 2030

We estimated that corruption could cost Nigeria up to 37% (or $534bn) of its GDP potential by 2030 if it's not dealt with immediately. As we describe in our publication 'Impact of corruption on Nigerian economy' from January 2016, this cost is equated to around $1,000 per person in 2014 and nearly $2,000 per person that will live in Nigeria by 2030.

Figure 19: Corruption is associated with lower FDI



Sources: PwC analysis, World Bank

Figure 20: corruption has a long run negative impact on growth, primarily through reduction in human capital and investment

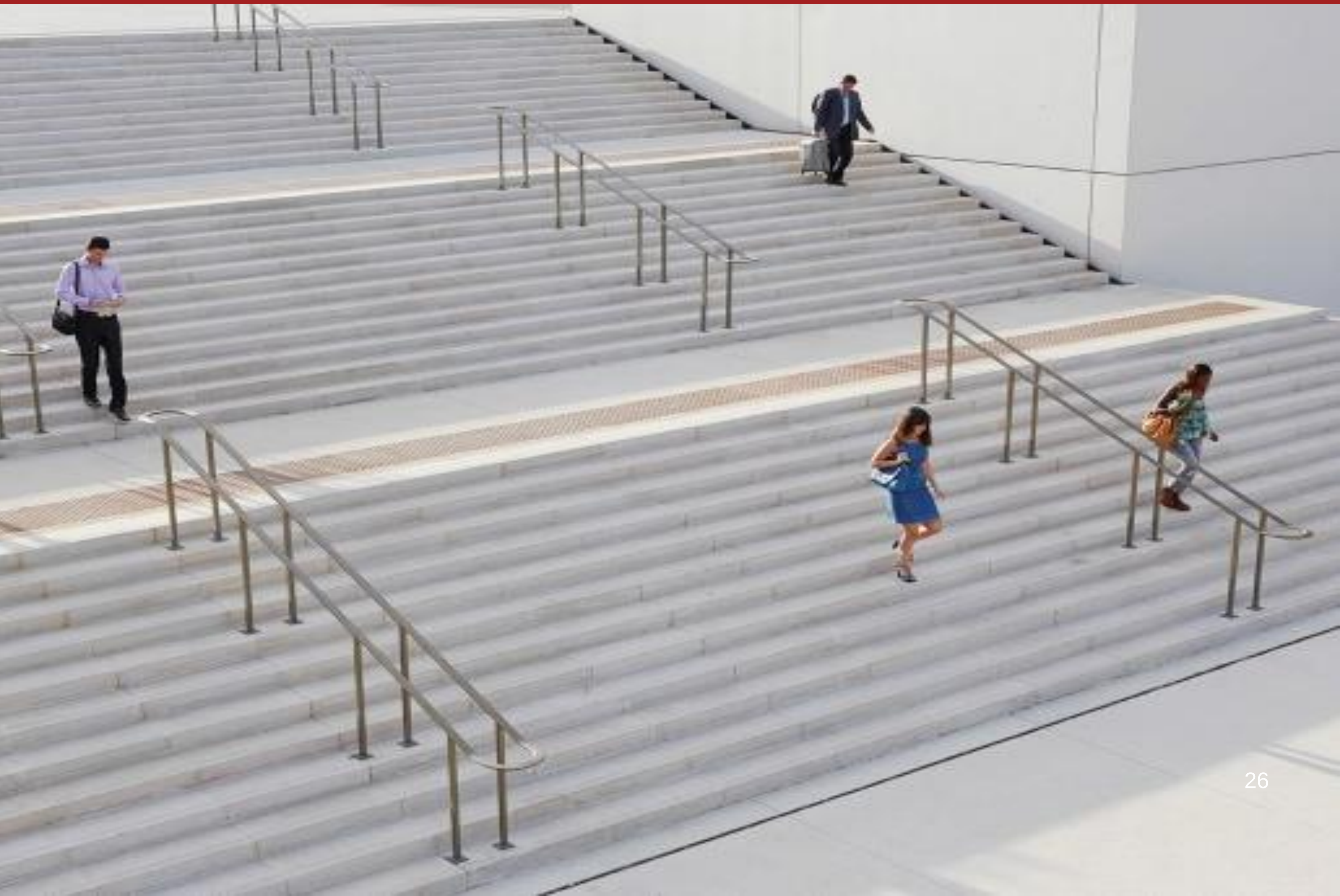
1. Corruption:
- Predictable corruption becomes a cost of 'business as usual', which businesses pass on to customers
- Unpredictable corruption deters investment and innovation

2. Channels:
- Lower human capital
- Higher leakage through money laundering
- Weak investment
- Poor fiscal revenue and expenditure
- Poor institutions

3. Macroeconomic outcomes from corruption:
- Lower labour productivity
- Lower capital formation
- Inequity and poverty
- Lower economic growth

4. Factors affecting corruption:
- Poverty
- Poor institutions
- Sudden surge of national resources rent

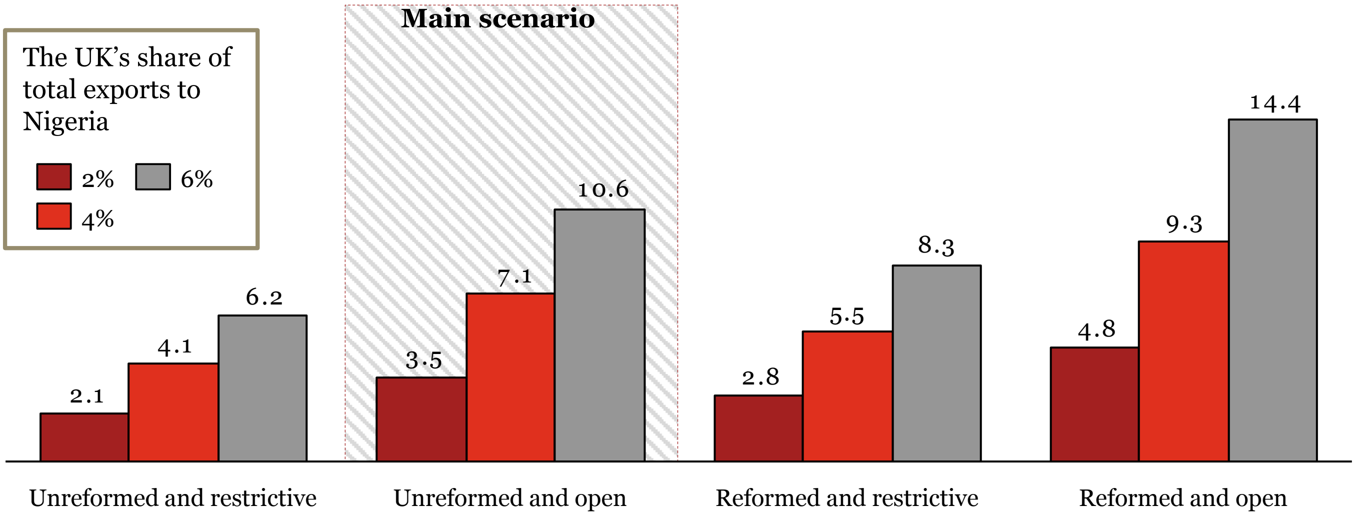
4. Sizing the opportunity



The UK's non-oil exports to Nigeria could be around £7bn in 2030 in our main scenario

Estimating the potential size of the UK non-oil exports to Nigeria to 2030 is inherently based on a number of assumptions and uncertainties. Rather than predicting the future, we discuss in this section potential scenarios how the import market and the UK's role in it could develop by 2030. Our main scenario is that UK non-oil exports to Nigeria could account for £7bn by 2030 split 3 to 1 between goods and services, and within a range of £3½bn to £10½bn. This compares to the UK's current non-oil goods exports of £1.2bn and £0.7bn of services in 2014 (see Figure 21).

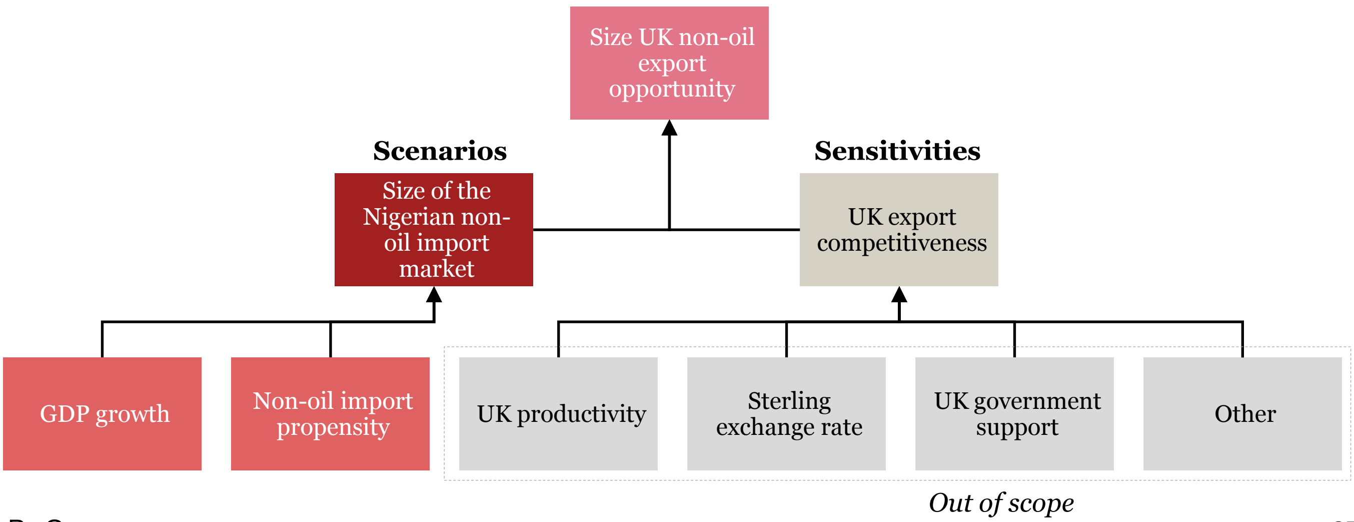
Figure 21: 2030 export potential for the UK across our four scenarios
(£ bn, 2014 prices*)



*Sources: PwC calculations *2014 constant numbers applied for comparability purposes using constant translation rate of 0.61 GBP/USD*

Our estimates are based on two key factors: an estimate of the size of the Nigerian import market in 2030 and an assumption of the UK's competitiveness at that time (see Figure 22). In turn, our estimate of the Nigerian import market is based on a projection of Nigeria's economic growth potential in the period to 2030 and an estimate of the share of the economy that will be spent on imports, also known as the import propensity. Meanwhile, the UK's competitiveness in 2030 is included as a sensitivity. This is because the UK's competitiveness relates to a number of UK factors including, *inter alia*, firm level productivity, the Sterling exchange rate and government support for exporting industries, all relative to competitor economies. Analysis of these factors are beyond the scope of this study, but a sensitivity analysis provides an indication of the benefit (cost) that can be accrued to the UK if its competitive position is improved (weakened). These factors are discussed in more detail below.

Figure 22: Schematic illustration of the quantification approach



The size of the opportunity depends on Nigerian GDP growth, trade openness and the UK's competitiveness

Prospects for Nigerian economic growth to 2030

Our scenario analysis is based on two potential annual average economic growth rates of 5% and 7% to 2030. Our projections for economic growth potential are based on PwC's long-term economic model, detailed in 'The World in 2050' report, published in February 2015. The long-term model derives estimates of potential growth for 32 of the largest economies in the world. The model projections are based on:

1. the expected growth in the labour force;
2. labour productivity growth (driven by human capital, physical capital and technological progress); and
3. Convergence of Purchasing Power Parity between advance and developing countries[1]

Nigeria's growth potential is driven in large part by its youthful and growing working age population, accounting for around 2.5%. But the key uncertainty is the degree of productivity catch up factored into the model. Analysis in the World in 2050 indicates that labour productivity could grow by as much as 3%, but this assumes that Nigeria will make swift progress on its ambitious reform agenda and that market exchange rate changes will contribute another 1.5% every year. A more conservative assumption of reforms would indicate lower labour productivity growth of around 2%.

Combining these factors suggests that Nigeria's economic growth potential could average around 5% to 7% a year in the period to 2030. Based on this analysis, we have taken 5% annual average growth as our main scenario, while 7% average annual growth represents an upper limit.

Deriving an estimate of import propensity

Our scenario analysis is based on two potential estimates of import propensity of 14% and 24%, reflecting the range between the current restrictive trade policy and the potential for a more open economy. The importance of imports in the Nigerian economy is likely to depend on the government's openness to trade by 2030 and the needs of the economy on its development path.

Since the 1980s, successive Nigerian governments have followed protectionist policies with the objective of industrialising Nigeria and dealing with oil dependencies during crisis. For example, Nigeria raised tariffs on imports such as rice, wheat and sugar that were its top 3 imports in 2012. Currently, Nigeria also prohibits imports of soaps/detergents as well as furniture among 57 other categories of prohibited item categories. Both the IMF and WTO have acknowledged that Nigeria has one of the most restrictive trade policies in the world.

Hausmann (2011) shows that a country like Nigeria is more likely to import 'complex' goods and services it cannot produce locally. As more complex goods and services such as machinery/electrical, chemicals and manufactured goods are more expensive, the value of Nigeria's imports as a share of GDP would rise. Similar trends are observed in benchmark countries, which show that on average imports account for 24% of GDP (see Appendix C).

By 2030, we project that the Nigerian government will follow less restrictive trade policies due to international pressures from the public and private sectors alike. In practice this would be represented by an increase of imports as a share of GDP from 14% in 2014 to 24% by 2030. Levels seen as recently as 2008. Adjusting for oil and gas goods takes the propensity from 14% to 13% and 24% to 22% respectively and is explained in Appendix C.

UK competitiveness – sensitivity analysis

Since 2000, the UK has fallen from 1st to become only the 5th largest exporter of goods in Nigeria behind China, US, India and Germany. The UK's decline can be attributed to the growing importance of China and India in global trade, reflected in Nigeria, and an apparent decline in the UK's competitiveness relative to its developed economy rivals.

By 2030, this trend may change based on how the UK's businesses overcome the challenges of exporting and investing in Nigeria. Therefore, we have provided a range of the UK's share of Nigerian imports between 2% and 6%, with a central project of 4% that assumes that the UK maintains its current market share in both services and goods. This range accounts for a potential further halving in the UK's competitiveness as well as 50% increase in its market share since 2014.

1 We use GDP at Market Exchange Rates as it is a better measure of the relative size of the economies from a business perspective, at least in the short term. For long run business planning or investment appraisal purposes, it is crucial to factor in the likely rise in real market exchange rates in emerging economies towards their PPP rates. This could occur either through relatively higher domestic price inflation in these emerging economies, or through nominal exchange rate appreciation, or (most likely) some combination of both of these effects

The scenarios outline the potential impact of Nigerian reform and trade openness on the import market size

Four scenarios of potential outcomes for Nigerian import market by 2030

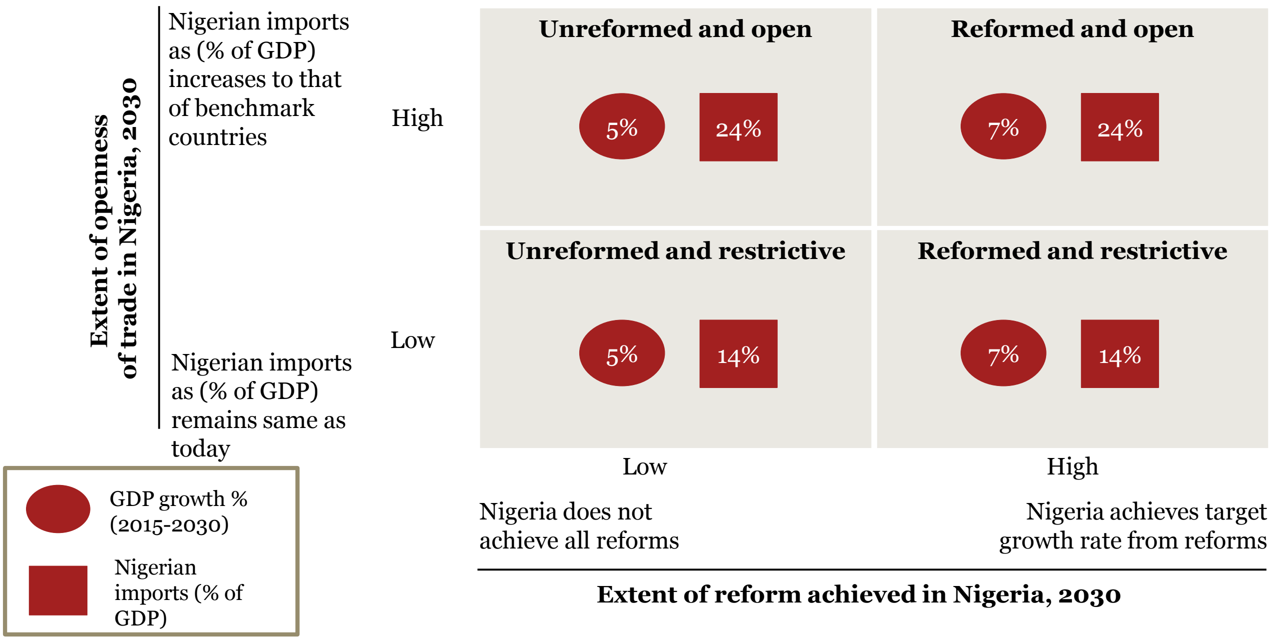
Based on this analysis we have developed four plausible scenarios that capture alternative outcomes in Nigeria's economic growth and import propensity over the period to 2030 (see Figure 23).

We derived four scenarios of how Nigerian import market will evolve as follows:

- **Unreformed and restrictive Nigeria**: The Nigerian economy continues with 'business as usual' and fails to implement large-scale reforms. Nigerian GDP grows at 5% per annum and continues with restrictive trade policies through tariff and non-tariff barriers, maintaining imports as a share of GDP at 14% and resulting in import market size of £103bn. In this case, depending on the UK share of total exports to Nigeria, the UK's opportunity will lie between £2bn and £7bn in 2030.
- **Unreformed and open Nigeria (potential size of the opportunity presented as baseline):** The Nigerian economy continues with 'business as usual' and the reforms passed do not materially change GDP growth beyond 5% per annum. Nevertheless, Nigeria reduces tariff and non-tariff barriers to imports, increasing imports as a share of GDP to 24% (average imports as a share of GDP in benchmark countries), resulting in the import market size of £ 178 bn. In this case, depending on the UK share of total exports to Nigeria, the UK's opportunity will lie between £4bn and £11bn in 2030.
- **Reformed and restrictive Nigeria**: Nigeria achieves reforms in key sectors set out by the reform agenda but continues with restrictive trade policies through tariff and non-tariff barriers, maintaining imports as a share of GDP at 14%, with a total import market size of £138 bn. In this case, depending on the UK share of total exports to Nigeria, the UK's opportunity will lie between £3bn and £9bn in 2030.
- **Reformed and open Nigeria:** Nigeria achieves reforms in key sectors set out by the reform agenda (see page 30). Nigeria reduces tariff and non-tariff barriers to imports, increasing imports as a share of GDP to 24% (average imports as a share of GDP in benchmark countries) and the total import market size of £ 241 bn. In this case, depending on the UK share of total exports to Nigeria, the UK's opportunity will lie between £4bn and £12bn in 2030.

For illustration, Appendix C provides details and step by step worked out example of the 'Unreformed and open' scenario including illustrative size of the FDI potential for the UK using the scenario's assumptions.

Figure 23: Four scenarios of potential outcomes by 2030 for the size of Nigerian import market
Alternative Cases for the size of the Nigerian economy and imports



Focus: Buhari's reform agenda

The Nigerian reform agenda is ambitious. Box B summarises the scale of the reform agenda across three main pillars. President Buhari's party manifesto aims to accelerate GDP growth to average 10% annually going forward, which would make it one of the fastest growing economies in the world. Nigeria achieved a lower average growth rate of 7.7% in the period 2000-2014, at time when high commodity prices fuelled economic growth.

In addition, Nigeria's long term issues such as corruption, institutions and infrastructure will take time to address before the economy responds.

Fighting corruption has featured high on Buhari's agenda together with addressing infrastructure constraints in transport and power sectors and introducing more technology in the economy. The success of these reforms is likely to alter the composition of the Nigerian economy in favour of more value adding sectors such as manufacturing and services that can build on the large and growing population.

Nevertheless, growth rate of 10% per annum appears high by comparison to most international forecasters, including the IMF and PwC's World in 2050 model.

Box B: Key pillars of President Buhari's reform agenda

Relief
'A decent life for every Nigerian.'

- Create **3 million new jobs a year** through industrialisation, public works and agricultural expansion
- **Increase Federal spending on healthcare immediately** to 10%, and to 15% by 2020
- **Triple education spending** to 24.5%, from 8.5%, by 2025
- Build up to **1,000,000 new houses a year** 2015 – 2025
- Create a phased **Social Insurance Scheme**

Recovery
'Building an Economy for the 21st Century.'

- Construct 3,000km of **Superhighway** and up to 4,800km of **railway lines**
- Create a new **N300bn growth fund**, to be administered by the six new regional economic development agencies
- **End immunity** from prosecution for sitting politicians
- **Increase public spending** to 30% of GDP
- Amend the Land Use Act to **create freehold/leasehold interests** in land

Reform
'A government you can trust.'

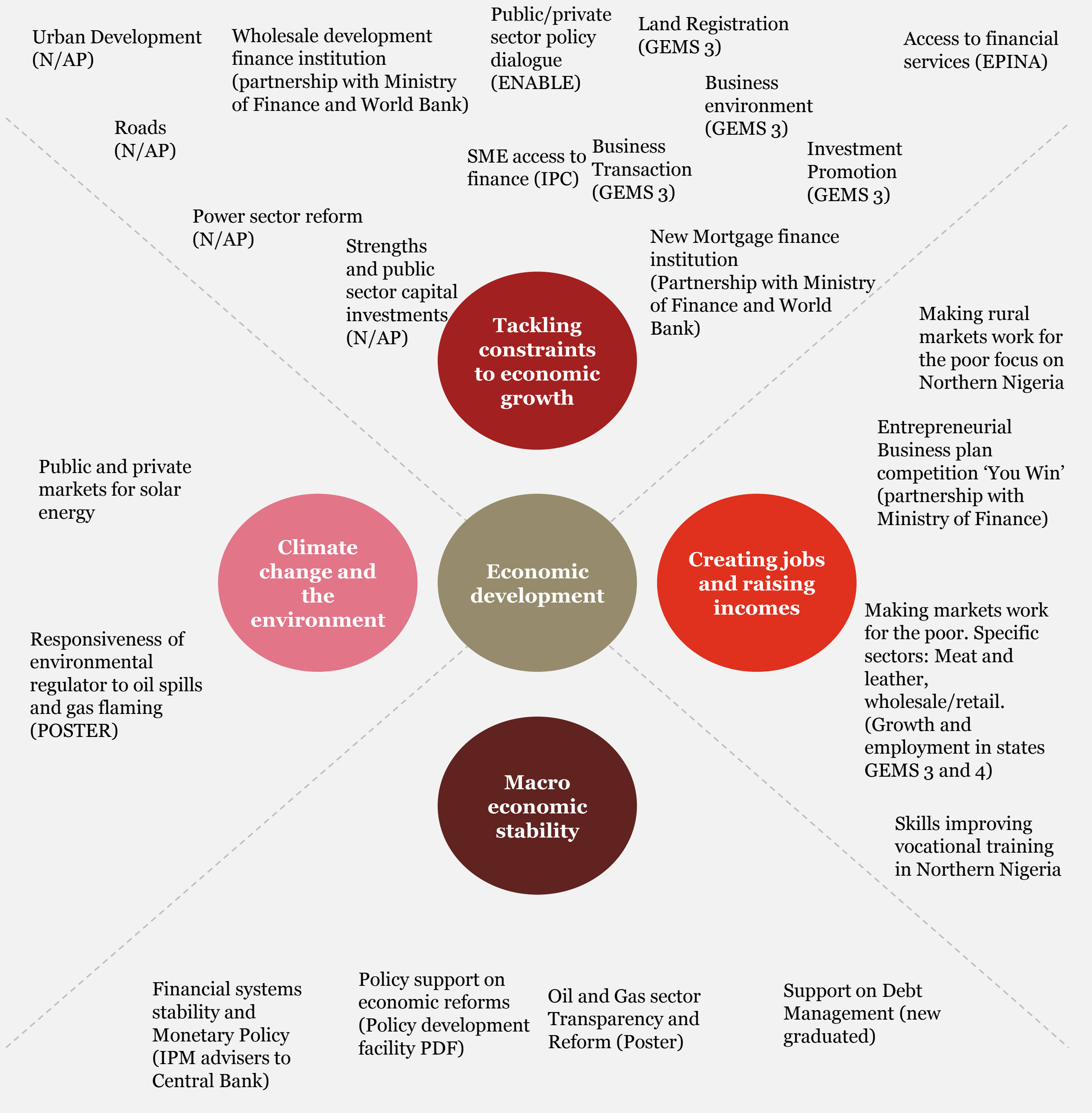
- Provide **free legal representation and advice** for the poorest and most vulnerable
- Simplify immigration procedures to allow the faster issuance of visas at all port entries
- Establish a special **Federal Anti-Terrorism Unit**
- Include **gender as a component of the federal character**
- **End all gas flaring** by 2025

Sources: PwC Analysis, APC manifesto

Focus: the UK's role in supporting Nigeria's reform and development agenda

The UK Government currently supports Nigerian economic development agenda through international aid provided by DFID and other foreign policy instruments through the Foreign and Commonwealth Office, UKTI and other such agencies. DFID alone hosts around 20 such projects in Nigeria under four key objectives (see Figure 24).

Figure 24: DFID Nigeria's economic development areas and programmes of support



Sources: DFID

Appendix

- Appendix A: Methodological note
- Appendix B: Selection of benchmark countries
- Appendix C: Detailed main scenario
- Appendix D: Business constraints comparison
- Appendix E: UK trade and investment specialism

Appendix A: Methodological note (1/2)

We use a range of quantitative and qualitative techniques throughout the study

This study is commissioned for identifying sectors of opportunities in Nigeria for UK businesses, understanding business constraints, sizing the opportunity and materialising the opportunity based on realistic scenarios. For the study, we used a variety of quantitative and qualitative approaches. We have prioritised quantitative analysis where data was available. Qualitative information from internal/external experts as well as interviews/case studies with/from UK businesses operating in Nigeria have informed our analysis especially for prioritising the business constraints that businesses face in Nigeria. Where quantitative data has not been available, we have supplemented the information with such qualitative methods and desk-based research. The box C below details which method was used during the study.

Box C: methods used during the study

1. Identifying sectors of opportunities

UK exports to Nigeria

To assess export opportunity in:

- Goods, we analyse UK exports to Nigeria, based on growth and value contribution, quantitatively.
- Services, we analyse Nigerian imports* and identify UK areas of advantage using external/internal expertise

UK FDI in Nigeria

To assess opportunities for UK FDI in Nigeria, we conducted:

- Desk-based qualitative research to identify UK companies in Nigeria and big export opportunities arising from reform in Nigeria.
- Interviews with UK companies operating in Nigeria.

Nigeria growth sectors, 2030

Identifying business activities that will grow and require UK exports and investment in the future, we decompose Nigerian GDP quantitatively, based on growth and value contribution of the sector

UK Export competitiveness

To identify where UK areas of competitive advantage in general, we conducted a qualitative review of literature that assesses competitiveness of UK goods and services

2. Understanding business constraints

- To identify economy wide constraints, we conducted desk-based research to identify key areas of costs for UK exporters and investors; and internal and external Nigerian and British expert panel discussion to formalise how constraints affect British businesses.
- To identify and prioritise sector-specific constraints, we conducted: interviews with British businesses that have operations in Nigeria; and created case studies on four key sectors where UK is currently present in Nigeria using interviews and desk-based research.

3. Sizing the opportunity

- We estimate Nigeria's GDP growth potential to 2030, using in-house macroeconomics model.
- We estimate the share of imports and FDI in Nigeria's economy in 2030, using a benchmarking exercise.
- Estimate the composition of goods and services in Nigeria's imports in 2030, using a benchmarking exercise.
- Assume that the UK maintains its share of imports in Nigeria's economy in 2030.

4. Materialising the opportunity

- To allow for uncertainties in the future, we present scenarios that provide a range to our estimate of the UK non oil and gas export opportunity to Nigeria using quantitative analysis.
- The scenarios are based on a desk-based review of views of international institutions and market analysts as well as a qualitative review of the Nigerian reform agenda.

We identified the following key data gaps during the study:

- Data that shows UK services exports to Nigeria. National sources such as the UK's ONS pink book records such data for some other Sub-Saharan countries but not Nigeria. International datasets such as UNCTAD do not include this data either.
- Comprehensive FDI data that records investments and profits yielded over time. FDI Markets and public data sources present such information but is not comprehensive.

Both the data gaps were dealt with through the qualitative techniques described above.

* Data for UK exported services to Nigeria is unavailable

Appendix A: Methodological note (2/2)

Use of interviews in our study

To substantiate and verify our desktop research on business constraints faced by businesses in Nigeria, we interviewed a sample of UK businesses trade bodies and entrepreneurs operating in Nigeria to understand how they deal with the local business environment. Interviews were conducted under Chatham House rules where we do not attribute opinions to specific companies/people unless we had a specific permission such as the case with Taiwo Oyedele, Tax Leader, PwC Nigeria.

Table 2 summarises our findings per each sector and details the approach took.

Table 2: Key business constraints per industry

Industry (ISIC level 1)	*Key business constraints*	*SME and research*	*Interview**	*Case study*
Agriculture	*Logistics*	✓		
Mining**	*Financing*	✓		
Manufacturing	*Lack of skilled talent*	✓	✓	1
Utilities	*Unstable regulation*	✓	✓	
Construction	Corruption	✓	✓	
Trade	*Distribution channels*	✓	✓	1
Hotels and restaurants	*Volatile economic environment*	✓		
TMT	*Unfavourable and unstable regulation*	✓	✓	2
Financial intermediation	*Vast and opaque regulation*	✓	✓	3
Real estate and business services	*Lack of skilled talent*	✓	✓	4
Other services***	*Unstable regulation*	✓	✓	

Sources: PwC analysis, company and subject matter export interviews
*** Excludes oil and gas *** includes public administration, education, health and personal services*

Appendix B: Selection of benchmark countries

Criteria for selecting benchmark countries:

In order to narrow down a possible set of countries that we would compare Nigeria to, we used the following 4 key criteria:

- Population and GDP size
- Openness to trade
- GDP per capita
- Natural resources

We present the countries that have a population size greater than 50 million and GDP per capita between 5,000 and 20,000 to cover current and 2030 levels relevant for Nigeria (see Figure 25). While Indonesia and Brazil are the closest comparators to Nigeria's projected economy size in 2030, India and South Africa have been chosen to account for Nigeria's vast population and Southern African location, respectively.

Figure 25: By 2030, Nigeria is most likely to look like Indonesia today
(2014 and Nigeria 2030, size of the bubble refers to the natural resources rent % of GDP)

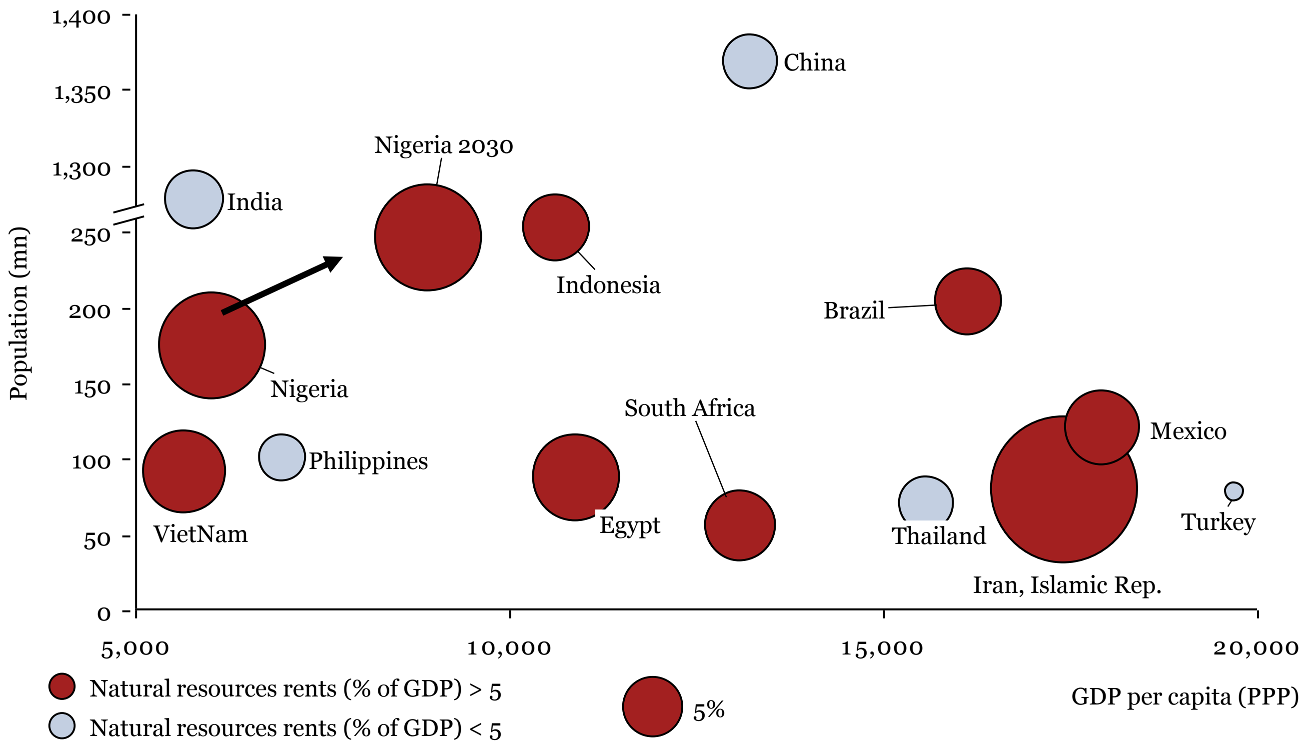


Table 3: Variables for selecting benchmark countries:

Countries	GDP per capita (PPP '000s)	GDP (PPP USD billions)	GDP (MER USD billions)	Imports (% of GDP)	Foreign Direct Investment (% of GDP)	Working age* (% of population)	Population (million)	Natural resources rents (% of GDP)
Nigeria	6,442	1,058	574	14	15	53	174	16
India	5,959	7,277	2,051	26	12	65	1,276	5
Brazil	15,605	3,073	2,346	14	34	69	203	6
Indonesia	10,477	2,554	888	24	30	67	252	6
South Africa	13,150	683	350	33	42	65	54	7
Nigeria, 2030**	9,757	2,432	1,755	24	30	NA	273	NA

*Sources: PwC analysis, World Bank, IMF World Economic Outlook and UNCTAD * Working age is considered between the age of 15 and 64. ** Nigeria 2030 figures from PwC's World in 2050 and 'reformed and open' scenario*

Appendix C: Worked example of the 'Unreformed and Open' scenario of the Nigerian economy

This appendix provides further details to section 4 of the main report. W provide a worked out example of the 'Unreformed and Open' scenario of Nigerian import market including the central estimate for the size of the export potential for the UK. For illustration only, we also include a potential size of UK FDI stock using the same assumptions as in this scenario.

By 2030 UK exports to Nigeria could reach £7bn and UK non-oil FDI stock could amount to £4.5bn

Under this scenario we estimate that UK exports could reach £7bn by 2030 up from £1.9bn in 2014, equivalent to an average growth rate of 9% per year (see Figure 26). We also expect that Nigeria will import relatively more goods than services in 2030 compared to the current composition. The FDI stock could rise to £4.5bn from £1.0bn excluding investment in oil and gas that currently account for a third of total UK FDI.

This projection is based on our assessment of four key factors that we explore in more detail below:

1. Nigeria's GDP growth potential to 2030;
2. Share of imports and FDI in Nigeria's economy in 2030;
3. The composition of non-oil goods and services in Nigeria's import basket;
4. Assumption of the UK's share of Nigeria's import market and FDI stock by 2030.

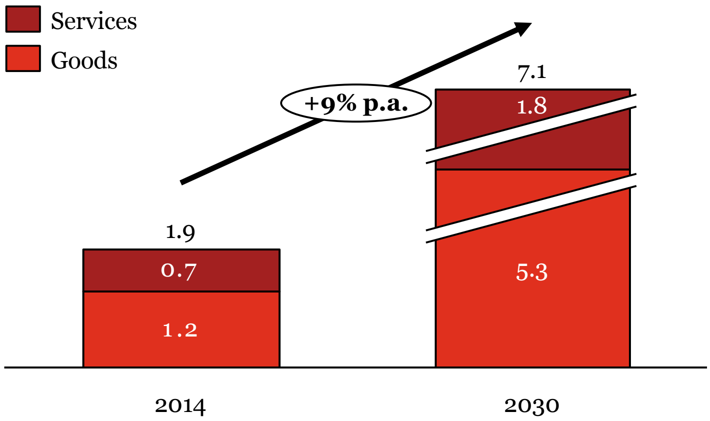
Firstly, Nigeria's economy has the potential to more than double in size by 2030

In this scenario we assume the economy will be able to grow on average by 5% per year. By 2030, we estimate that Nigerian GDP could reach $1.3tn in market exchange rate, equivalent of today's Spanish economy.

As discussed in section 4, the driving factor behind the strong economic growth is growing population and increases in productivity.

Figure 26: Size and annual growth of UK non-oil exports to Nigeria

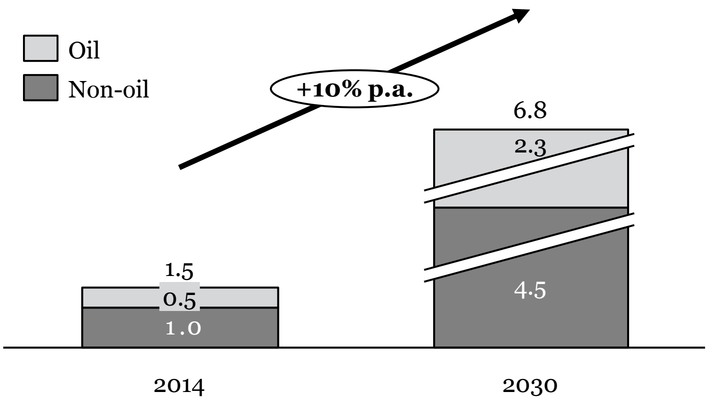
(£bn, 2014 prices, %)



Sources: PwC analysis, UNCTAD, ONS

Figure 27: UK FDI stock in Nigeria and its annual growth

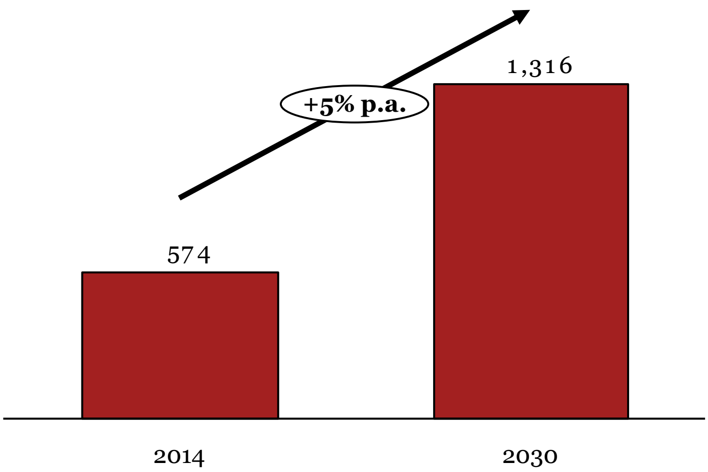
(£bn, 2014 prices, %)



Sources: PwC analysis, ONS

Figure 28: Size and growth of Nigerian GDP

($bn, 2014 prices, %)



Sources: PwC analysis, IMF WEO October 2015

Appendix C: Worked example of the 'Unreformed and Open' scenario of the Nigerian economy

Secondly, demand for imports will outpace the overall growth of the economy

We expect that demand for imported goods and services will increase as a share of the economy, rising to around a quarter of GDP or 22% excluding oil and gas goods imports.

This would bring Nigeria closer to our benchmark countries (see Figure 29) and reflects our expectations of more open trade policy in Nigeria and underlying economic theory discussed in more detail in section 4.

Similarly, we assume that Nigeria will be able to increase FDI stock to similar levels as our benchmark countries. While the jump from 15 to 30% seems high, Nigeria has had these rates in 2000s and as the government is working as part of its reform agenda on packages to induce foreign businesses to invest in Nigeria. These include better investment protection and tackling widespread corruption.

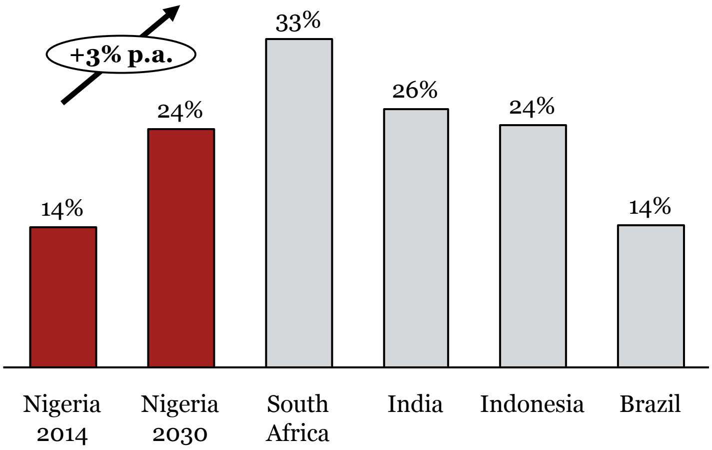
The current challenging macroeconomic environment is also incentivising the government to speed-up the process of privatization and work more closely with the private sector.

Thirdly, Nigerian imports are likely to be made up of 75% goods and 25% services*

We assume that Nigeria will maintain its relative share of oil and gas goods imports at 8% going forward. Our analysis of benchmark economies (see Figure 31) suggests that Nigeria is likely to increase its non oil and gas import share of goods to 75% to support rising consumption with goods that cannot be produced domestically. Consequently, Nigeria is likely to import a smaller share of services.

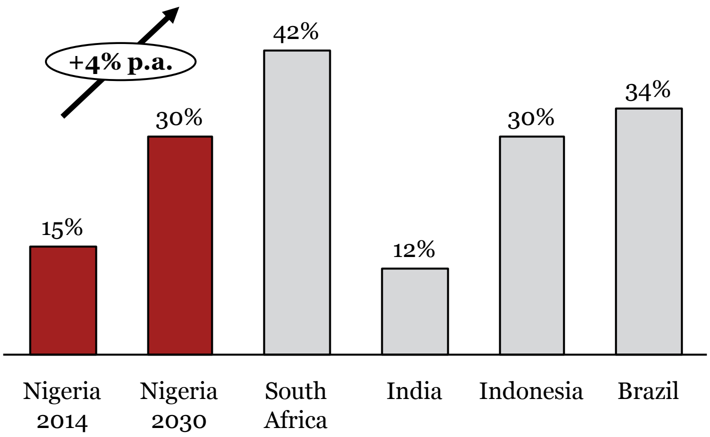
This assessment is supported by interviews with expert and businesses. We understand that as services become increasingly commercially viable, they are more likely to be provided through FDI than through exports.

Figure 29: Share of Imports as a % of Nigerian GDP
(2014, % share of total)



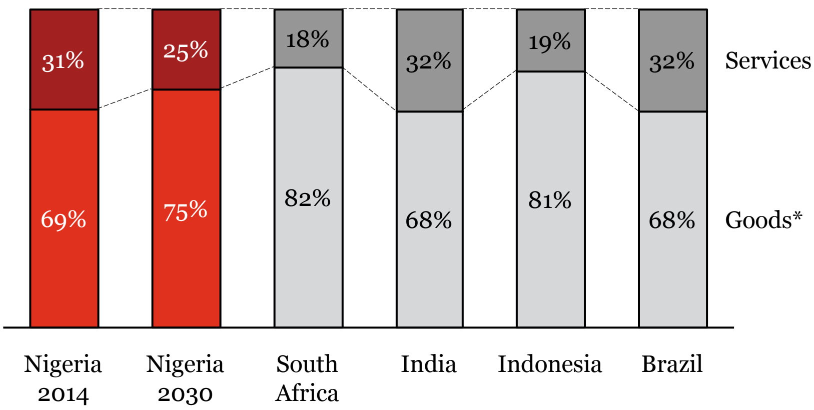
Sources: PwC analysis, World Bank

Figure 30: Share of FDI stock as a % of Nigerian GDP
(2014, % share of total)



Sources: PwC analysis, UNCTAD

Figure 31: Nigerian imports composition split between non-oil goods and services
(2014, % share of total)



*Sources: PwC analysis, UNCTAD * Excludes oil and gas*

Appendix C: Worked example of the 'Unreformed and Open' scenario of the Nigerian economy

Fourthly, UK goods made up 4% of Nigerian imports and global share of services exports in 2014

From the possible sensitivities for UK share of Nigerians imports, in this scenario we assume that the UK will maintain its current share of goods imports into Nigeria at around 3.7% through the period to 2030 (see Figure 32).

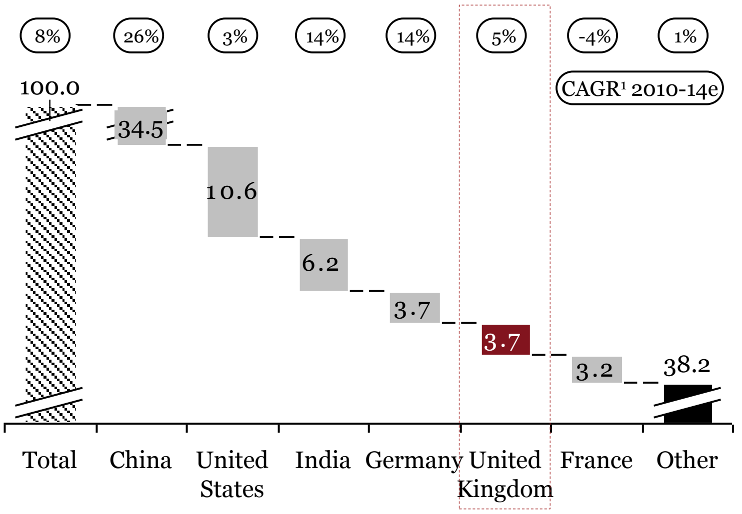
Due to a lack of data on service exports into Nigeria by country of origin, we assume that service exports from the UK into Nigeria are proportionate to the rest of the world, at 4.5% (see Figure 33). For our baseline estimate, we assume that this will be sustained in the period to 2030.

With regards to FDI stock data, the UK currently accounts for 2.8% of total FDI stock in Nigeria. Since 2005 its share has fallen from 6.5%. For the above illustrations we assumed that the share will stay at 2.8% to 2030.

In practice, the UK's share in goods and services as well as FDI could deviate from our baseline assumptions depending on, among other things, the UK government's actions to influence the competitive position of the UK's exports in the world and its specific focus on Nigeria.

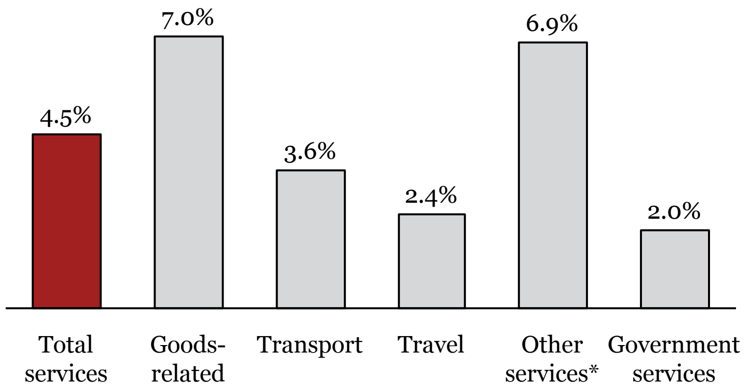
In section 4, we develop four scenarios based on the extent of reform achieved in Nigeria and its openness to foreign trade. We also provide a range of sensitivities around the UK share of imports into Nigeria.

Figure 32: Share of Nigerian goods* imports by country (2014, % share of total, $53bn = 100%)



Sources: PwC analysis, UNCTAD
** Excludes oil and gas*

Figure 33: The UK's service exports share in global services imports (2014, % share of total)



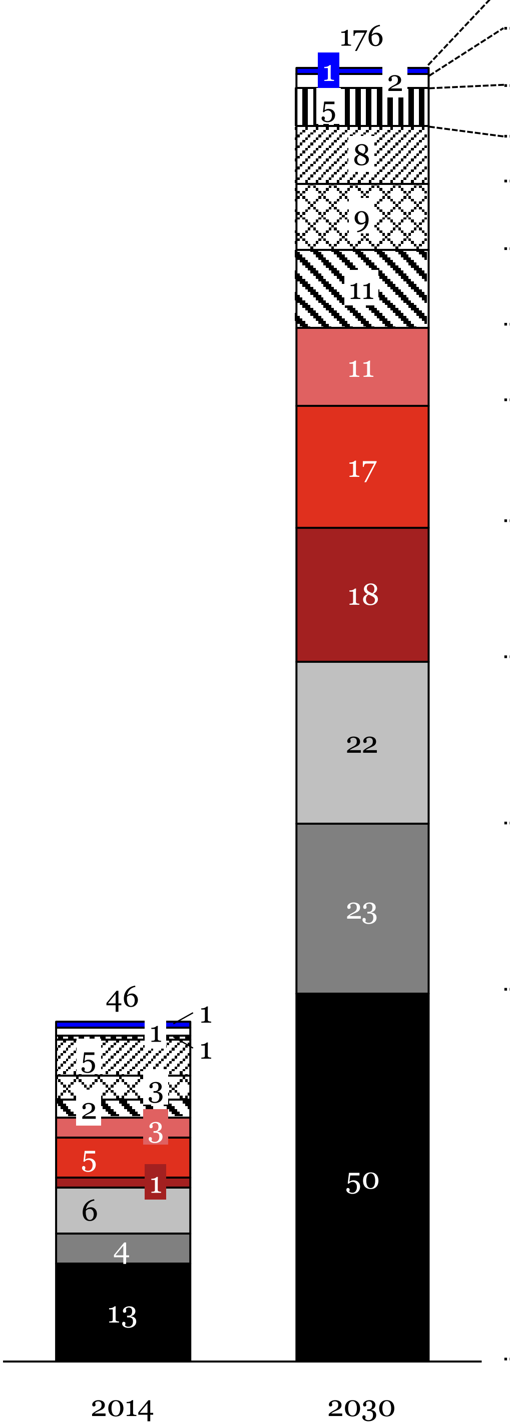
Sources: PwC analysis, ONS Pink Book
**Other services include business, ICT and financial services*

Appendix C: Import composition projections

Following the same assumptions as for the 'Unreformed and Open' scenario, we also provide an illustration of what a potential composition of Nigerian import market split by non-oil goods and services can be (see Figure 34). To derive the illustrative size of non-oil imports, we assumed that the Nigerian composition will converge towards similar levels to the average of our benchmark countries (see Figure 10 and 11) and applied expert judgement on the exact convergence.

Figure 34: Indicative non-oil and gas import composition in Nigeria under the 'restrictive, open' scenario

(£ bn, 2014 prices, Compounded annual growth rate = CAGR %)



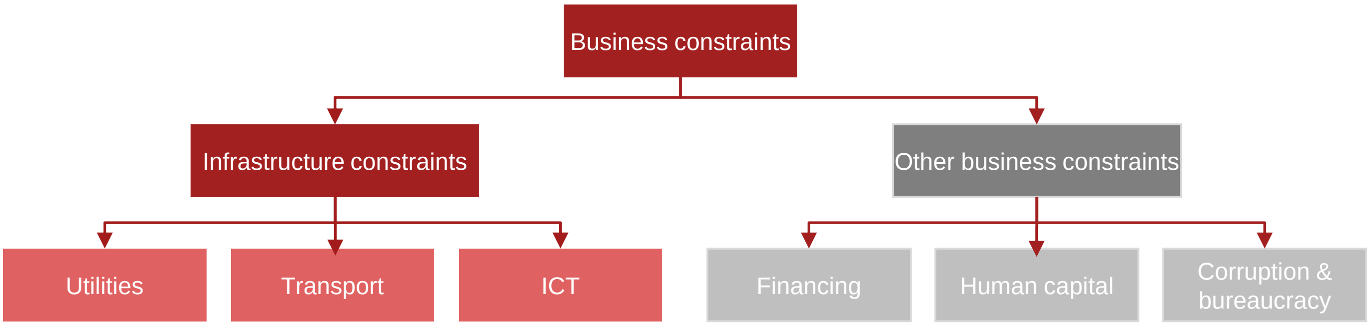
Goods and Services Import sectors (SITC, SITS level 1)	*CAGR 2005-2014*	*CAGR 2014-2030*
FS	53.7%	0.3%
ICT	19.4%	5.0%
Other Services (includes IP)	26.2%	14.5%
Food and live animals	10.6%	2.9%
Travel	41.0%	6.7%
Other manufactured articles	16.2%	9.9%
Other business services	6.0%	8.3%
Transport	13.4%	7.4%
Other Goods	15.4%	16.9%
Manufactured goods	10.7%	8.3%
Chemicals	11.1%	11.4%
Machinery and transport equipment	11.5%	8.6%

Sources: PwC calculations based on UNCTAD data for import composition across our benchmark countries; IP = Intellectual property

Appendix D: Business constraints – infrastructure (1/2)

This section provides further details to the business constraints section 3 of the main report. For each of the areas of business constraints we provide an international comparison of the scale of the constraint (apart of corruption and bureaucracy that has its own focus page in the main report).

Figure 35: Categorising business constraints in Nigeria



Utilities
Power supply, water facilities and their reliability are necessary to conduct business cost-effectively. Nigerian businesses face both a lack of consistent electricity supply and the high cost of generators which is necessitated by this.

- Nigerian businesses can anticipate power outages four times more costly and five times more regularly than their Indian and Kenyan counterparts respectively.

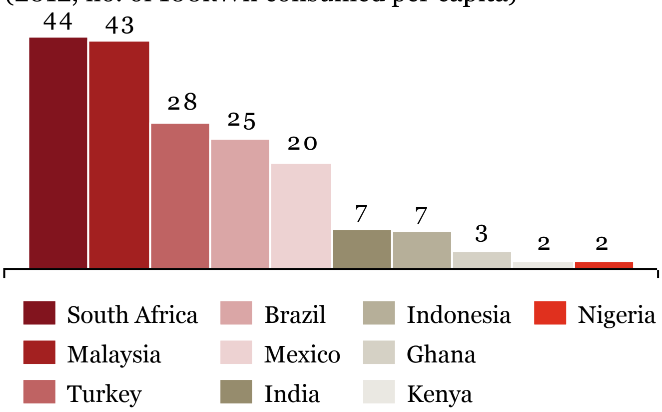
- Nigerian utilities suffer from chronic under investment. In 2015 the national electricity regulator attempted to raise minimum grid prices in order to encourage investment. This was met with outrage from manufacturers and after much lobbying a new minimum of $0.10 p/kWh was set, half the price originally proposed.

- According to Anjeed Innova Group, Nigeria suffers from transmission losses of up to 40% (in the North) due to a combination of the lack of investment, maintenance and vandalism/pilferage.

"No single cause can be identified to explain Nigeria's poor economic performance more than the power situation"

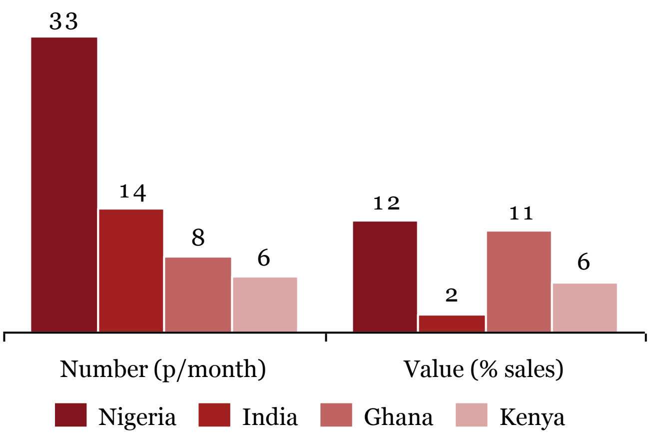
- President Buhari

Figure 36: Electricity consumption per capita
(2012, no. of 100kWh consumed per capita)



Source: PwC analysis, World Bank World Development Indicators

Figure 37: Monthly number and cost of power outages
(2013/14, no. and %, average number of outages p/month and % of sales lost due to outages)



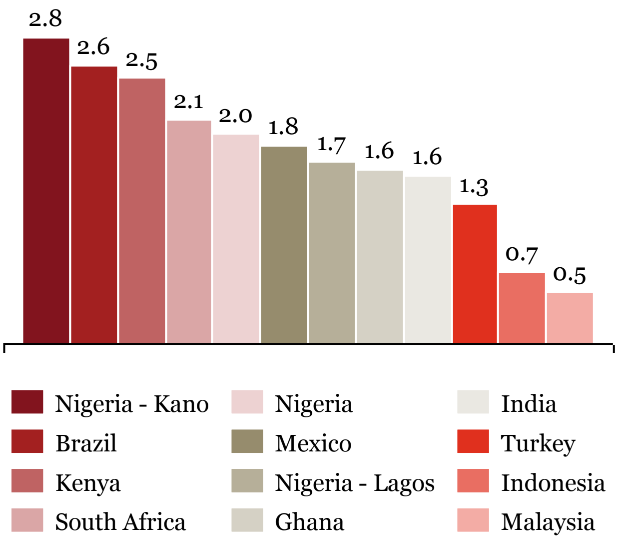
Source: PwC analysis, World Bank World Development Indicators

Appendix D: Business constraints – infrastructure (2/2)

Transport
Nigeria is relatively difficult and costly for transporting goods in. The World Bank's performance indicator for transport ranked Nigeria as worst out of our eight benchmark countries. Once goods are imported, low road and rail densities in Nigeria contribute more transport constraint.

- Kano is one of the world's most expensive cities to import to with an average cost of $2,845 per container.
- It takes almost 5 times as many hours (173 vs 36) to comply with import documentation requirements in Nigeria compared to South Africa.
- Transport constraints are a result of both poor physical infrastructure and corruption/bureaucracy. A combination of under investment and illegal activity from officials drive up transportation costs.

Figure 38: Cost to import one standard sized container
(2014, US$ '000, deflated cost to import one standard sized container)



Source: PwC analysis, World Bank Ease of Doing Business 2016

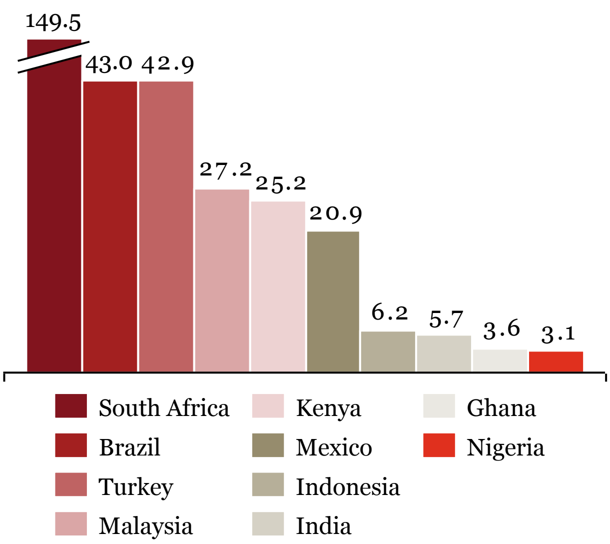
"You have to be financially prepared to carry higher inventories on imported items, plus the exchange risk in the current environment."

- UK Consumer goods company

ICT (Information and Communication Technology)
Nigeria has a relatively low uptake of technology. While mobile phones are commonplace in many countries, Nigeria was second lowest amongst our benchmark countries for the number of cellular subscriptions per capita[3]. (India 74% , Nigeria 78%, Ghana 115%, South Africa 150%).

- Nigeria has the slowest internet bandwidth amongst our benchmark countries.
- At 3.1 kb/s per user, Nigeria's average bandwidth is over 8 times smaller than Kenya's.
- Nigeria's ICT issues are exacerbated by an unreliable power supply. Business are reluctant to invest where there products and services would be intermittent.
- There is limited funding available locally to finance the necessary ICT infrastructure (e.g. copper wiring), however as wireless technologies develop they offer Nigeria an opportunity to leapfrog and bridge their technology gap.

Figure 39: Average internet speeds
(2015, kb/s per user, internet bandwidth per user)



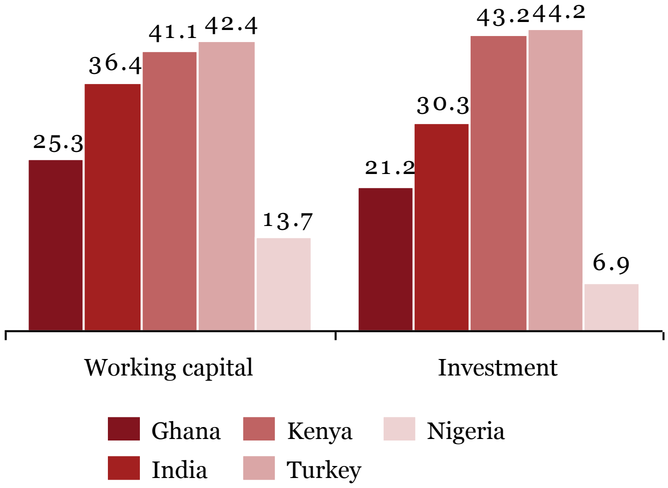
Source: PwC analysis, World Economic Forum Global Competitiveness Index 2015-2016,

Appendix D: Business constraints – other (1/2)

Access to finance
The Nigerian government launched the *Financial System Strategy 2020* as a long-term plan to strengthen the financial sector. In the meantime, 75% of Nigerian businesses would like to obtain a loan yet 60% don't know how to contact a bank loan officer according to the World Bank.

- Kenyan businesses access finance for working capital over three times as often, and for investment over six times, as Nigerian firms.
- Access to foreign currency has been restricted by the central bank of Nigeria with unofficial 'street' exchange rate to the US dollar being up to 60% lower (~320 Naira) than the official rate of 200 Naira to US Dollar in February 2016.
- Our interviewees explained that the low use of finance was due to both; cripplingly high level of interest and excessive levels of collateral.
- A private individual can expect to pay two years upfront when renting a property, at rates as high as 10% and 20% for US dollars and Naira, respectively.

Figure 40: Percentage of firms using finance
(2013/14, %, percentage of firms using banks to finance working capital or investment)



Source: PwC analysis, World Bank World Development Indicators

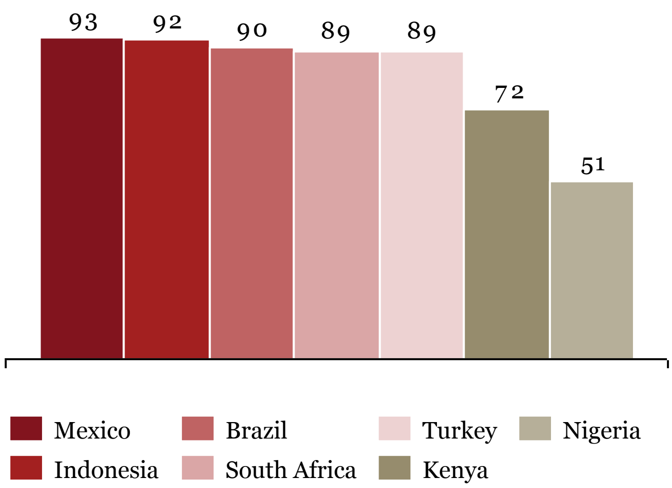
"Banks in Nigeria look for an incredible amount of security, and even then charge extremely high rates."

- UK executive

Human capital
In order for developing countries to continue developing, they need to produce increasingly higher value products and have the skilled labour required to produce them.

- With an average literacy rate of 51% Nigeria was lowest of our benchmark countries, by over 20 percentage points.
- The lack of highly skilled human capital may be a result of low school attendance rates – Nigerian primary school enrolment of 64% is lower than Ghana (76%), Kenya (82%) and all our benchmark countries. The underlying issues of children in poverty who need to work needs to be addressed.

Figure 41: Adult literacy rate
(2007/08, %, both sexes 15+ years old, average value of 2007 & 2008)



Source: PwC analysis, World Bank World Development Indicators

Appendix E: UK trade specialism

UK exporters have a competitive advantage in relatively advanced goods and services

BIS (2012) identifies the following key sectors of UK exports that have a comparative advantage in the future:

- **Advanced manufacturing:** Aerospace components and precision manufacturing
- **UK Automotive Industry:** Vehicles, combustion engines and non-fossil fuel alternatives
- **Knowledge-intensive traded services:** Cyber security and telecoms
- **Enabling sectors**: Green energy, low carbon construction and nuclear power
- **Life sciences:** Pharmaceutical products

BIS based their analysis on patterns in R&D spend, venture capital expenditures and UK companies' reputation. This is reflected in the UK's export composition (see Figure 42 and 43); where such exports from advanced manufacturing, knowledge-intensive traded services and pharmaceutical goods make up a large proportion of the UK's exports.

Reputation for world class goods exports

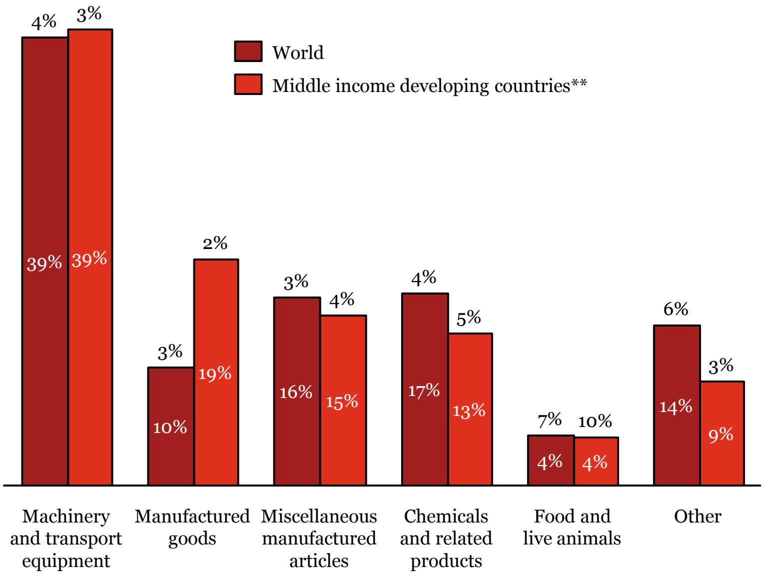
The UK has a comparative advantage in exporting high value manufactured goods such as machinery and transport equipment, which make up £4 out of every £10 of UK export values. Examples of world renowned UK companies in this space are Unilever and PZ Cussons. Consumer products such as cleaning goods account for majority of the chemical and related products that make up 17% of UK exports.

The UK service export strength reaches beyond FS

40% of total UK exports come from services. UK has a particular strength in financial, insurance services and business services accounting for almost a third of the £ 220bn service exports and 26%, respectively (see Figure 42). The UK's world renowned universities host thousands of foreign students on both their UK and foreign campuses every year and the UK is a desired travel destination for many tourists.

Figure 42: Share and growth of UK goods* export by type

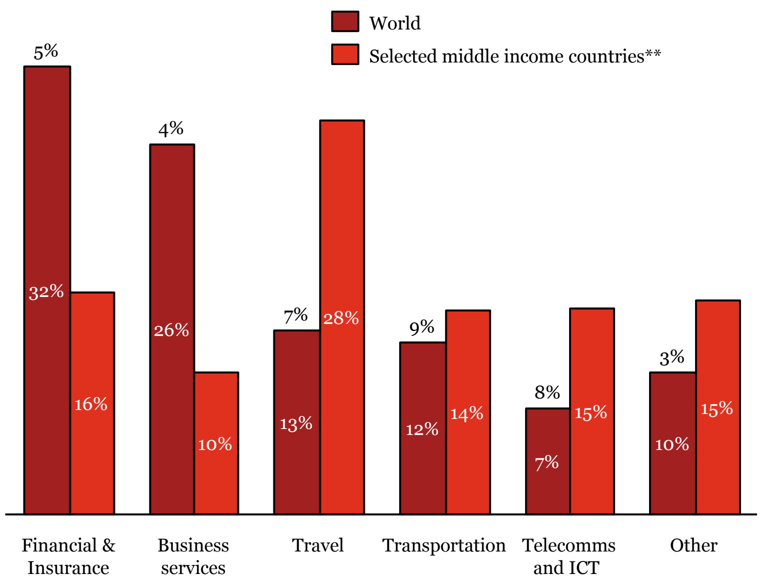
(2014, %, $456bn = 100% for world and $ 17bn for middle income countries, % above bars refers to CAGR[1] 2010-2014)



Sources: PwC analysis and UNCTAD
*** Average 2011-2013 GDP per capita between $1 142 and $5 141.*

Figure 43: Share and growth of UK services export by type

(2014, %, $ 362bn = 100% for world and $ 9bn for selected benchmarks, % above bars refers to CAGR[1] 2010-2014)



Sources: PwC analysis and ONS Pink Book 2015
*** Mexico, India, Malaysia, South Africa – CAGR not available*

Appendix E: UK investment specialism

UK FDI destination and composition follows its exports

The value of UK outward FDI reached £1trn in 2014. The two biggest destinations for UK foreign direct investments (FDI) are Europe and the Americas (see Figure 44).

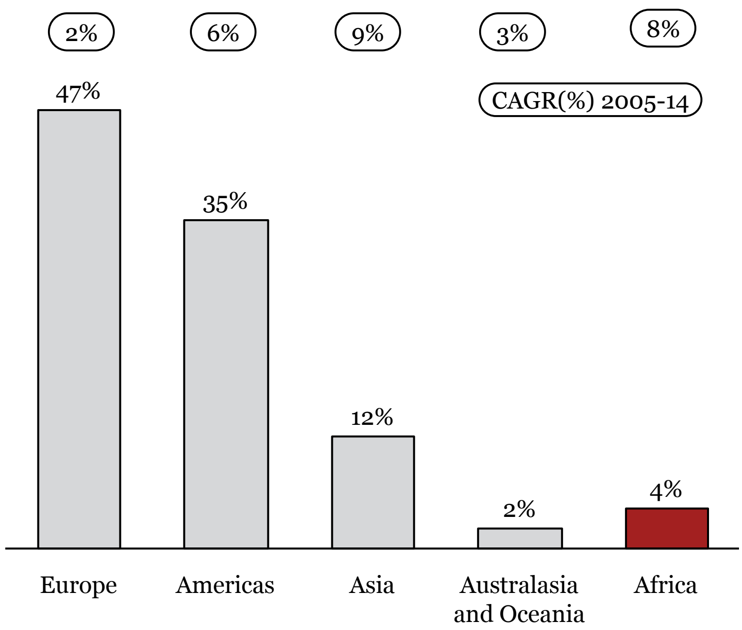
The UK's FDI footprint in developing economies is less significant but growing much faster. UK FDI to Africa accounted for 4% of total FDI in 2014 but has been the 2nd fastest growing region at 8% a year since 2005.

Within Africa, South Africa is the biggest FDI market for UK companies, making up 30% of the UK's FDI stock on the continent.

Nigeria makes up only 3.5% of the UK's FDI stock to Africa and has been growing at 5% a year since 2005 compared to the FDI into the whole continent growing at 8% reflecting some of the difficulties related to local business environment.

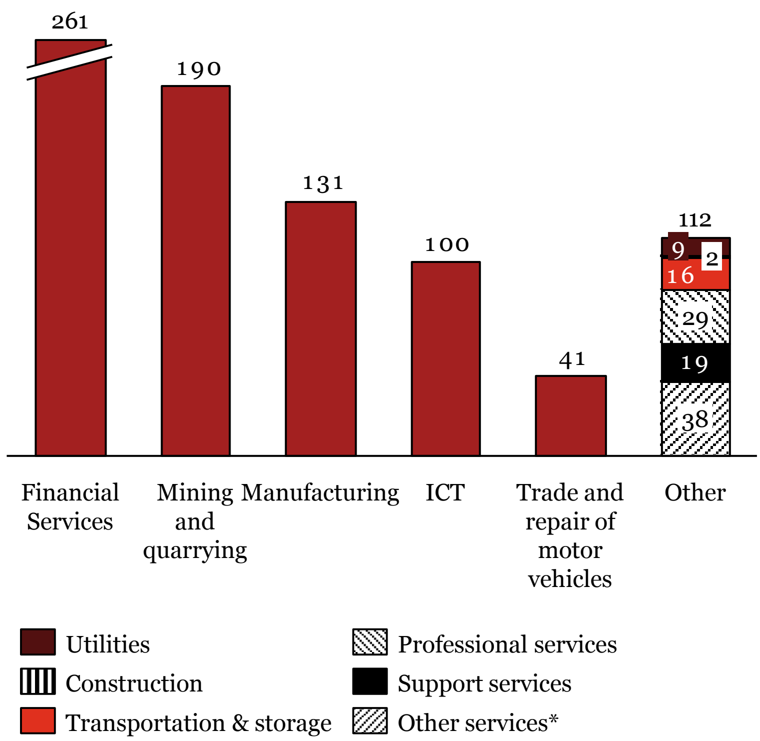
Similarly to the trade patterns, financial services lead the FDI stock by industry with UK domiciled banks having a number of foreign subsidiaries and investments (see Figure 45). Mining and quarrying follows as a second biggest sector reflecting the strength of companies in the sector such as BP, Shell and Anglo American to name a few.

Figure 44: UK Outward FDI stock by region (2014, %, £1trn = 100%)



Sources: PwC analysis, ONS

Figure 45: UK Outward FDI stock by sector of economic activity (2014, £ bn)



Sources: PwC analysis and ONS
** Other includes: Construction, Personal Services, Health Services and Education*

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160129-080349-SC-UK