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Africa Current Issues

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Interest in investing in Africa has waxed and waned over the years, in response to the global economic and political mood. Investor interest is beginning to regain momentum as global growth begins to slow, trade tensions amongst developed markets escalate, and the search for yield becomes ever more feverish in our low interest rate world.

Rising tensions in the Gulf hastened the region's push to forge strategic alliances in Africa, which could well illuminate a prosperous new period for those African countries able and willing to cement mutually beneficial ties. Much is at stake for all parties: Africa's strategic geographic positioning along critical oil trade routes offers Gulf states an incentive to develop alliances, while African states could benefit from significant (and much needed) investment inflows and infrastructure development.

The New Kid on the African bloc

When discussing sources of foreign direct investment into Africa, China comes to mind. The country's FDI stock on the African continent is estimated to hover around \$40bn, one-third lower than before the global financial crisis, when the United Nations Conference on Trade and Development's (UNCTAD) 2018 World Investment Report estimated it at \$60bn¹.

The United States remains the largest investor in Africa, at approximately \$60bn annually, followed closely by the United Kingdom (UK) at \$55bn. China is in fourth place, and will face rising competition from the UK, which aims to be the largest G7 investor in Africa by 2022.

These three economic powerhouses are not alone in seeking to capitalise on opportunities presented by Africa. Russia, Japan and India are all actively pursuing an investment path to the continent. Russia's strategic thrust continues to centre around energy (nuclear, electricity, gas and oil), the sale of arms and ammunitions to African militaries, and extracting minerals². The Japanese committed \$30bn in investment to African infrastructure, automotive manufacturing and health care in 2016³, while India is trying to carve out a niche in the education, telecommunications and technology space⁴. The rising pace of investment interest from foreign nations is a clear indicator of Africa's increasing strategic economic and geopolitical relevance.

This investment potential has not gone unnoticed in the Middle East, where Gulf States quietly further their interests on the emerging continent. Gulf States are loosely grouped along three axes: the most prominent is the "Arab axis", composed of Saudi Arabia, The United Arab Emirates and Bahrain. The Qatar-Turkey axis is the second most active of the Gulf investors in Africa, followed by the Iran axis.

There are several theories as to the motivation for the Gulf states to become active investors on the continent, from developing ties that will ensure continued food security in the Arab States, to diversifying growth from oil revenues, and growing their stature and influence on a broader geographic scale.

The case for investing in Africa

a) Changing global energy dynamics

Concerns around slowing global growth has seen the oil price, an important revenue generator for the Gulf states, languish at \$60 per barrel despite production cutbacks. This threat to their fiscal frameworks jeopardises economic growth at a time when many of these states are reforming and opening up new areas of their economies to foreign investment and partial privatisation of state assets.

More importantly, energy is going renewable, cars are going electric, and the global shift from fossil fuels to cleaner energy poses an existential threat to the survival of this oil rich region. This is a pivotal

moment for the Gulf States to plan for the longer term. Only if they act wisely can they use the fortunes built on oil revenue to build bridges to a sustainable future.

b) A tense neighbourhood – fallouts, frenemies and friends

Alliances among the Gulf States are in some cases weakening, while tensions between the Arab and Qatar / Turkey axes are rapidly escalating. The relationship between the Arab axis and Qatar all but collapsed over the past two years amidst accusations that the Qataris supported terrorism. This led Qatar to turn to Iran and Turkey to offset some of the embargoes facing them as a result of the fallout⁵. Diplomatic ties are increasingly acrimonious: Saudi Arabian ports were instructed to refuse arriving Qatari vessels, Saudi Arabian airspace was closed to Qatar Airways, and Qatari diplomats and residents were expelled from the Arab axis states.

More recently, rising tensions in the Strait of Hormuz and the threat it poses to oil routes have further complicated the relationship, with the United States and the United Kingdom drawn into the affray. These tensions have pushed Qatar further into the arms of Iran and Turkey, deepening the rifts among the states. These diplomatic strains drive the competition among all three camps to accelerate new diplomatic ties, in a bid to create allegiances to mitigate the impact of trade sanctions and extend their sphere of influence. The race to develop these new strategic alliances now extends to Africa, and the continent has much to gain from this race in terms of attracting funding, upgrading its infrastructure and securing longer-term geopolitical relevance.

c) Food security

African States are neither powerless nor passive recipients of check book diplomacy. They realize they can provide access to some of the world's fastest growing markets, and the recent signing of the African Continental Free Trade Area (AfCFTA) will raise their bargaining power to new levels. The Gulf States would be remiss to fail to consider the significant upside potential AfCFTA could provide for them, particularly in the area of food security.

The free movement of African-made goods around the continent opens a host of benefits for the Gulf States, who depend extensively (estimated as 80% to 90%) on the importation of food goods, given that their climates are unsuited to widespread agricultural production. The diplomatic impasse between Saudi Arabia and Qatar has forced the Qataris (who previously sourced 80% of its food requirements from Saudi Arabia) to reconfigure their agricultural sector, which is increasingly geared to expensive high technology hydroponic food production. It would be far cheaper and more efficient for the nation instead to import its food requirements, an option that could well become even less expensive with the establishment of AfCFTA⁶.

Much of Africa's agricultural sector operates at small scale, often at the subsistence level. Yet the region's different climates, its variety of agricultural output and the abundance of untapped land could, with the right investment partners, be a gamechanger for both the Gulf and the continent⁷. A region with almost no rainfall and scarcely any arable land, the Gulf states are fully aware of the importance of obtaining food resources to secure their future. Food security is but one example of the emerging opportunities for Arab states and African countries to partner in trade.

d) Having a say in strategic infrastructure

The prospect of greater trade among members of the regional blocs makes access to and perhaps control of African ports all the more critical for the Middle East. The UAE's DP Group, a world leader in port management and logistics, has concluded contracts worth hundreds of millions of dollars to help African countries develop their ports and serve the region's growing demand for trade with Africa. In 2018, \$1bn in cash was pledged by the UAE to Ethiopia. Their assistance helped the country's Central Bank relieve its currency crisis, with the balance going toward aid and investment projects⁸. The Gulf nation also agreed to accept 50,000 Ethiopian workers to help reduce the unemployment rate. Earlier,

the Investment Corporation of Dubai invested \$300m into Dangote Cement in 2014, a move aimed at feeding the region's ever growing appetite for infrastructure development.

Rather than viewing such expenditures as charity, the UAE recognises the need to invest in fostering stronger ties with African states, to ensure food and trade security, and to develop investment and finance opportunities. Islamic financial instruments are increasingly popular funding vehicles for African countries. This trend to seek new and creative approaches to fundraising aligned to their respective values and cultures began with Islamic governments and companies on the eastern coast of the continent and further north, but soon spread to West and Southern Africa. South Africa's first sovereign sukuk (issuance of sharia-compliant bonds) of \$500m was oversubscribed, demonstrating both demand for Islamic financial instruments and the willingness of investors to increase their exposure in Africa. Beyond these monetary investments, greater strategic moves are at play.

Africa, positioned at the centre of the Gulf's access to the East and West, offers a strategic geographic location from which to invest in ports, rail and road infrastructure and military bases. Saudi Arabia is developing a military base in Djibouti, a small coastal country on the Horn of Africa near the Suez Canal, the most direct route for sea trade between the Indian Ocean and the Mediterranean Sea and beyond to the Atlantic. The United States, China, France, Italy and Japan already have military bases in the region. In return, and with little other income, Djibouti receives cash, infrastructure and investment⁹. Saudi Arabia reportedly considered establishing a military base on the west African coast, highlighting the continent's strategic location to further Gulf interests.

Walking the political tightrope

Africa is far above its role as a pure commodity play. The continent is recognised for its growth potential, investment opportunities and the strategic opportunities it presents in terms of trade, military prowess and finance. The demonstration of commitments to good governance, peace and the respect of property rights is increasingly visible across African states, particularly those seeking to take advantage of enormous swathes of cash liquidity looking for a return on capital greater than that offered in developed markets.

To mitigate perceptions of the inherent risk of investments in Africa, the countries of the continent must demonstrate adherence to the rule of law, willingness to stamp out corruption, and commitment to structural reform. Also, they must carefully tread a path to political and economic neutrality relative to the increasing polarization of the Gulf states into competing axes. African countries risk being trapped in the crossfire of Gulf politics, if foreign direct investment and trade become contingent on taking sides, politically and economically, with only one axis.

One case of a country being caught up in the melee: the Saudi press reported that Mauritius had cut diplomatic ties with Qatar and pledged support to the Saudis. Chad, the Comoros, Guinea, Mauritania and Niger were then dragged into the mix, while Sudan and Somalia attempted to remain impartial for fear of compromising investment opportunities. Subsequently, the Mauritian Ministry of Foreign Affairs issued a statement denying that it had severed ties with Qatar¹⁰, for fear of compromising finance, tourism and labour relations on which the island nation depends.

The threat of a breakdown in trade and investment relations is a powerful lever Gulf States can threaten to pull. It will become increasingly difficult for African States, desperate for fixed investment and new trade channels, to remain on the side-lines. This leverage gives the Gulf states political clout in the region.

An example is last year's signing of a peace accord between Eritrean and Ethiopian leaders. The deal, known as the "Jeddah Peace Agreement" became a platform for Gulf states to assert their presence and influence in Africa. It was, however, also a testament to the recognition by warring regions that prosperity for the people of Eritrea and Ethiopia lies in collaboration, rather than conflict. The question becomes how these fragile, manufactured peace deals can be enforced, particularly when there is

pushback, not from African governments, but from rebel forces not beholden to Gulf state investors or their governments. Most recent peace agreements have held, but stability in many regions remains tenuous, and will remain a key risk for Middle East Investors, and for African countries dependent on their investment. It is also understandable that many African leaders tend to view Gulf state investment intentions in the region with scepticism, and question whether these investments will ultimately threaten their country's sovereignty and independence.

The future for greater Africa / Gulf relations, investment, trade and cooperation looks bright. Yet there are many delicate nuances and sensitivities that both sides must navigate to arrive at this bright future. Only if political differences in both regions can be mended or muted can the promising inter-regional relationship be mutually beneficial, both for the development and upliftment of Africa, but also for the economic and political ambitions of the Gulf States. There is much to gain in terms of the long-term prosperity of both regions, and only those states with the vision to realise this opportunity, stick to the diplomatic script, and demonstrate discipline in their internal governance will reap the full benefits the relationship has to offer.

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