Economic Drivers of the GCC Investments in the Horn of Africa Region

Héla Miniaoui

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A Glimpse on the Horn of Africa

The Horn of Africa, a region of eastern Africa, comprises six countries, Djibouti, Eritrea, Ethiopia, Somalia, South Sudan, and Sudan. Its relationships, predominantly economic and political, with the Gulf Cooperation Council (GCC) countries date back to centuries and continue to grow due to various areas of mutual benefits.

The presence of the GCC countries in the Horn of Africa is in part related to the improved macroeconomic outlook as well as relative political stability in the African region. In fact, according to the African Development Bank (AfDB)'s 2019 Africa Outlook Report, the outlook for the continent is good, given that the GDP growth was 3.5% in 2018, and is expected to rise to 4% in 2019 and 4.1% in 2020. More specifically, as indicated in Table 1, some Horn of Africa countries, such as Ethiopia, have achieved high economic growth rates.

Table1. Selected Economic Indicators for the Horn African Countries, 2018

	GDP Growth%	Population	HDI	Inflation, Consumer Prices (Annual %)	External debt stocks (% of GNI)	Control of Corruption Estimate	Political Stability and Absence of Violence/Terrorism
Djibouti	6	958,920	0.476	0.15	157.6	-0.72	-0.13
Eritrea	8.68 (2011)	n.a	0.44	n.a	40.83 (2011)	-1.32	-0.61
Ethiopia	6.81	109,224,559	0.463	9.85 (2017)	33.44	-0.49	-1.34
Somalia	n.a	15,008,154	n.a	n.a	39.35	-1.80	-2.22
South Sudan	-11.18 (2016)	10,975,920	0.388	187.85 (2017)	n.a	-1.73	-2.44
Sudan	-2.32	41,801,533	0.502	16.91 (2015)	56.91	-1.43	-1.84

Source: World Development Indicators, United Nations

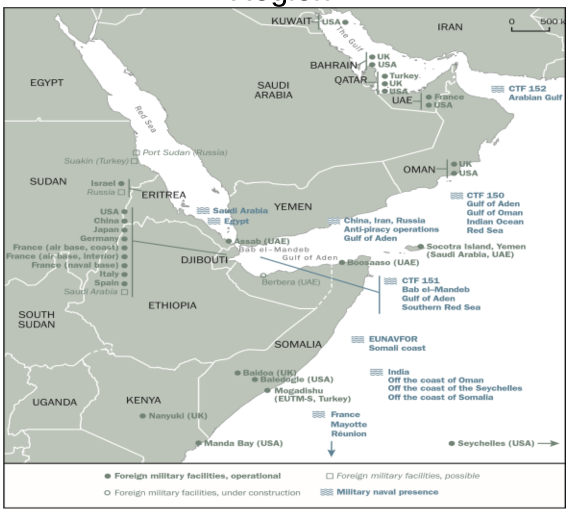
Furthermore, huge infrastructure investments have been established in the Horn region, e.g., the Lamu Port-South Sudan-Ethiopia Transport (LAPSSET), which is a transport and infrastructure project expected to facilitate trade, foster regional economic integration, and inter-connectivity between African countries. Moreover, the opening Addis Ababa - Djibouti railway, a first major step towards improved regional integration, aims to provide landlocked Ethiopia with improved railroad access to the sea and is anticipated to have a noticeable effect on the country's socio-economic development.

In addition, the coming into force of the African Continental Free Trade Area (AfCFTA) agreement, signed on May 30, 2019, by 44 countries including four countries from the Horn of Africa (Djibouti, Somalia, Sudan and South Sudan), creates the largest free-trading area in the world as well as a borderless continent and aspires to grow local businesses, boost intra-African trade, impel industrialization and generate more employment opportunities.

Despite certain significant achievements on the economic level, the Horn of Africa region is still facing quintessential challenges ranging from widespread poverty, high debt default risk as with Ethiopia, high and rising corruption, weak rule of law, to security threats, specifically political instability and insecurity as in the case of South Sudan, Sudan, and Somalia. (Refer to Tabe 1 above).

On the political side, the Horn region has experienced improved political governance, particularly in Sudan after President Omar Al Bashir and Ethiopia with the inauguration of Prime Minister Abiy Ahmed (though internal conflicts remain). Moreover, according to ReliefWeb, [1] a digital service of the UN that tracks conflict trends in Africa, the number of conflicts in Africa is decreasing due to positive democratic development. For instance, the number of *coups d'état* in Africa has decreased in the last 15 years due to a democratic dividend.

Figure 1. Distribution of Foreign Military Forces in the Horn of Africa Region



Source: The Foreign Military Presence in the Horn of Africa Region, SIPRI, 2019

Relative political stability and strategic location will sustain the Horn of Africa region's attractiveness for the GCC countries' investments that will enhance their augmented economic, security as well as diplomatic influence in the region. Indeed, the United Arab Emirates (UAE) and Saudi Arabia have visibly increased their military presence in the region, especially in order to reinforce their military operations in the civil war in Yemen, as shown in the map below. Considered as a destination for foreign military bases, the Horn of Africa will continue to increase their earning from land rents from the GCC countries in addition from other actors.

The GCC Economic Motives for Investing in the Horn of Africa

After food prices spiked in 2008, the Gulf countries rushed to buy farmland in Sudan and Ethiopia as a hedge against food insecurity. In fact, the GCC states have advanced their strategies of economic diversification and reduced reliance on natural resources of oil and gas by investing in East African markets, particularly in agriculture, oil & gas, real estate & renting, banking, manufacturing, construction, logistics & shipping, consulting & business services, telecommunications, hospitality & tourism, medical care & social work, trading, ports, education, as well as mining.

Agriculture, considered as a strategic asset, is the most attracting sector for GCC countries. Indeed, with regard to the devastating impact of the food crisis in 2008 and given that most of the GCC countries rely exclusively on food imports, as much as 90% of their food is imported, the governments of these countries have imposed a set of measures in order to secure their food supply and have adopted different strategies to feed their population by heavily investing in countries stretching along the east African coast from Sudan to Somalia.

[1] ReliefWeb, www.reliefweb.int.

Concerns about food and water security, combined with a growing population, have compelled the GCC countries to search for new alternatives in the Horn region, through concluding long-term agreements to buying up or leasing productive land and in order to secure regular supplies.

The Gulf states have been a key source of Foreign Direct Investments (FDIs) in these countries. In fact, the total value of the investments for the four GCC countries in the Horn of Africa in 2017 was USD 13 billion and splits between four GCC countries as follows: Kuwait USD 2.4 billion, Qatar USD 0.6 billion, Saudi Arabia USD 4.9 billion and the UAE USD 5.1 billion.[2]

Overall, Saudi Arabian and Emirati actors have made the most investments, respectively, 252 and 123 projects, followed by Kuwait and Qatar, implementing in the Horn region respectively 31 and 18 projects. From the Horn of Africa, Ethiopia and Sudan have received the most in terms of investments, respectively 365 and 52 projects, followed by South Sudan, Somalia, and Djibouti, receiving respectively 6, 6, and 5 projects.[3]

The GCC countries have sought to strengthen their presence in the Horn of Africa by developing their economic diversification strategies and decreasing reliance on the energy sector and create viable sources of revenue by investing in East African markets, which became urgent after the abrupt decline in the prices of oil in summer 2014. Considered as potent economic tools, those investments help in achieving the GCC nations' economic diversification considered the cornerstone of their national visions.

Conclusion

By way of conclusion, as economic and political interests are entwined, it is worth emphasizing that as paramount as these economic incentives for the enlarged interest of the GCC countries in the Horn of Africa are, they continue to be intensely related to the geopolitical interests of the GCC states. The only question that remains is whether there is adequate goodwill from the GCC political class, economic development partners, and local communities, to look at the Horn of Africa as a long term economic partner as well as a promising investment destination.

About the author:

Hela Miniaoui is an Associate Professor of Economics at the Gulf Studies Program, Qatar University.

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[2] Conflict Research Unit, Report, April, 2018. https://www.clingendael.org.

[3] idem.