

# Nurturing Trade and investment in the Horn of Africa: The Role of Gulf Cooperation Council and other countries

*Doctor Laeed Zaghلامي\**

*Faculty of Information and Communication,*

*Algiers University and Media Analyst*

## Executive Summary

The geo-strategic position of the Horn of Africa has been a hot spot of economic and political regional and international challenges manifesting in the vulnerable, insecure nature that has made the region dependent on external military presence and economic aid to sustain and achieve its peace and security objectives. Currently, at stake and under a multitude of pressures and constraints, the region faces a series of challenges that make its future uncertain. In spite of this, Gulf States have advanced a multiple presence - politically, economically and from a security perspective. Furthermore, by virtue of geopolitical position, regional security concerns, political interests, shared cultural values and common history, Gulf States have considered the Horn of Africa as their second security belt. Thus, on economic ground, they have initiated a trade and investment policy in the region in order to expand their political and economic interests and preserve their security concerns.

**Keys words:** Gulf States, Horn of Africa, Gulf Cooperation Council, trade and investment, peace and security.

## Introduction

### The geo-political and geo-economic interests of GCC

Gulf States have launched a trade and investment policy in the Horn of Africa, regardless of their internal crisis which may

have had in one way or the other, an impact on the degree and nature of their economic and financial involvement. Although it is early to assess this policy, their long-lasting commitment will for sure, yield some palpable results in terms of peace and security, as long as the country recipients are seriously undertaking practical steps to bring about political and economic changes. Horn of Africa countries must advocate more democracy, transparency and essentially resolve their internal rivalries and boundary border disputes. More practically, they ought to comply with principles of good governance, the rule law and order, freedom of the press and alternative in power. The principle of ‘I help you to help yourself’ should be also the leitmotiv in any policy, otherwise, Gulf states investment’ policy will not be economically productive, neither will it bring about substantial changes for ordinary citizens who are striving for survival. Gulf States have advocated for multiple presence in both political, economic and security forms.

Besides, the military support they are providing, they equally initiated a trade and investment policy. In this paper, we will see how this policy has yielded tangible results and subsequently contributed to strengthening political stability, economic growth and peace and security in the Horn of Africa. Geo-political, economic and social facts of Horn of Africa are indicators to have an objective approach to this topic. Countries in the Horn of Africa are still facing a political vulnerability due to the absence of democratic governance, social justice, freedom of the press and lack of law and order. Poverty, diseases, drugs, piracy among other crimes are some of the dreadful facts that characterizes society. The economy is neither in good shape; it suffers from a lack of raw materials, skills, efficiency and a growing phenomenon of corruption<sup>(1)</sup>. With regard to peace and security dimension, the Horn of Africa remains unfortunately the typical example of an unsecured and unstable region, notably with the presence of so many foreign military forces that makes it complicated. For the purposes of this paper, the geographic grounds underscored, the Horn of Africa is a peninsula of North Eastern Africa, comprising of Somalia, Djibouti, Eritrea and

parts of Ethiopia. It has a 4,000 km coastline that runs from Sudan in the North to Kenya in the South and lies astride vital Indian Ocean trade routes. Ethiopia is also seen as a major player; politically, economically and security wise in the Horn of Africa region as it is on relatively good terms with all of its other neighbours. Horn region covers also the Bab al-Mandab straits, the Red Sea and the Indian Ocean. Yemen, which is just 30 km from Eritrea and Djibouti, is not included, although it is also another source of security concerns and worries, in particular, its Aden port is closer to Mogadishu and Hargeisa. This means that Yemen's location is strategic for Gulf States, mainly Saudi Arabia as it represented its soft underbelly space, but also the importance of the straits for both Gulf States and world trade<sup>(2)</sup>.

## Security Matters

The growing interest in the Horn of Africa includes a number of competing international actors with different agendas that is certainly aggravated by the presence of failed states<sup>(3)</sup>. The results are that geopolitics of the region, security issues, religious radicalisation, resource competition and food shortages have become sources of concern, worry and interests. In spite of that, Gulf States seize the opportunity for business investments in a number of domains. According to a think tank, Clingendael database on commercial investments, Saudi Arabia and UAE are the main investors; from 2000 to 2017, 434 investments were made in 13-district sectors worth of 13 billion US dollars. Although agriculture and manufacturing are the main strategic assets, Gulf States have rushed to buy farmlands in Sudan and Ethiopia as a hedge against food insecurity. Other assets for investment are construction, real estate and renting, consulting and business services, tourism, medical care and social care, banking, education, telecommunications, logistics and shipping, trading, ports, oil and gas and mining.

In summary, Ethiopia and Sudan appear to be the main recipients of the investment policy, making them the main players in this 'business adventure. Analysts describe their external policies as "quiet diplomacy".

However, it is worth recalling that Saudis have used oil and Islam as the main leverage since the 1960s, while foreign aid and personal networks were the basic policy tools of the Emirates. Although, both countries were characterized by low-profile initiatives, behind-the-scenes they launch negotiations with their regional partners aimed at promoting amicable relations and guaranteeing the peaceful settlement of disputes.

As mentioned above, Gulf states have expanded their diplomatic ties with sub-Saharan African states to bolster their growing economic and security interests, while also advancing their ambitions to play a more prominent role in international foreign policy. Mediating conflicts is also critical to increase their international prestige. Their perceived neutrality and ability to deploy substantial economic incentives to bolster peace agreements has afforded them some notable successes where others have failed<sup>(4)</sup>. The Gulf States desire is to enhance their international reputation as serious partners in the fight against extremism, a policy repeatedly advocated for by President Trump. Their security interventions in Africa have been motivated by objectives to protect economic interests, enhance their power projection capabilities, also to improve their international reputation. In addition to economic interests, Gulf States have also expanded their security presence. They are supporting anti-piracy efforts in waters off Somalia, enhanced their military projection capabilities by building their first overseas bases in the Horn of Africa<sup>(5)</sup>. The United Arab Emirates actually are likely to follow suit in the military, economic and diplomatic sphere. It has also increased its military cooperation with some African states and plays a more prominent role in international operations across the world.

The expansion of the Gulf States' security influence in Africa has been possible thanks to their ability to wield their growing economic power. Their security interventions have been principally motivated by threats emanating from the Horn of Africa. Piracy and terrorism as cited, were among the major threats that led to the upgrade of the African Horn's

importance in the Saudi and Emirati foreign policy agendas<sup>(6)</sup>. Seeing threats from Al-Qaeda offshoots across the Sahel to the Al-Shabaab movements in Somalia that had developed close ties with the Yemen-based Al-Qaeda in the Arabian Peninsula, Saudi Arabia, the UAE and other Gulf states recognized that across the Horn of Africa countries; hosts of violent and extremist groups were ranged against both their interests and the security of their nations<sup>(7)</sup>.

## **The Role of GCC in Trade and Investment**

Generally, the Gulf States are intervening more assertively in Sub-Saharan Africa to capitalize on economic opportunities their security interests. They view Africa as a relatively uncontested arena in which they can experiment with foreign interventions as part of their strategy to prove their rising status on the world stage. Thus, expanding their economic influence in the region has provided them with important source of leverage to advance their security and diplomatic goals<sup>(8)</sup>. Further, they have advanced their strategies of economic diversification and reduced reliance on oil by investing in African markets, which became even more critical when oil prices crashed in 2014. UAE invested an estimated \$11 billion in the capital in Africa in 2016, overtaking Saudi Arabia- to become the largest GCC investor and the second largest in the world after China<sup>(9)</sup>.

Building economic ties in Africa has helped the Gulf States to capitalize on their geostrategic location, increase their food security, and enhance their reputation as benevolent Muslim actors. It is clear that the Gulf States' geostrategic location explains why Africa has been their focus economic activity. By investing in infrastructure development and trade, they are able to benefit from Asian trade and investment flows to Africa. As facts, China pledged \$60 billion in financing to Africa in 2018 alone increased its total trade with Africa by 180% from 2010 to 2017. Although Gulf States have traded with Africans for centuries, the global financial crisis of 2008 motivated them to deepen their economic ties with them.

With economies in the Western countries slowing down, Africa's fast-growing economies and expanding middle classes became an increasingly attractive prospect for investors across the world. It is worth to recall that key factors prompted Gulf states to turn to Africa and principally to its Horn region are building economic ties to capitalize on their geostrategic location, increase their food security, and enhance their reputation of 'philanthropic policy'<sup>(10)</sup>.

## Opportunities

Gulf States exports to East Africa and its Horn region are still dominated by oil and gas<sup>(11)</sup>. Traditional imports include primary resources like precious stones, copper and food. Their companies have heavily invested in banking, agriculture, extractive industries, real estate, retail, education and, above all, transport. More so, they have provided significant aid to the region, especially in the form of soft loans. Much of this aid has been provided bilaterally with no conditionality and has substantially increased in the recent past in both volume and sectorial spread. Since 2011, the UAE, Kuwait, Qatar and Saudi Arabia 'have generated new aid mechanisms, including non-restricted cash grants, injections to central banks, and in-kind oil and gas deliveries,' and have given significant amounts to facilitate private investments.

In summary, Gulf States aid and its private sector have tended to focus on different infrastructure areas. The majority of state funds have gone to transport and energy projects, while the telecom sector has been the main infrastructure focus of the private sector. Further, Gulf States have provided a substantial labour market for East African nationals. With respect to the economic aspect of Gulf-East Africa relations in general, there is significant potential for investment in transport. However, in agriculture and other sectors, Qatar and Kuwait are displaying a timid presence and their prospects for promising investments are still embryonic and have thus far yielded mixed results. Trade continues to be largely one-sided:

The Gulf states export oil and import a rather limited list of consumable goods (mainly agricultural products). The extent of further investment will depend on oil prices, which have been low for a considerable time, but will also require Gulf States to diversify their economies, if they are to continue to grow and provide for their own people. More practical, the United Arab Emirates and Saudi Arabia have overtly provided critical diplomatic and financial support to help both Eritrea and Ethiopia to take first steps toward a rapprochement policy that could prove beneficial for wider Horn stability.

UAE' active role in the Horn of Africa peace-making process is recognized through their investment in ports as strategic sectors to shape political and economic alliances in the region. Thus, UAE' presence heralded a new era in their foreign policy that placed an important significance on the Horn of Africa, which straddles the Red Sea and the Gulf of Aden; vital passageways for international shipping<sup>(12)</sup>. The quartet of nations that comprise of Somalia, Djibouti, Eritrea and dominant but landlocked Ethiopia, are therefore guardians of global trade. The region, once one of Africa's most unstable and a locus for violent conflict, in 2018, completed a stunning year of peace making, beginning with policy rapprochement between Eritrea and Ethiopia. Although, Gulf States' aid and investment in the region has been a lifeline, notably for many Somalis. However, the rivalries between them, increasingly on display for influence around the Red Sea and in the Horn of Africa, have brought a dangerous new twist to Somalia's instability. Mogadishu' adoption of a position of strict neutrality between Qatar and the rest of the Gulf States is quite hypothetical. It is time that Gulf States should cease meddling in Somalia's domestic politics; and Somalia's various actors should stop exploiting for their own gains<sup>(13)</sup>.

Countries of the Horn of Africa region have clearly been content with giving Saudi Arabia and UAE a significant credit, given the summits based in the Gulf and the frequent visits between top leadership. In many

ways, Saudi Arabia and the UAE are serving as external backers of the deals. Their increasingly prominent role is noticeable in the absence of traditional power structures in the region unless they are 'proposed' to play a subcontracting or secondary role in this part of Africa. Recently, there has been a flurry of activity in the Horn of Africa, where decades-old political disputes have temporarily been put to rest. The resulting changes are about to shatter the status quo in the region, putting it on a new path where state-to-state relations; no longer marked by regional competition and frozen borders. While this has undoubtedly been a positive development for the region, one big piece of the puzzle remains- the role of external actors in the process and the degree to which these developments are organic or externally imposed. One fact is that Saudi Arabia and UAE influence in the region has only expanded since Gulf crisis, even at the expense of Qatar.

They have leveraged their growing economic, security and diplomatic influence in the region in an attempt to push back on their rivals' influence and gain international backing in disputes. They have promised aid and investment, offered to enhance security cooperation, and even agreed to improve African migrants' rights in Gulf States, at the same time encouraging African states to give them diplomatic support. They have used these tools of influence to convince some African states to downgrade their ties with Iran, thereby containing its presence in the Horn of Africa<sup>(14)</sup>.

## Risks

African states have been most significantly affected by the fallout of the 2017 Gulf' dispute, which highlighted the risks and opportunities created by the Gulf States' zero-sum rivalry. It has also revealed that although they hold influence, they have not yet managed to achieve the loyalty of most African states. On the contrary, some African countries have managed to benefit from the crisis by enhancing economic ties with some of them and playing them off against each other. For instance, South Africa

increased its commercial trade with Qatar by 70% helped Qatar to overcome its subsequent food insecurity resulting from regional isolation after the blockade was imposed. More importantly, is their approach to security matters in the region; Gulf States' credentials as serious partners in fighting extremism, terrorism, piracy and share the burden to solve disputes remain to be seen. Also, they could benefit from working in partnership with principally African Union and its Regional Economic Communities through committing significant resources to prevent disputes. Their policymakers have to be sensitive and continue to broaden and deepen their ties with African states<sup>(15)</sup>. Such engagement will help ensure that African governments continue to view them as attractive partners and make interventions safer and more sustainable. Part of this approach should involve building people-to-people ties. Lastly, Gulf States can expand opportunities for educational exchange, training collaborations, and tourism links with countries in the region.

## Conclusion

In summary, the current picture of the Gulf States' involvement in the Horn of Africa is mixed. The overwhelming financial investment in the region is only partly true; a number of projects have either underperformed or are yet to materialize. Moreover, low returns on existing projects may lead the Gulf States to write off many of their loans. However, some points are still daunting; if Gulf States as important players can maintain their commitment. After all, the 'Gulf states' interests in can have significant opportunities to counterbalance the already unequal distribution of power within their own region'. Inversely, in the absence of coherent and homogeneous policy, present turmoil in the region will sharply escalate as the Horn of Africa has already been militarized. Gulf States possible and foreseeable role as actors of peace, security and prosperity in the Horn of Africa should not be granted open doors for more uncertainty and instability.

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\* Laeed Zaghlami is a Professor in Faculty of Information and Communication, Algiers University and Media Analyst. He holds a PhD from Algiers University, Mphil from the University of Surrey UK and Diploma from International Academy of Broadcasting Montreux, Switzerland.