the Hollings Center
for international dialogue

Dialogue Snapshot
Middle East and U.S. Relations with the Greater Horn of Africa[1]
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Africa in recent years has attracted the attention of new global actors such as Iran, Turkey, Saudi Arabia, Qatar, the United Arab Emirates, and other Gulf states, due to its growing markets, vast natural resources, and geostrategic importance. Non-state actors from the Middle East have also taken an interest in Africa by establishing religious and ideological education projects and by providing humanitarian aid to areas affected by civil and interstate conflicts. Investors from the Middle East have increased their investments in the region in the areas of agriculture, banking, infrastructure, retail, and telecommunications. The Hollings Center convened a group of academics, businesspeople, journalists, and civil society representatives from Africa, the Middle East, Turkey, and the United States to understand the strategic objectives of these relationships, to assess the impact of the economic, business, political, military, and religious relations outside actors are cultivating in the Greater Horn, and to explore what this increased involvement means for the US and other actors who have historically strong ties with Africa.

The main takeaways from the dialogue include:

- The Greater Horn has many problems – security and lack of development being at the forefront – but also offers opportunities especially in the realm of e-commerce, infrastructure development, and agriculture. The African Union is trying to push forward increased infrastructure. The GCC can seize the opportunity and be part of this growth. The potential for agriculture in Africa is significant, and it can be realized at a fraction of the cost of what is paid for imports, and is largely a question of good governance and enabling the conditions for availability of capital and technology.
- Countries in the Greater Horn of Africa do not necessarily need to follow the traditional industrialization model of 'agriculture – manufacturing – services.' A port country like Djibouti with much geopolitical potential is most probably not going to transform itself via manufacturing - like Dubai, it will probably skip that stage. Efforts need to revolve around tapping into each country's unique potential.
- Geopolitics and transfer of disagreements will continue in the Greater Horn. In this sense, the so-called 'new actors' like Turkey and the GCC are not different from traditional powers like the US and China in their approach to the region as a theater where they can gain the upper hand via proxies.
- Development and humanitarian aid have helped Greater Horn countries through difficult food and health crises in the past, but have created dependencies, entrenched corrupt systems, and in some cases weakened state authority.

[1] For purposes of this dialogue, the Greater Horn of Africa is defined as the region comprising Somalia, Ethiopia, Kenya, South Sudan, Eritrea, Djibouti, and Sudan.

Challenges and Opportunities in the Greater Horn

The world looks at Africa and sees a homogenously underdeveloped and conflict-ridden continent. This dialogue started by establishing that this is not the case: some Greater Horn countries have better developed infrastructure and soft infrastructure (ie. rule of law, property rights, regulations), and some countries are in worse condition because of long years of civil strife, conflict, famine, and health issues, among a host of other problems. Nonetheless, a SWOC (strengths – weaknesses – opportunities – challenges) analysis of the region can map out the main hurdles the region grapples with, which also are the barriers to entry for foreign investment.

1. **Demographic issues**: HIV/AIDS and other health crises have throttled the human potential in the Greater Horn. The consumer market is growing, thanks to the youth surge, but unemployment is high. Brain drain is especially high among doctors.
2. **Lack of internal exchanges within the Greater Horn**: Travel between states is highly limited – 55% of Africans need visas to enter neighboring countries. Trade with external countries is higher than internally with neighbors.
3. **Border, road, and infrastructure issues**: Outside of city centers, it is a good day if there is uninterrupted access to running electricity and water. This affects telecom infrastructure, which is built along roads, so traditional infrastructure investment is a prerequisite. In the past, there were issues with copper wire being ripped up, but even with fiber, more towers are needed, which tend to rely on backup grids and generators, which run on diesel fuel and are targets for theft. Therefore, security is a major additional cost when thinking about infrastructure investments.
4. **Heavy and corrupt bureaucracy**: From a private sector point of view, significant overlap exists in the free trade areas and confusing regulations for different investor countries. Bureaucracy needs to be more investor friendly so as not to be a disincentive for investment. Red tape figures into the cost-benefit calculations of companies, which means it is much more cost effective for a GCC company to invest in manufacturing outside of Africa, then export into Africa to sell. But from a tech/mobile company's point of view, it is more cost effective to open offices in Africa rather than have employees based in the GCC, since labor is cheaper in the Greater Horn.
5. **Security**: Many countries in the region are in the grasp of armed strife and terrorism. All countries in the map of the Greater Horn have been victims of terrorist attacks, and many have undergone full-scale civil war in the past three decades. In addition to Al Shabaab, which is a huge threat across the board, the region suffers from armed insurgency, intercommunal violence, and state-perpetrated violence. Piracy is also a major problem, one that outside actors such as NATO and the US are trying to combat. Unregulated waters, no coast guard, and illegal fishing off the coast of Somalia all exacerbate this problem.
6. **Resource curse**: Oil is a draw for foreign investors, but lack of transparency and corruption are impediments to distributing that wealth effectively, fairly, and in a way that will bring in more foreign direct investment (FDI).
7. **Food security and sustainability**: The level of underdevelopment and lack of stability within the agro-economy have to be resolved before economies can adapt to the realities of climate change. The UN says Africa will see a 2-4 degree rise in temperature. 80% of Africa is small scale farming, which is highly dependent on rainfall. Even a small

change in average temperatures makes it impossible to continue business as normal. This will inevitably result in population displacement. Several specific sub-problems exacerbate the challenges:

a. **Land-grabs**: This term refers to long-term leases of land by outside countries, like the UAE or Saudi Arabia, for food production. Some participants argued that this was not as big an issue as the media is making it out to be. Others suggested that if the local population is suffering from famine and cannot use their land because there is long-term lease on it from an outside country, that creates resentment and raises ethical questions. The issue of land rights needs to be managed in light of these sensitivities, but balanced against new investment opportunities and potential for exportable produce. However there seems to be little or no consideration on the part of the leaseholders of the longer-term impacts of water pollution, environmental degradation, use of pesticides, etc.
b. **Low agricultural productivity**: High-crop yield is very difficult because farmers have unreliable sources of input. Due to a lack of secure, sufficiently high sources of income, they often cannot buy the best quality feed on the market. These low-yield crops are more susceptible to climate effects, so low-yield crop fields are going to be highly affected by ongoing climate change.
c. **Cash crops**: Should farmers be discouraged from growing cash crops when essential food items are needed? There are cases where growing cash crops has increased food security because they enable farmers to generate high amounts of cash and increase their purchasing power, so the choice is a rational one. Others suggested that the impact of growing cash crops such as *qat* are more negative than positive in Yemen and Somalia, because it undermines the agricultural livelihood and food security in the long term.

8. **Trade inequality and balance of payment issues:** When sub-Saharan Africa is so fertile and has so much potential, why is there a food crisis? Africa exports produce to Europe but imports 1.7 times more food than it exports. The famine in Ethiopia was not about lack of supply, it was about lack of access. Famine is not just a product of nature but also of political governance and the exercise of political control over the populace.

> ***"There is a dragon and elephant on Africa's development ladder: it will be a while before China and India move off the latter to make space for African countries in the manufacturing sector. We need to think about how to move around that."***

Despite these problems, the Greater Horn has a potential that the private sector from beyond the region as well as foreign governments would like to tap into. The region also has strengths that might help with its structural issues.

1. **Human Capital**: The growing youth population can play an important role as working class and as consumers.
2. **High cell phone penetration**: This creates opportunities like managing social services by mobile applications. Over the next five years, an additional 168 million people will be connected by mobile services across Africa, reaching 725 million unique subscribers by 2020. Eight markets will account for the majority of this growth, most notably Nigeria, Ethiopia, and Tanzania, which will together contribute more than a third of

new subscribers.[2] This makes e-commerce a potentially lucrative sector, which will not need to wait for major infrastructure development. Mobile number portability is key – elites have snatched up licenses and established monopolies, and portability would introduce competition.

3. **Remittances**: $64-65 billion remittances in a single year is a big opportunity and much of this is generated from GCC. According to some participants, despite being a significant input, remittances will not be the driving force of growth. In some places like Somalia, remittances have kept families alive. Some countries like Kenya and Nigeria receive more, but they come in small pieces and the key question is how to mobilize remittances to have greater impact. For example, the Mexican government has programs that have a 2:1 match for remittances if used towards education opportunities. Other participants saw potential pitfalls of remittance flows – a young person may not feel compelled to work for a very low wage if their relatives are sending them money to get by, and this creates a culture of dependence. Moreover, in 5-10 years, remittances may not be in the same level as today, as job opportunities for Africans decrease abroad with the tightening of global immigration policies. Also, the younger generations who are born and raised abroad may not feel the same close ties to their extended family and may simply end the practice of sending back money.

Kenyan Tealand near Kericho, 2012, Wikimedia Commons.

4. **Food / agriculture sector**: In the Greater Horn, much of the land used for agriculture is highlands, which is not easily mechanized and may not lend itself to the same modern techniques used elsewhere. Often output in these smaller farms are greater per land area than large farms. How does one mobilize this potential? A good example is the Kenya Tea Development Agency (KTDA). Small-scale tea farmers are the stakeholders in this overarching body that provides comprehensive services to more than 565,000 small tea farmers such as agri-extension, transportation, processing, and marketing. By incentivizing higher quality production and providing market access through infrastructure development (such as roads, energy, etc.), the KTDA co-op model has helped sustain small scale tea farming and earned an international reputation for Kenyan tea.

   A possible focus for outside involvement in this sector can be through IT support. New technologies can revolutionize farmers' data access and provide early warnings. Research in genetics and water regulation are key – more research into better crops and alternative food crops is essential. Improvements in the food sector in the Greater Horn would be in the interest of GCC buyers, so investors could intervene to improve market access, as well as improve the move-to-market logistics. Better productivity in the field, coupled with reducing loss of produce from waste or perishability due to lack of electricity, refrigeration, or poor transport systems would transform the region's food exporting quality and capability.

[2] GSMA Report: 'The Mobile Economy Africa 2016', www.gsmaintelligence.com

Foreign Direct Investment (FDI)

The Port of Bosaso in Puntland, Somalia is under development by Dubai-based P&O Ports, which was granted a 30-year lease. Wikimedia Commons.

FDI creates employment, infrastructure, growth, and fuels the economy, which is why the Greater Horn is in need of it. However, as discussed above, lack of formality of processes, difficult entry barriers, problematic market exchanges, and security threats in certain countries have slowed down FDI in recent years. Investment has to be long term and there are few quick returns.

A participant warned that FDI and growth should not be overly glorified. In the Greater Horn, structural transformation rather than growth needs to be prioritized. In the past, FDI used to refer to a longer-term involvement and implied this transformation, because it was more about brick-and-mortar projects. Today, it is possible to put a factory on a ship and park it in Mombasa for a few years. Therefore, rarely is FDI going to change a country if local businesses are also not changing. Efforts need to focus on local entrepreneurs – if they grow, it sends a message to other entrepreneurs that there is space to grow.

Another participant warned that a lot of investment in the Greater Horn is not FDI but rather commercial deals. FDI has to have an ownership component. Many Chinese projects are commercial deals paid for by Chinese financing. However, when FDI succeeds, it succeeds big. Safaricom is one such success story where the careful privatization of a public asset brought in a lot of profit, benefiting both the company and creating a strong mobile infrastructure. Because of the name, it looks local; however, it is really an investment by Vodafone.

There are potential differences between FDI by large global companies, and regional, relatively smaller companies. In one case, there was competition for the Tanzanian beer market. SABMiller, the largest global beer company, was expanding into the region that had previously been the preserve of East African Breweries based in Kenya. SABMiller won the bidding for the largest Tanzanian brewer. Because of its size, SABMiller tended to source its inputs from its global supply chain, using little local input but water, power, and labor. East African Breweries purchased a smaller Tanzanian brewer but, because it did not have the size and the ability to source ingredients cheaper from a global value chain, its model was to get Tanzanian farmers to produce the ingredients locally, so its impact in this way was broader than that of SABMiller. In the same sense, some of the investment from the Gulf may have these kinds of characteristics as opposed to other FDI.

Sudan's economic minister cites that Saudi investment in Sudan was $11 billion in 2016, and Saudi companies have been leasing large amounts of land in Ethiopia as well. These efforts are tied to a land bridge project connecting the east and west coasts of the GCC, which will be significant for the Horn as well – Ethiopia will be able to ship goods to Dubai in 24 hours. Qatar is involved in ports and hotels in Djibouti, and there are other opportunities such as investment in roads for foreign companies to explore, as all foreign trade comes through Djibouti ports. UAE investment is scattered around the region. Altogether, GCC countries have been investing impressively in the Greater Horn.

Foreign Aid

The humanitarian / development aid industry varies by sector, implementer, participant, and region. Still, there are a set of issues across the board that need to be addressed in order to make humanitarian and development aid more effective for the Greater Horn. First, there is a legitimacy crisis with international aid and the Greater Horn is no exception. There is a lack of trust between external aid providers and local communities. Yet, donors are not cognizant of this: they do not see that isolating themselves and operating from within gated communities negatively affects the local reception.

> ***"Aid has a far greater chance of being effective if it fits into a wider set of national priorities, leadership, a vision for the country, and this improves public finance management and transparency."***

Second, relief culture has created dependence on humanitarian aid. It is very difficult to change the 'machinery' of aid into more developmental / constructive aid, because the latter requires the donors to deal with local politics. Third, there are issues of competence of aid workers: they find themselves in very difficult situations and risk doing more harm than good if they are not equipped with conflict resolution skills. Moreover, the demanding conditions in the field require personnel with supply chain logistics, strategic communications, and project management experience. A fourth problem with the current aid system is that often international donors lack the knowledge and understanding of particular contexts, especially cultural and religious. Due to this lack of understanding, there is a problem of expecting results fast and expecting reform overnight. Many participants working in the aid community from the African and Western sides agreed that the outsider perspective is usually imposing and lacks humility. A participant pointed out that the Turkish case in Somalia – discussed in greater detail below - offers something to learn in terms of development assistance, because the international community has forgotten to be humble. Finally, prescribing local participation and ownership to projects to make them more palatable needs to be rethought. A participant said that sometimes local involvement is over-romanticized, and the political motivations of local actors are overlooked. Engaging local actors entails being involved and sometimes entangled in local politics, which is a slippery slope for aid providers.

There was much skepticism among participants about the aid industry and its effectiveness. However, there are good results to report as well. For instance, aid certainly has not solved the Greater Horn's food problem: the region is still a net importer of food when it should be a net exporter. Still, food aid has prevented starvation from reaching drastic levels, and many people are alive thanks to it. Likewise, humanitarian aid for HIV/AIDS relief has helped Africa to turn a corner: hundreds of lives have been prolonged and hundreds prevented from contracting the disease. In addition, models that different countries use to receive aid also play a role. A participant noted the case of Botswana, where they first draft a budget and then ask funders to contribute to it. This way aid is funding local priorities, not overseas donor priorities.

In this context, the danger of bundling development aid with counterterrorism financing was discussed. The UK is now regarded as the primary actor in counterterrorism in Somaliland. Even seemingly non-security aid is largely centered around justice sector reform as part of

> ***"Coercion, whether through guns or dependency on aid is not working."***

counterterrorism efforts. Likewise, other western donors have a lot of security funding, but less development funding, so they are trying to merge these two, but there is no consideration of whether the implementer will be a development actor or a security sector actor. Despite lessons learned regarding aid flows post-9/11, when the security orientation of aid policies in that time exacerbated some of the issues in the region, similar mistakes might be made in the Horn of Africa.

The effectiveness of aid cannot be divorced from the robustness of political institutions in place. A Somali participant said that the ineffectiveness of the Somali state is because NGOs have established parallel systems undermining the central authority of the state. Also, the increasing involvement and power of private sector and contractors in development aid create a perception that these private contractors are just a front for government actors. This is an area where GCC aid and Western aid diverge, because most GCC aid comes through organizations like the Qatar Foundation, Kuwait Fund, or Khalifa Foundation, which do not operate on conditionality but rather work like charities or give money as political donations. A good institutional example cited was the Aga Khan Foundation, which is not a traditional aid provider per se, but conducts projects that eventually help institution-building, education, etc. in the countries in which it operates. A participant pointed out that private sector and NGOs around the world are in search of better models of aid and investment such as impact investing. A model currently tried by Bloomberg, Gates Foundation, and Goldman Sachs, impact investments use traditional financial tools like equity loans for larger social impact, with a low expectation of return.

Traditional vs. New Actors in the Greater Horn: The Politics of Engagement

There is a hype around 'new actors' in Africa, in terms of whether they will be able to contribute in a way the traditional donors have failed to do. The dialogue explored whether this is really the case and whether the new actors come without their own political context. Is there cooperation between Turkey as a new actor and traditional actors in the Greater Horn? How are these partnerships, or lack thereof, working? The figurative conclusion was, if the two elephants are in a fight, it is the grass that suffers the most, but even when they make love, it is still the grass that suffers. Old and new actors cooperating do not automatically end the region's troubles.

Turkish Embassy in Mogadishu. Photo by Dalmar Hassan.

Turkey has been a rising actor in the Greater Horn as part of its foreign policy of expanding its traditional periphery to utilize its growth potential through trade. With the current ruling Justice and Development Party (AKP)'s rise to power in 2002, there has been a great leap forward in the Turkish presence in Africa: Turkey has 39 embassies around the continent, which is more than the UK, of which most are not even staffed with diplomatic corps but are trade facilitation offices. The '*Hizmet*' movement, a group of businesses and humanitarian organizations affiliated with Fethullah Gülen, had been a driving force of this expansion. With the falling out of this community with the Turkish government and its alleged connection to the failed coup attempt in 2016, there were doubts about whether Turkish involvement would wane. President Erdogan has made trips to the region, signaling strongly that Turkey will remain invested and involved. Despite the publicity around this engagement, investment is spotty, mainly focused on Ethiopia and Sudan.

The Turkish model is unique in its approach to Somalia. When Turkish agencies came, they changed the standard operating procedure: they operated outside of the green zone and launched an awareness campaign about how Somalia is not as insecure and unstable as the outside world makes it out to be. They approached development from a humanitarian angle and built hospitals and schools. Al Shabab did not attack the Turkish workers since they were seen as Muslim brothers. It did not want to be associated with 'tainted' aid efforts of the West, and thus did not act in coordination with existing efforts. More recently, Somalis have become more jaded as Turkish flags started flying on Turkish-built projects, casting a shadow on the sincerity of the Turkish approach.

GCC interest (most notably Emirati involvement) in the Greater Horn peaked after Turkey's arrival. An interesting anecdote was when the UAE shipped a large military cargo to Somalia as a gift, and the port authority, run by the Turks, wanted to tax this donation. UAE then redirected the shipment to Jubaland, a self-declared autonomous region, and gave it to a warlord who was fighting the federal government. The politics of outside actors' engagement turned Somalia into a chessboard. A participant asked whether the Greater Horn is a new case of Syria with outside forces pulling from different sides in competition, and whether there is resistance to these forces from within the region.

> ***"GCC countries are getting involved strategically in Africa in a way that could be destabilizing. If they could confine activities more to investment and aid, it would be far more positive than mucking around in geopolitics."***

Saudi involvement in the Greater Horn comes in multiple forms. In terms of cultural influence, the most striking instance is Djibouti: there is lavish Saudi spending on religious outreach, mosques, and religious schools, which is in stark contradiction with the past French colonizer influence. Wahhabi influence across the Greater Horn is controversial, and participants expressed concern with how it is changing the social and cultural tissue in their societies.

GCC states have divisions among themselves which surfaced most recently in their reactions to the Arab uprisings, or in their approach to Iran. Kuwait, Bahrain, and Oman have played little or no role in the Greater Horn, whereas Qatar and the UAE have been punching above their weight. Even Saudi involvement has been modest in comparison given its size and economy. Participants questioned whether the UAE is punching above its weight to rise to regional leadership. Its military efforts in Libya are unique: it is the only country from the east of Suez to carry out unilateral attacks in the west of Suez. A participant dubbed this 'adventurism in foreign policy.'

During a discussion of UAE geopolitical interests, participants asserted that there is a widespread conviction in the region that the UAE is acting as a proxy for U.S. interests in the Greater Horn. The military bases, for instance, are not divorced from the War on Terror in public opinion. The trauma of the consequences of the War on Terror has caused the US to lose the bid on winning hearts and minds in most places in the Greater Horn. However, the US is not concerned or interested in widespread geopolitical cooperation as long as it has one reliable partner in counterterrorism – Ethiopia. Participants agreed that the US sees the Greater Horn through a security lens, and this will continue under the Trump administration. Its involvement in the Yemen quagmire is solely because of Al Qaeda in the Arabian Peninsula (AQAP), and its future interest in the Greater Horn will depend on how this war develops or ends. U.S. trade interest in the Greater Horn is mainly based on oil, and a participant claimed that whether there is U.S. legislation such as the African Growth and Opportunity Act (AGOA) or not, the US would keep buying oil from Africa.

If the Greater Horn is indeed the new theater for competing influencers, China is definitely among the top three contenders. China is the provider of the most infrastructure financing, has significant FDI interest in Sudan and South Sudan's oil, and is the region's second largest trading partner. The planned naval base in Djibouti will be the first ever Chinese base abroad in China's history. This will increase its exports and allow it to gain political support from the region. This geography is significant for the President's vision for a maritime silk road as well.