Africa connecting

Asia, Africa and the Middle East have an increasing stake in each other's fortunes. Semih Ozkan charts the south-south corridor

Over the past decade, there has been widespread growth in Africa, with GDP growth rates averaging around 5%. This growth has been mainly attributed to the surge in natural resources prices: the highest price increases in world merchandise trade are to be found in energy, followed by minerals and non-ferrous metals, which comprise a large portion of Africa's exports. Yet this is only part of the story. Improved government performance in terms of maintaining political stability and improving macroeconomic conditions are also widely recognised as contributory factors.

Increasing economic momentum in Africa is changing the region's long-standing commercial relationships with its trading partners – notably Asia and the Middle East. The list of Africa's top 10 trading partners highlights the importance of the so-called south-south corridor – trading relationships between emerging economies – with Asia and the Middle East accounting for around 33% of Africa's $726.8bn total trade in 2014. In Asia, China, India, Japan and South Korea are leading the way. In the Middle East, Saudi Arabia and the United Arab Emirates (UAE) are at the forefront. Trade among Asian, African and Middle Eastern countries, estimated at around $4.1 trillion in 2014, shows the growing significance and connectivity between these economies.

The Middle Eastern ports, especially Jebel Ali, the largest in the region, are among the biggest beneficiaries. Between the fastest-growing region in the world, Asia, and the runner-up, Africa, the Middle East has a one-of-a-kind opportunity to facilitate not only bilateral (for example, Middle East/Africa and Middle East/Asia) trade, but also intra-regional (for example, Africa/Asia) trade and investments flows. And for the Middle East, it is not about one or the other.

Trade and investment flows

The Middle East and Africa have more in common than many would expect. In nature, they are heterogeneous with largely comparable economic compositions, ie, natural-resources and human-capital driven economies with limited diversification. Both regions take part in global supply chains, albeit on a small scale, due to infrastructure limitations. The World Trade Organization's (WTO) 2015 report on international trade statistics show both regions coded blue – the lowest rating – putting their trade size in global perspective. Notwithstanding these issues, the regions are still benefiting each other when it comes to growth.

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The bilateral trade flows between the Middle East and Africa play a crucial role in each other's economy – the Middle East mobilises Africa with refined energy products, such as gasoline, and Africa's abundant agriculture output helps feed the Middle East. In 2014, the regional trade flows reached $54bn and are increasing, according to the WTO. What is more, the region's bilateral footprints are steadily increasing and broadening in terms of geographies and sectors.

Emirates, along with other Middle Eastern airlines, such as Etihad Airways and Qatar Airways, is fuelling the 'Africa connecting' narrative by serving a collective 742 flights per week and growing. The Middle East's flagship hotel brands, such as Jumeirah Group and Rotana, are also taking steps to build their footprints in Africa. This ever-increasing connectivity is shaping a more meaningful role for the Middle East in facilitating Africa's trade and investment flows.

Appropriately, Africa is very high on Middle Eastern treasurers' growth agendas. Etisalat, a leading telecommunications company in the Middle East and Africa, serves 10 countries in Africa. Emirates Global Aluminium, which owns Guinea Alumina Corporation, a mining development company, is focused on advancing its bauxite and alumina export project in Guinea. DP World, one of the world's largest port operators, has more than 3,000 people across six terminals in Africa and growing. Aramex, a global logistics and transportation provider, operates in more than 20 countries in Africa. The promising long-term prospect of Africa is also attracting institutional investments. Middle Eastern private equity firm Abraaj Group raised around $1.4bn for two funds in 2015 to invest in Africa's consumer story. Qatar National Bank invested in Ecobank, the leading pan-African bank.

In turn, the Middle East also offers a compelling trade and investment platform for many African companies. Mediclinic International, a listed healthcare company in South Africa, owns and operates a number of healthcare facilities in the UAE. The ease of doing business in the region is attracting many trading houses from Africa – Export Trading Group, one of the most vertically integrated agriculture supply chain companies in Africa with a presence in 30 countries, is based in the UAE.

Even healthy development can suffer shocks and face risks and structural constraints, of course.

Ease of doing business: Africa has, on average, the lowest score (51.87) in the World Bank's Ease of Doing Business ranking despite some countries, such as Mauritius, Rwanda and South Africa scoring much higher than average. This low score puts Africa towards the bottom of the rankings not only in terms of difficulty of doing business, but also when it comes to the ability to create and reinforce rules that facilitate a better business environment. Having said that, the past decade has witnessed improved government performance on this front, which is contributing notably to the region's collective long-term prospects.

Corruption: Africa, in aggregate, is coloured with the darkest red on Transparency International's corruption index, meaning that almost the entire region faces severe corruption issues (although it is by no means the only region in the world where this is the case). Despite the bad and the ugly, the good is still in evidence in the region. Botswana, Namibia and South Africa are making meaningful efforts to improve public access to justice and security, and to reduce risks for doing business – an encouraging result for Africa as a whole.

Intra-regional trade flows: According to the WTO, Africa has one of the world's lowest intra-regional trade flows, 18%. In fact, the Middle East has the lowest intra-regional trade flow (9%), while Asia has the highest (52%), in the world. The limited regional supply chains are caused primarily by: (i) significantly high cost of intra-regional transportation due to inadequate infrastructures; and (ii) imbalanced integration into the global supply chains due to lack of considered policies. With trade dominated by natural resources, this high cost and underdeveloped infrastructure will be a drag on growth unless more supportive economic policies, such as the development of related industrial and intra-regional activity, can be put in place.

Without a doubt, the extent of these problems is hindering Africa's growth and, more importantly, the trade and investment flows in the south-south corridor. Yet the region is a land of opportunity and offers the highest rates of return, second to Asia, on investments. There are no straightforward answers to its challenges, and seizing opportunities requires a high level of due diligence along with a willingness to navigate Africa's legal, political and business environments. Engaging with Africa's growth story will also require a long-term multidimensional strategy, flexibility and a lot of patience. In this regard, the Middle East is well positioned with a natural value proposition – not just because of its proximity, historical ties and cultural familiarities with Africa, but also because of its own infrastructure and capacity to act as a trading hub. Middle Eastern companies are in a position to take the helm in the complex and diverse region that is Africa and participate in the 'Africa rising' narrative.

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