

Riyal Politik

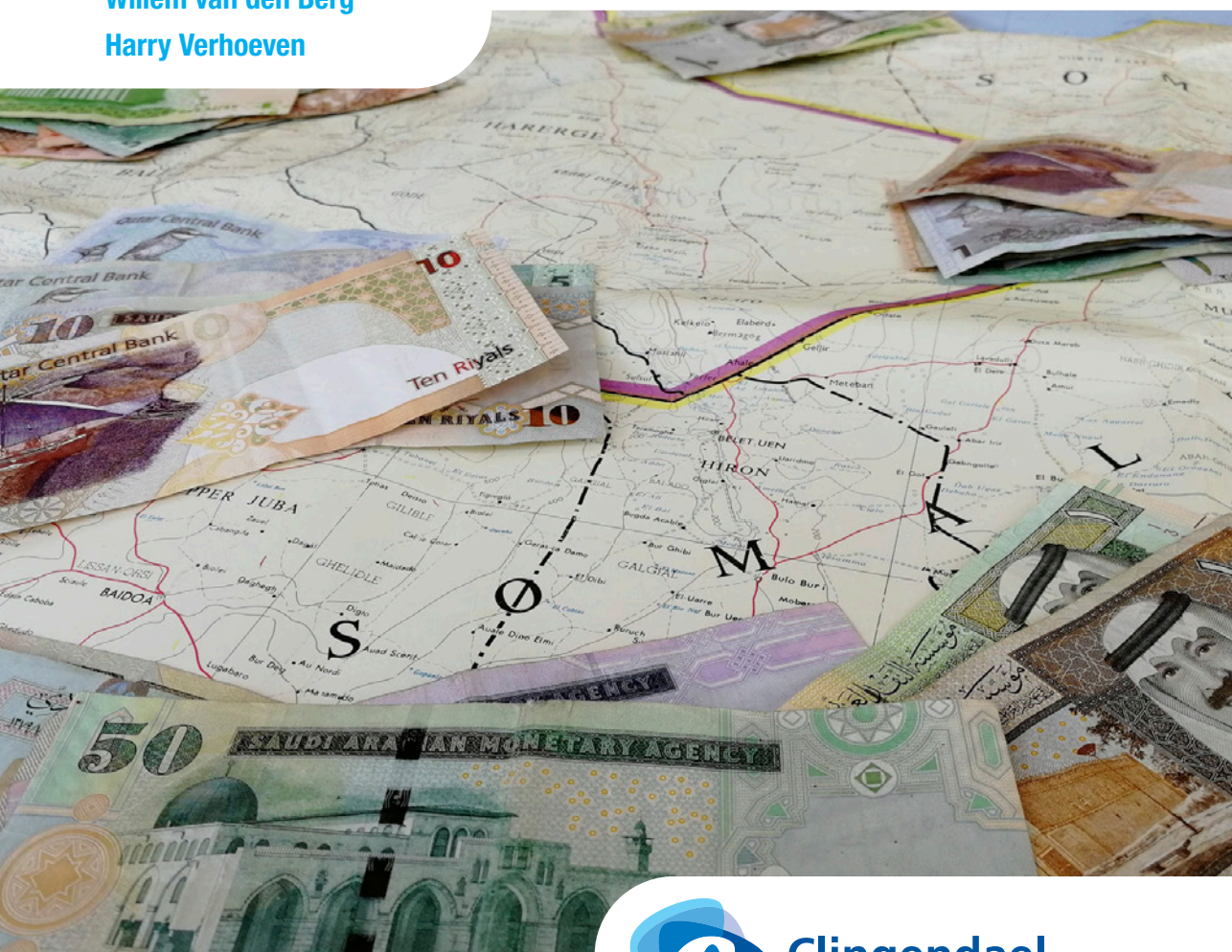
The political economy of Gulf investments in the Horn of Africa

Jos Meester

Willem van den Berg

Harry Verhoeven

CRU Report



Clingendael

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About the authors




Jos Meester – Research Fellow at the Clingendael Institute's Conflict Research Unit. Jos' work focuses on the functioning of the private sector in conflict-affected environments. He is in particular interested in supply chains spanning across political divisions, as well as the close relationship of political and private-sector elites and its consequences for the stability of political power structures.

Willem van den Berg – Research Assistant at the Clingendael Institute's Conflict Research Unit. Willem van den Berg focuses on the interaction of business and politics in conflict-affected environments. He is particularly interested in the ports and logistics sector, as well as the role of technology in conflict and international development.

Harry Verhoeven – Assistant Professor at Georgetown University Qatar. Prof Harry Verhoeven teaches at the School of Foreign Service in Qatar, Georgetown University. He is also an Associate Member of the Department of Politics and International Relations of the University of Oxford. His research focuses on elite politics, ideology and international relations. He was founder of the Oxford University China-Africa Network (OUCAN) in 2008-2009 and remains a Co-Convenor of OUCAN.

The Clingendael Institute
P.O. Box 93080
2509 AB The Hague
The Netherlands

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Abstract

The Gulf and the Horn of Africa share a long history of economic and political engagement. In recent years, following a decade of political disengagement, the Gulf states have become once again major economic and political actors in the Horn region. Horn states have hardly remained passive clients, however, and actively court Gulf states for funding, as economic drivers and remittances have been a key factor for maintaining their domestic political settlements as well as a major determinant of conflict in the region. This report explores the extent and impact of Gulf state economic engagement in the Horn as well as the linkages between these financial streams and prospects for regional stability in the Horn of Africa. It traces the historic ties framing perceptions of the relationship between the regions, describes the determinants and instruments of Gulf investment, trade and aid to the Horn. It maps the scope of Gulf investments across Horn states and economic sectors, identifying approximately USD 13 billion between 2000 and 2017, mainly in Ethiopia and Sudan, across the agriculture, manufacturing and construction sectors. Such financial streams are key to supporting Horn political settlements, providing the working capital required for further co-option, and to several regimes maintaining a degree of macroeconomic stability (especially under sanction regimes). Gulf states' largesse is frequently driven by political considerations to limit Iranian influence as well as intra-Arabian competition, but as the funding volumes are relatively inconsequential for Gulf states' budgets they are frequently devoid of a developed long-term strategy for the Horn. Gulf investments come with risks to Horn stability as well: where Horn states co-invest non-performing loans may jeopardize state finances. Moreover, some Gulf funding deepens various pre-existing cleavages within societies and is, as such, worrying and destabilizing. However, evidence that Gulf money is causing religious polarization between states in the Horn seems limited.

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Executive summary

- Following a decade of disengagement, the Gulf states have again become increasingly active in the Horn of Africa. Gulf countries are important business partners and have been known to mix political, business and religious motives in their interactions.
- Business relations between the Gulf and Horn of Africa are substantial: approximately 434 investments, worth approximately USD 13 billion, can be traced from 2000 to 2017. Investment patterns have closely followed oil price fluctuations.
- Gulf investments have been focused on Ethiopia and Sudan and concentrated in agriculture, manufacturing and construction. The main donors have been Saudi Arabia and the United Arab Emirates (UAE). In Ethiopia, investments are mainly in the form of fully owned assets or joint ventures with local partners.
- Official development assistance (ODA) in the same period equalled 309 projects totalling USD 6.6 billion. ODA projects focus on energy and transport as well as agriculture, social services, education, the financial sector and health; manufacturing is largely absent.
- Political motivations determine aid, investment and trade flows rather than economic variables, both for creditor/donor (the Gulf) and recipient (the Horn states).
- From the Gulf side:
 - Two political cleavages predominate. The first is the proxy war between Iran and Saudi Arabia and, to a lesser extent, the UAE. The second is the enmity amongst the Gulf Arabs themselves.
 - Gulf states also fret over large-scale migration from the Horn and influence in the Horn, which is seen as key to stability in the greater Middle East.
 - Investments depend mainly on significant political backing by Gulf state governments. Few investors dare autonomously enter markets they struggle to understand, and an investment's underlying business case is often questionable.
 - Important as religious legitimacy is in public discourse, its importance for foreign policy and in dynamics of aid, investment and trade should not be overstated. Proselytization depends mainly on personal and NGO efforts rather than state policy.
 - Little capital in the Gulf is genuinely private. Gulf foreign policy is therefore often an extension of domestic political and financial dynamics, conducted through sovereign wealth funds, State owned holding companies, central banks, ministries of finance, bilateral and multilateral development funds and charities.
- From the Horn of Africa side:
 - Horn actors themselves are not passive recipients. Economic drivers have been key to conflict in the Horn, and actors have at times actively courted Gulf countries for financing. The implications of such mobilised resources can have significant consequences on regional stability, migration and security.

- Most Horn of Africa societies worry about both the intensifying identity politics and sectarian extremism that the Gulf exports as well as the pressures they face in having to choose sides in geopolitical rivalries.
- The relationship is characterised by extraversion, which is not only a lucrative but also a risky strategy, not least because of the dependence on factors they do not control (e.g., oil prices).
- Gulf investments and financial streams are key to supporting Horn political settlements, providing the working capital required for further co-option, and maintaining a degree of macroeconomic and currency stability.
- Gulf states funding frequently does not incorporate a long-term strategy for the Horn, which creates risks for some Horn states. The impact along religious lines appears to be limited, however.
- Gulf-Horn cooperation based on shared economic and political interests is interwoven with sequential disappointment and distrust persists. Although the Gulf is seen as an inevitable partner, the relation is ultimately driven by necessity.
- The stakes of political-economic ventures are quite different for both partners: whereas the sums of money are comparatively small for Gulf states, for the countries of the Horn they can be transformative or catastrophic.
- These characteristics cannot be expected to hold universally. Neither the Horn nor the Gulf is a homogenous block, hence extrapolations may obscure important differences.
- Given the aims, scope and impact of Gulf activities in the Horn, the following conclusions and recommendations can be defined:
 - Policy discussions and engagement strategies seeking to deal with Gulf influences in the context of the Horn of Africa should be informed by an accurate assessment of the involved actors, aims and scope of Gulf activities in their context to effectively mitigate any associated risks.
 - Stable economic and political development in the Horn of Africa is strongly associated with the geopolitical interests of Gulf states. Early warning systems and context analyses used to inform humanitarian aid, peacebuilding and migration management policies should take into account the economic and political developments of Gulf states, and how these developments may influence the Horn.
 - European investments in programming for economic diversification and employment may improve stability because it may reduce the vulnerability of Horn states to economic and political shocks from the Gulf.
 - Gulf investments have the potential to significantly influence stability in the Horn of Africa. Strengthening the dialogue between European and Gulf policy makers could allow actors to capitalise on their shared interest in stability in the Horn of Africa. To do so would require European policy makers to develop a shared narrative explicating realistic aims and expectations from such coordination, and might benefit from increased interactions between Horn-based diplomatic staff on a bilateral basis.

List of abbreviations

ADFD	Abu Dhabi Fund for Development
AFESD	Arab Fund for Economic and Social Development
BADEA	Arab Bank for Economic Development in Africa
CEO	chief executive officer
CVE	countering violent extremism
DAC	Development Assistance Committee (part of the OECD)
EPRDF	Ethiopian People's Revolutionary Democratic Front
FDI	foreign direct investment
GERD	Grand Ethiopian Renaissance Dam
GCC	Cooperation Council for the Arab States of the Gulf
GDP	gross domestic product
IDB	Islamic Development Bank
IMF	International Monetary Fund
KFAED	Kuwait Fund for Arab Economic Development
METEC	Ethiopian Metals and Engineering Company
NGO	nongovernmental organisation
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
OFID	OPEC Fund for International Development
OPEC	Organization of Petroleum Exporting Countries
SAMA	Saudi Arabian Monetary Authority
SFD	Saudi Fund for Development
SPLA	Sudan People's Liberation Army
SWF	sovereign wealth fund
UAE	United Arab Emirates
UN	United Nations
US	United States
USD	United States dollar

1 Introduction

As the GCC crisis erupted in the summer of 2017, it surprised audiences around the world with both the suddenness of escalation and the intractability of the ensuing conflict.¹ As analysts and policy makers scrambled to interpret the causes and consequences of the unfolding conflict, governments in the Horn of Africa were amongst the first, and the few outside the Middle East, to publicly take a stance.² Although the Horn of Africa is generally considered in its African context, the speed and intensity with which developments in the Middle East translated to the opposite shore of the Red Sea should come as no surprise. The Gulf and the Horn share a long and rich history. In recent years the Gulf states have become increasingly active in the Red Sea, partly in response to the war in nearby Yemen.³ They — especially Saudi Arabia, the United Arab Emirates (UAE) and Qatar — are again influential, capable and active actors in the Horn of Africa.⁴

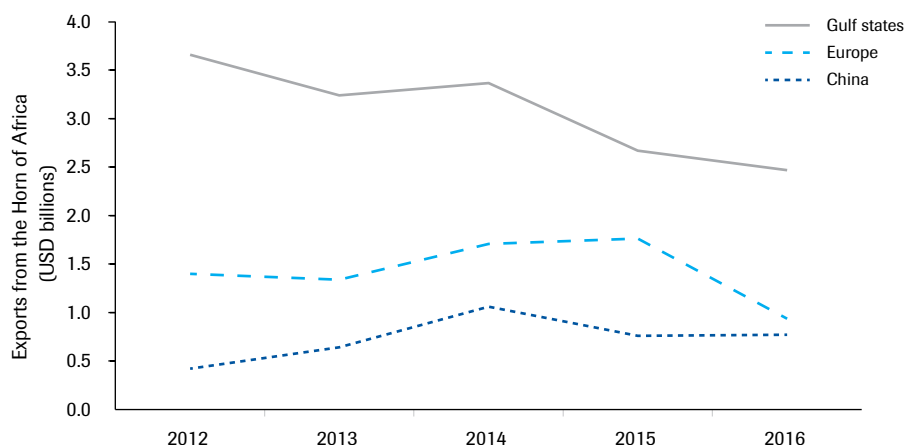
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- 1 Cooperation Council for the Arab States of the Gulf. The group, formerly the Gulf Cooperation Council, consists of six member states: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. Weymouth, L. 2018. 'Qatar to Saudi Arabia: Quit trying to overthrow our government', *Washington Post*, 2 February, https://www.washingtonpost.com/outlook/qatar-to-saudi-arabia-quit-trying-to-overthrow-our-government/2018/02/02/05a1a848-0759-11e8-8777-2a059f168dd2_story.html?utm_term=.e8182e0740bb (accessed 19 January 2018). Cooperation Council for the Arab States of the Gulf.
 - 2 The crisis broke on 5 June and Sudan promptly formally declared its support of Kuwaiti mediation efforts (and offered to mediate itself, though it informally leans towards the Saudi side). Meanwhile, Somaliland backed the Saudi-led coalition on 10 June, Eritrea on 12 June and Djibouti on 14 June. Discussions regarding the Somali position are ongoing. Ethiopia has formally remained neutral. See Al Jazeera, 2018. 'Qatar's blockade in 2017, day by day developments', 18 February, <http://www.aljazeera.com/news/2017/10/qatar-crisis-developments-october-21-171022153053754.html> (accessed 20 March 2018) and Horn Diplomat, 2017. 'Somaliland Supports Saudi-led Coalitions cut ties to Qatar', 10 June, <http://www.horndiplomat.com/2017/06/10/somaliland-supports-saudi-led-coalitions-cut-ties-to-qatar/> (accessed 19 January 2018). For local views from both sides see Al Jazeera. 2017. 'Africa and the Gulf crisis: the peril of picking sides', 15 June, <http://www.aljazeera.com/news/2017/06/africa-gulf-crisis-peril-picking-sides-170615100929852.html> (accessed 21 July 2017); for an Ethiopian perspective, see: The Ethiopian Reporter, 2017. 'The rift in the GCC and diplomatic responses from the IGAD region', 1 July, <http://thereporterethiopia.com/content/rift-gcc-and-diplomatic-responses-igad-region> (accessed 19 January 2018).
 - 3 Richard, R. 2015. *War in Yemen: The African Dimension*, London: Oxford Research Group.
 - 4 Abdi, R. 2017. *A Dangerous Gulf in the Horn: How the Inter-Arab Crisis Is Fueling Regional Tensions*, Brussels: International Crisis Group; Shiferaw, L. 2016. 'The role of Gulf states in peace and security and development in Sub-Saharan Africa', Working Paper 16, Roma: Istituto Afari Internazionali; Maru, M. 2017. 'The rift in the GCC and diplomatic responses from the IGAD region', *The Reporter*, 1 July, <http://www.thereporterethiopia.com/content/rift-gcc-and-diplomatic-responses-igad-region> (accessed 19 January 2018).

Some of the ties between the regions, such as the establishment of military bases on the Red Sea coast and the involvement of Horn states in the Yemeni conflict, have attracted significant attention, while others remain less examined.⁵ Specifically, the Horn of Africa is seeing increasing investments by international businesses, including from Gulf countries, which rank amongst the most significant export and import partners for many countries in the Horn. Although China dominates the fossil fuels segment (mainly from South Sudan) and thus tops aggregate statistics on Horn exports, the Gulf states are the main trading partner for goods other than fossil fuels from the Djibouti, Somali, South Sudanese and Sudanese economies (see figure 2). This picture of trade fits neatly into Vision 2030 and Africa Rising narratives, which stress the need for Gulf states to diversify their economies and the emerging opportunities in African states, but Gulf countries have been known to mix political, business and religious motives in their interactions.⁶ In addition, modalities can vary considerably, as can be seen in the contrast between investments through the Qatar Sovereign Wealth Fund, direct financial support to candidates in the most recent Somali elections⁷ and alleged displacement due to substantial land acquisitions across Sudan and Ethiopia by Saudi Arabia.⁸

-
- 5 In recent years, several military bases have been constructed or planned in the Horn of Africa. Examples include bases by the United Arab Emirate in Berbera Port (Somaliland), Mogadishu (Somalia) and Assab (Eritrea); Turkey in Mogadishu (Somalia); China in Obock Port (Djibouti); Saudi Arabia in Djibouti (planned). For other developments, see Richard, op. cit.; Anyadike, O. 2017. Updated rough guide to foreign military bases in Africa', Irin, 15 February, <https://www.irinnews.org/feature/2017/02/15/updated-rough-guide-foreign-military-bases-africa> (accessed 19 January 2018).
 - 6 Roxburgh, C., et al. 2010. 'Lions on the Move: The progress and potential of African Economies', McKinsey Global Institute; McSparren, J., et al. 2014. 'Qatar's global investment strategy for diversification and security in the post-financial crisis era', Centre on governance research paper series (No. 02/17/EN), Ottawa: University of Ottawa; McSparren, J., et al. 2015. 'Contours of Qatar-Sub-Saharan Africa Relations: Shedding Light on Trends and Prospects', in: *Mapping GCC foreign policy resources, recipients and regional effects*, ed. Young, K., and Khatib, L., London, London School of Economics and Political Science; The Economist Intelligence Unit. 2011. 'GCC trade and investment flows: The emerging-market surge', Economist Intelligence Unit Report, London: The Economist.
 - 7 See for instance: Gettleman, J. 2017. 'Fueled by Bribes, Somalia's Election Seen as Milestone of Corruption', New York Times, 7 February, <https://www.nytimes.com/2017/02/07/world/africa/somalia-election-corruption.html> (accessed 27 September 2017).
 - 8 Examples of tensions over Gulf investments in agricultural land can be found in Middle East Business Intelligence, 2013. 'GCC investors eye African farmland', 23 June, <https://www.meed.com/analysis/special-reports/gcc-investors-eye-african-farmland/3176877.article> (accessed 27 September 2017); Hussein, W. 2016. 'Will Saudi Agricultural Investments in Sudan leave Egypt high and dry?', Al Monitor, 1 June, <http://www.al-monitor.com/pulse/originals/2016/01/saudi-investments-agriculture-sudan-egypt-fears-water-nile.html> (accessed 27 September 2017).

Figure 2 Exports from the Horn of Africa to selected partners

Excluding fossil fuels exports. Data drawn from Chatham House (2018), 'resourcetrade.earth', <http://resourcetrade.earth/>, based on UN Comtrade data (accessed 7 March 2018). Inclusion of fossil fuels would move China to the top spot as export destination, mainly based on South Sudanese oil exports.



Horn actors themselves have hardly remained passive recipients.⁹ Economic drivers have been central to the outbreak, continuation and cessation of conflict in the region, and actors have at times actively courted Gulf countries for financing.¹⁰ A significant amount of the politics of the Horn of Africa can be understood through the metaphor of the political marketplace: political allegiances are traded for various resources, and additional sources of rent are quickly captured to support or alter the prevailing political settlement.¹¹ In this context, combined with the Horn's strong patterns of cross-border trade, the implications of the resources mobilised through investments, trade flows and political allegiances can have significant consequences on regional stability, and thereby on trade through the Gulf of Aden, migration patterns and security.¹²

9 Clapham, C. 2017. *The Horn of Africa. State Formation and Decay*. London: Hurst.

10 Love, R. 2009. *Economic Drivers of Conflict and Cooperation in the Horn of Africa: A Regional Perspective and Overview*, London: Chatham House; Verhoeven, H. 2015. *Water, Civilisation and Power in Sudan. The Political Economy of Military-Islamist State-Building*, Cambridge: Cambridge University Press.

11 De Waal, A. 2015. *The Real Politics of the Horn of Africa: Money, War and the Business of Power*, Cambridge: Polity Press.

12 De Waal, A. 2016. 'Africa's \$700 Billion Problem: Waiting to Happen', Foreign Policy, 17 March <http://foreignpolicy.com/2016/03/17/africas-700-billion-problem-waiting-to-happen-ethiopia-horn-of-africa/> (accessed 19 January 2018).

However influential, the extent of Gulf economic interests in the Horn is rarely explored; assessments of the impact of these activities are even more limited. This report looks into the extent of economic engagement by Gulf states in the Horn, and the linkages between these financial streams and prospects for stability in the Horn region. It sets out a comprehensive overview and political-economic analysis of Gulf-Horn economic relations, but does not purport to be exhaustive given the opaque nature of the business relations and financial transfer this includes. The report begins with an overview of historic ties between the regions to place current developments in context. It then examines the determinants of Gulf aid, investment and trade in the Horn from the perspective of the Gulf investors. Next, it maps the scope of Gulf investments in the Horn since 2000, comparing it with the more public official development aid (ODA) instruments before moving on to approach Gulf investments from the perspective of a recipient country in the Horn, Ethiopia, to highlight both motivations and implications. The report concludes with an assessment of Gulf-Horn economic relations and some of the implications for analysts and policy makers active in the region.

The report defines the Gulf as Kuwait, Qatar, Saudi Arabia and the UAE¹³ and the Horn of Africa as Djibouti, Eritrea, Ethiopia, Somalia, South Sudan and Sudan, but an in-depth exploration of the business ties between each of these highly diverse countries is beyond the scope of this report. As a consequence, examples are mainly drawn from Ethiopian, Sudanese, Saudi Arabian, United Arab Emirati and Qatari contexts. Such examples may be generalisable to a certain extent, but neither the Horn nor the Gulf forms a homogenous block. Extrapolations not taking into account the local context on either side of the Red Sea may therefore obscure important differences.¹⁴ The report focusses primarily on Gulf funding mobilised through foreign direct investment and foreign portfolio investment against the backdrop of the wider trade patterns, official development aid, macroeconomic support to Horn governments and direct individual payments. Although analytically distinct, these instruments are frequently mixed within individual projects or transactions, and cannot be neatly separated in most cases.

13 While Turkish influence is substantially related to many of the dynamics discussed, it is left outside the scope of this report.

14 For instance, although Arabic is widely spoken in the Horn, it is not in Ethiopia, whereas in Djibouti French is the language of education and government, and in South Sudan the sole official language is English. Similarly, the proximity to the Arabian Peninsula has ensured that Islam has had a long and profound impact on the Horn of Africa. It would be a mistake, however, to label the region as Islamic. South Sudan has a larger Christian than Muslim population, while Ethiopia and Eritrea are split more evenly between the two religions. These differences influence the material relationships between each Gulf and Horn state. For example, the Saudi Arabia-based Islamic Development Bank runs projects in the predominantly Muslim countries Djibouti, Somalia and Sudan, but not in Eritrea, Ethiopia or South Sudan as they are not members of the Organisation of Islamic Cooperation.

2 A long, long history

The material realities and perceptions of Gulf Arab aid, investment and trade into African states cannot be understood without factoring in the long and deep history of ambivalent relations between the Arabian Peninsula and the Horn of Africa. The societies of the Gulf have profoundly influenced the economic, political and sociocultural landscape of the Horn of Africa and vice versa. From the Sinai Peninsula and the Gulf of Aqaba in the north to the strait of Bab al-Mandab and the Gulf of Aden in the south, the Red Sea is at no point wider than 355 kilometres. This geography underpins a long and deep history of relations that have often swung back and forth between intimate partnership and prejudiced animosity. Historical experiences accumulated over the centuries continue to colour how policy makers and ordinary citizens perceive each other today.

Religion is crucial in this regard. Although the monotheistic faiths had their cradle in the Middle East, northeast Africa was the site of pivotal moments in their respective traditions. It was in Egypt that Moses confronted the Pharaoh and that the Holy Family sought refuge; the legendary Kingdom of Kush, in today's Sudan, features prominently in the Bible as the land ruled over by Noah's grandson; the first Muslim *hijra* to flee persecution by the dominant Quraish tribe in Mecca was, following the instructions of the Prophet Muhammad, to Ethiopia; and the mystical union of the Jewish Prophet-King Solomon and the Ethiopian Sheba remains an enigmatic story integral to Jewish, Christian and Islamic traditions. Such narrations, fundamental to family settings and public education systems, give relationships between both sides of the Red Sea a sense of great familiarity.

Yet if religious connectivity has often represented the positive dimension to proximity, other memories – of competing imperialisms and military betrayal – are less cheerful. No old wound is more painful than the centuries of enslavement of hundreds of thousands of Africans and those of African descent across the Hejaz, the Najd, Oman and Yemen.¹⁵ Associations between blackness and slavery remain powerful shapers of attitudes and prejudice on both sides of the Red Sea, framing perceptions of contemporary labour migration such as the Ethiopian domestic workers employed in the Gulf. Slavery was in fact only abolished in Saudi Arabia and Yemen in living memory,

15 UNESCO. 1984. *Historical and Socio-Cultural Relations between Black Africa and the Arab World from 1935 to the Present*, Report and Papers of the Symposium Organized by UNESCO in Paris from 25 to 27 July 1979, The General History of Africa: Studies and Documents, Paris; Al-Khidr 'Abd al-Baqi, M. 2006. *Surat Al- Arab ladha al-Afariqa*. Cairo: Jami at al-Duwal al- Arabiyya.

1962.¹⁶ The practice continues to exist and be tolerated in certain parts of Sudan and Yemen. In the Horn itself, patterns of cross-border labour exploitation persist, such as South Sudanese employed in Sudan and Eritreans in Djibouti, while labour migration in the other direction remains limited. Against this historic backdrop, complexion continues to serve as an important, though contextual, marker of social position.

The movement of ideas, traditions, slaves and pilgrims between the Horn and the Peninsula was for centuries complemented by a rich and well-balanced trade in food grains, salts, coffee, frankincense, livestock and much else.¹⁷ This relative economic equilibrium between both regions was also visible in their joint subjugation by various imperial projects – most prominently those of the Ottomans and the British – which cut some of the interregional links that had grown organically in the past yet stimulated intensified interactions between Arabia and Africa in other ways.¹⁸

A shared thirst for independence and the spread of ideologies like Pan-Arabism meant that nationalist aspirations in the Middle East and northeast Africa stimulated each other.¹⁹ Oman, Saudi Arabia and Yemen had long established statehood, the latter two after World War I, but the independence of Bahrain, Qatar and the UAE in 1971 came only a few years after that of Somalia and Kenya. Djibouti, in 1977, was the last state in the region to end European colonial rule. Many observers expected the emerging autonomous countries in both regions to be natural allies given their shared history and certain cultural similarities: Arabic is spoken on both sides of the Red Sea (recognised as one of a number of official languages in Djibouti, Eritrea, Somalia and Sudan); tastes in food and music overlap to some degree; tribal diaspora populations connect Yemen with Somalia and Kuwait and Saudi Arabia with Sudan; and the deeply religious character of all these societies could strengthen transnational solidarities and identities. Such connections do create a sense of cultural proximity, mainly in Sudan, but other competing identity markers are relevant as well, creating a substantially more complex situation in different Horn states and regions. Many groupings identify themselves more locally through complex ethnic ties, such as Somali identities in Djibouti, while religious identities may at times drive a divide between Horn and Gulf populations, such as in South Sudan.

16 Bowen, W. 2014. *The History of Saudi Arabia*, 2nd edition, Santa Barbara: ABC-CLIO.

17 Verhoeven, H., and Woertz, E. 2016. 'Saudi Arabia and the Horn of Africa', in: *Saudi Arabian Foreign Policy: Conflict and Cooperation*, ed. Patrick, N., London: I.B. Tauris.

18 Ochsenwald, W. 1980. 'Muslim-European Conflict in the Hijaz: The Slave Trade Controversy, 1840–1895', *Middle Eastern Studies* 13, 115–126; Serels, S. 2012. 'Famines of War: The Red Sea Grain Market and Famine in Eastern Sudan, 1889–1891', *Northeast African Studies*, 12 (1), 73–94.

19 Ajami, F. 1978. 'The End of Pan-Arabism', *Foreign Affairs* 57(2), 355–373.

Regardless of ethnic and cultural ties, geopolitics at times played a decisive role. One macro-development that drove the region apart was the Cold War between the US and the Soviet Union, which divided the Middle East and the African continent and forced Arab and African states into different camps.²⁰ Shifting alliances variously pitted Egypt, Ethiopia, Saudi Arabia, Somalia, South Yemen and Sudan against each other in the 1960s, 1970s and 1980s. The initial period of the Cold War (1952–1970) saw Cairo, Damascus, Khartoum and Mogadishu confronting Riyadh, Kuwait, Addis Ababa and Sana'a.²¹ A second phase (1977–1991) reshuffled those coalition structures in the face of regime change and changing political calculations: now Riyadh, Cairo, Khartoum and Mogadishu faced Tripoli, Aden and Addis Ababa.²² The other decisive macro-development that shaped the international relations of the regions (with one another and with the global political economy) was the astonishing increase in the oil price in 1973: one side of the Red Sea emerged almost overnight as a global economic powerhouse, becoming the main creditor of the other side and the make-or-break patron of regimes and rebel movements in the Horn of Africa.

2.1 After Oil: The bargain between the Horn and the Peninsula since the 1970s

An oil price above USD 40 per barrel changed everything after 1973.²³ Not only did it dramatically bolster the importance of the Gulf states to the superpowers (the Gulf was the only region with which Western states ran a trade deficit, creating stagflation in the West), it also rocked the trade balance between the Peninsula and the Horn. All states on the Western shore of the Red Sea were (and are) net importers of oil, triggering balance-of-payments crises from Cairo to Mogadishu that coincided with growing economic difficulties of their own making.²⁴ To compensate for the acute shortfall in cash required to import daily necessities (including oil), African governments, including those in the Horn, stimulated their citizens to join the rapidly expanding labour force of

20 Westad, A.O. 2005. *The Global Cold War: Third World Interventions and the Making of our Times*. Cambridge: Cambridge University Press.

21 Al-Rasheed, M. 2002. *A History of Saudi Arabia*. Cambridge: Cambridge University Press, 106, 130–133.

22 Markakis, J. 1987. *National and Class Conflict in the Horn of Africa*, Cambridge: Cambridge University Press; Witty, D.M. 2001. 'A regular Army in counterinsurgency operations: Egypt in North Yemen, 1962–1967', *Journal of Military History*, 65(2), 401–439; Doran, M. 2006. 'Egypt. Pan-Arabism in Historical Context', in: *Diplomacy in the Middle East*, ed. Brown, L.C., London: I.B. Tauris, 112–114; Aalen, L. 2014. 'Ethiopian state support to insurgency in Southern Sudan from 1962 to 1983: Local, regional and global connections', *Journal of Eastern African Studies* 8, 627–628.

23 Ulrichsen, K. 2011. 'Repositioning the GCC States in the changing global order', *Journal of Arabian Studies* 1, 231–247.

24 Examples include lagging domestic industrial and agricultural production, rising inflation, inability to create jobs that kept up with rising populations, rampant urbanisation, mounting debt levels, persisting trade deficits, and so on.

Saudi Arabia, Kuwait and the UAE so that they could send back valuable remittances earned in the Gulf. Moreover, they also positioned themselves as deserving recipients of ODA and foreign direct investment (FDI) from the Gulf. Invoking historical, religious and cultural ties as well as underscoring that untapped agricultural potential in the interior of the Horn could help meet the growing food deficit on the Arabian Peninsula, African states sought to benefit from the growing asymmetries in wealth and power with the Gulf. Their courting of aid and investment in exchange for political loyalty and resources was a deliberate strategy that combined the need to make economic ends meet with a desire to maintain political stability.²⁵

The positioning of post-independence African presidents during the Cold War was a classic case of extraversion: an intentional leveraging of limited assets – vital minerals, military bases and professed loyalty to Moscow or Washington – to attract external assistance that would help defeat internal rivals.²⁶ After 1973, extraversion came to define the previously relatively equal relationship between the shores of the Red Sea. Egypt, Sudan and Somalia sought Gulf patronage and sent doctors, engineers and teachers to Riyadh, Jeddah and Abu Dhabi. They pledged loyalty to Saudi Arabia in its fight against communism and spoke of informal economic union with Gulf states. For their part, Kuwait, Qatar, Saudi Arabia and the Emirates made unprecedented sums of money available to help African states weather their balance-of-payments crises. Prior to the oil crisis, 80 percent of Gulf ODA went to other Arab countries, the Kuwait Fund for Arab Economic Development being at the centre of this generosity (see figure 3). After 1974, Kuwait began to lend hundreds of millions of dollars for special assistance to non-Arab nations in Asia and Africa for the first time. Saudi Arabia and, to a lesser extent the UAE, also established themselves along the world's top aid donors in both absolute and per capita terms as they provided significant sums to help poorer nations deal with the rising cost of oil and imported goods. In 1977, at the Afro-Arab Conference in Anwar Sadat's Cairo, Gulf states committed to invest USD 1.35 billion in African development projects over the next five years.²⁷

It is the element of continuity between the 1970s and today that is striking. Despite continual disappointments on both sides with what this partnership actually delivered in economic terms, the key bargain – political-economic alignment between regional blocs to help manage dependence and vulnerability in turbulent international waters – has proven too valuable to abandon. Extraversion is still, as we will see, the order of the day in Gulf-Horn interactions.

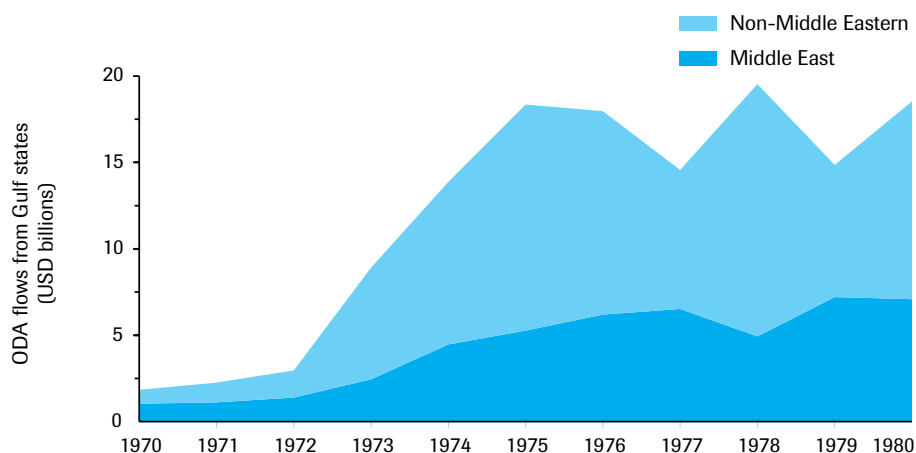
25 Verhoeven, H. 2016. 'The Gulf States in the Political Economy of the Nile Basin: A Historical Overview', in: *Water Politics in the Nile River Basin. Challenges and New Investments*, ed. Sandström, E., Østigård, T., and Jagerskog, A., London: I.B. Tauris, 53–72.

26 Clapham, C. 1996. *Africa and the International System: the Politics of State Survival*, Cambridge: Cambridge University Press.

27 Miller, R. 2016. *Desert Kingdoms to Global Powers*, New Haven: Yale University Press.

Figure 3 Gulf ODA to Middle Eastern and non-Middle Eastern recipients

Based on 'Aid (ODA) disbursements to countries and regions [DAC2a]' datasets of Saudi Arabia, the United Arab Emirates and Kuwait. Excludes ODA disbursements made through multilateral institutions.



2.2 Confrontation and disengagement in the 1990s: Islamism and its enemies

The end of the bipolar confrontation between the US and the Soviet Union was a chasm for the geopolitics of the Red Sea as well. The oil price bubble had already burst in 1986 and thereby limited how much largesse the Gulf states could bestow on their clients, whether governments as in Somalia or Sudan or rebel movements in Eritrea, but the demise of the Socialist bloc also meant that the perceived need to do so was much less acute. The collapse of the Marxist-Leninist Derg government in Ethiopia (1991) and the disappearance of the People's Democratic Republic of South Yemen (1990), combined with the independence of Eritrea (1991/1993), meant that the foreign policy goals of Saudi Arabia seemed to have been achieved.²⁸ The 1990s were a decade of disengagement from Africa by Gulf actors. The implosion of the Somali state meant that working on the ground there became more difficult – lacking a formal government serving as interlocutor and security guarantor investments in various factions continued, albeit on a smaller scale (see box 2) – and a now autonomous that Eritrea was too small and too distrustful of private-sector activity to be a major recipient of Gulf aid, investment or trade.²⁹ The biggest headache was Sudan, which in 1989 had witnessed an

28 Verhoeven and Woertz, *op. cit.*

29 Historically, Gulf support to Eritrean aspirations for independence had been key: see, for example, Abir, M. 1974. *Oil, Power and Politics: Conflict in Arabia, the Red Sea and the Gulf*, London: Cass.

apparently traditional coup d'état by the army, but which quickly revealed itself as a front for an Islamic Revolution.

Led by the mercurial scholar and Islamist politician Sheikh Hassan Al-Turabi, the Khartoum government sought not only to fundamentally reform its domestic society and to intensify the war in Central and Southern Sudan against the rebels of the Sudan People's Liberation Army (SPLA), but also to radically restructure the international relations of both the Horn of Africa and the Middle East.³⁰ The military-Islamist regime was fiercely critical of the role of the US and Saudi Arabia in the Islamic world and decided to side with Saddam Hussein's Iraq following the latter's invasion of Kuwait in 1990 and the subsequent Gulf War.³¹ Turabi invited dissidents from across the region – including Osama Bin Laden and his Al-Qaeda network, which wanted to overthrow the House of al-Saud in Riyadh and Hosni Mubarak in Cairo – and established political and security relations with Iraq and Iran, the two nemeses of King Fahd and Crown Prince Abdallah. This led the Gulf states, led by Kuwait and Saudi Arabia, to suspend nearly all aid, investment and trade relationships, public and private, with Sudan in an effort to isolate and contain Turabi (an objective shared by Ethiopia and Eritrea from 1995 onwards). In the 1990s, Sudan received only a meagre 0.5 percent (USD 0.1 billion) of pan-Arab development assistance, whereas this figure stood at 5 percent in the preceding (USD 3.6 billion) and following decade (USD 0.5 billion).³²

Initially, this strategy appeared highly unproductive as Egyptian jihadists, with extensive backing by the Sudanese intelligence services, nearly succeeded in assassinating Mubarak during a Pan-African summit in Addis Ababa in 1995. However, the total isolation of Sudan, growing momentum for the SPLA rebellion and the financial cost of pariah status led to deep internal fissures in the military-Islamist government. In December 1999, Turabi was betrayed by his former co-conspirators and ousted from the regime he had created; power passed to Brigadier-General Omar Al-Bashir, who had since 1989 served as president but had been a mere figurehead until then.³³ Immediately, Cairo threw its political weight behind the reformed Khartoum government (reformed in the sense that Bashir announced the end to Sudan's revolutionary foreign policy, whilst continuing to pursue its domestic agenda) and persuaded the Gulf states too to engage with the 'new' leadership. Sudan once again became the Gulf's prime point of contact and engagement in the region.

30 Verhoeven, 2015, *op. cit.*

31 Faksh, M. 1994. 'The prospects of Islamic fundamentalism in the post-Gulf War period', *International Journal*, 49(2), 183–218.

32 World Bank. 2010. *Arab Development Assistance: Four Decades of Cooperation*, Washington DC: World Bank Group.

33 Roessler, P. 2016. *Ethnic Politics and State Power in Africa: The Logic of the Coup-Civil War Trap*, Cambridge: Cambridge University Press.

2.3 So close, yet so far: Cooperation amidst disappointment and distrust in recent history

The toppling of Turabi meant, for the Gulf monarchies, the end of a directly hostile presence on the other side of the Red Sea. Even after 11 September 2001, when Saudi Arabia came under repeated attack by Al-Qaeda (including the Khobar terrorist strikes in 2004), Khartoum no longer represented a threat after well-known foreign jihadists were expelled from Sudan. Yet despite this undeniable foreign policy success, ties between Sudan and Saudi Arabia over the next decade could not be described as warm.³⁴ The reasons for the ambivalent relationship were similar to those for the Saudis' lukewarm contacts with Eritrea, Ethiopia and Djibouti: from the Gulf Arab perspective, these African states were quite keen to receive external largesse but often made life difficult for Gulf investors on the ground by trapping them in a bureaucratic maze.³⁵ Moreover, they offered only half-hearted political support for the international causes Riyadh and Abu Dhabi deemed vital, such as isolating Iran and stopping support for Hamas in Gaza and Hezbollah in Lebanon; Sudan in particular disappointed them because it maintained important political and military contacts with Tehran. However, from the Horn perspective, it was the Gulf states that did not live up to their side of the bargain by proving fickle commercial investors and disinterested political partners, for whom Africa (like for much of the rest of the world) ranked at the bottom of their priority list. Cash-strapped, African governments have consistently signalled that they will partner with whoever is able to provide financial and other assistance for their strategies of regime survival and economic development. Ideological or sectarian preoccupations – such as the Sunni-Shia rivalry or the three-way competition between Wahhabists, secularists and Muslim Brothers at the centre of so much of Middle Eastern politics of the last two decades – are seen as costly distractions from more urgent challenges by Horn political actors.

This pattern of real cooperation and a quest for mutually beneficial economic and political ties amidst sequential disappointment and distrust persists today. Gulf states fret over large-scale migration from the Horn across the Red Sea (whether in transit to Europe or with the Arabian Peninsula as a final destination) and over the enduring close connections that Eritrea and Sudan (until very recently) maintained with Iran, Riyadh's arch-enemy.³⁶ Horn states on the other hand are faced with refugees and arms-trading stemming from Yemen. Moreover, a rising Ethiopia's challenge to Egypt's historical hegemony in the Nile Basin – amongst other ways through the construction of the Grand Ethiopian Renaissance Dam – deeply concerns Saudi Arabia and the UAE,

34 Verhoeven and Woertz, *op. cit.*

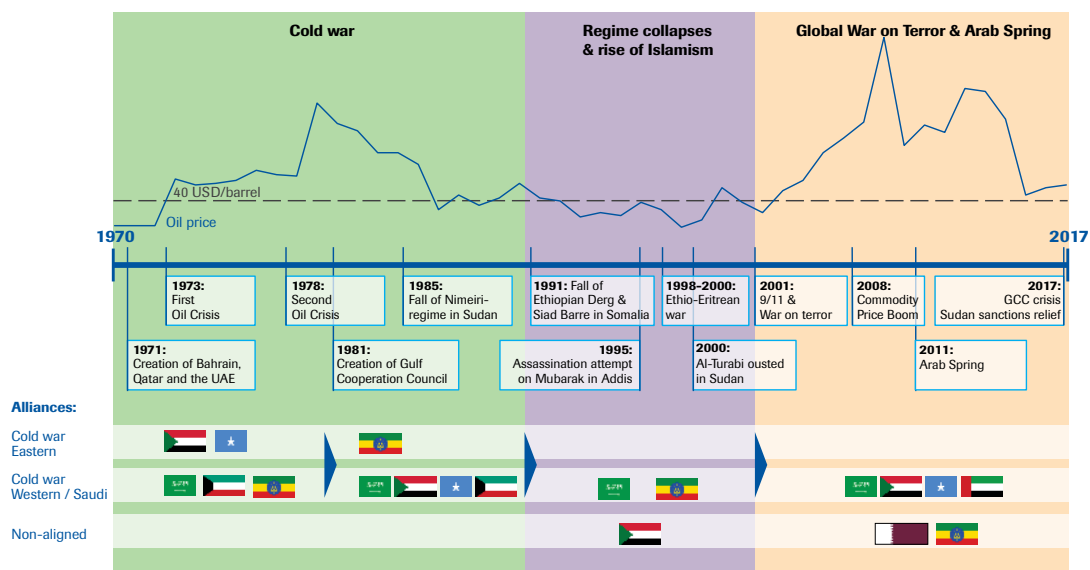
35 Woertz, E. 2013. 'The Governance of Gulf Agro-investments', *Globalizations*, 10, 87–104.

36 Atarodi, A. 2010. *Yemen in Crisis, Consequences for the Horn of Africa*, Stockholm: Swedish Defence Research Agency; Flahaux, M., and De Haas, H. 2016. 'African migration: trends, patterns, drivers', *Comparative Migration Studies*, 4(1).

who see the stability of Egypt as critical to the regional balance of power in the greater Middle East. Egypt has historically been a gateway for Gulf Arab political and economic actors to enter the rest of Africa and, as the geographical pivot seated between North Africa, the Horn, the Levant, the Red Sea and the Arabian Peninsula, its stability directly shapes the national security of Gulf states. The presence of millions of Egyptians in other Arab countries, especially the Gulf, as guest labourers only further underlines why Egypt matters considerably to Riyadh and Abu Dhabi in particular.

For their part, most Horn of Africa societies worry about, on the one hand, the intensifying identity politics and sectarian extremism that the Gulf exports and, on the other, the pressures they face in having to choose sides in geopolitical rivalries (whether between the Gulf Arabs and Iran or amongst the Gulf Cooperation Council member states themselves) that they would rather stay out of. Djibouti, Eritrea, Somalia and Sudan know Gulf states cannot take their political allegiance for granted and thus skilfully play them off against each other for financial gain, but they know this is a dangerous game to dabble in; their fears about deepening domestic instability and inter- and intra-religious confrontation are growing. At the same time, the Arabian Peninsula is a key destination for many youngsters who send back desperately needed remittances yet who often experience profound racism and violent abuse during their sojourns in Saudi Arabia, Kuwait, Oman or elsewhere. Thus although the Gulf is seen as an inevitable partner with long-standing cultural and historical connections to the Horn (see figure 4 for an overview), the relation is ultimately driven by necessity rather than a shared cultural and historical legacy, as this legacy can be as divisive as it can be bonding.

Figure 4 Timeline of important events in the Gulf and the Horn of Africa



3 The determinants of Gulf aid, investment and trade in the Horn

3.1 An economic strategy as part of wider foreign policy

Contemporary perceptions by Africans of Gulf Arab aid, investment and trade into the Horn cannot be fully understood without considering the role Gulf societies and states have played for decades and centuries in Africa. The long record of exchanges and proximity set out in the previous section have a decisive bearing on the external policy Gulf states are currently pursuing vis-à-vis the Horn of Africa. This section makes two core points. First, it posits that the vast majority of economic initiatives by Gulf actors in the Horn are still directly inspired by and mediated through political factors- politics and economics are not discrete realms, but two sides of the same coin.³⁷ It thus illustrates how the current mixture of political and economic drivers is translated in concrete policy instruments. Second, the section highlights not only the related opportunities but also the risks, both to elites and to wider populations. Sudan's experience offers a concise historical example. Although Sudan's ties with Gulf states are uniquely close relative to those of other Horn states, the failure of the Breadbasket gamble illustrates the opportunities and hazards the Gulf's mixture of political and economic aims and instruments in the Horn still carries.

Box 1 Sudan's Breadbasket Gamble³⁸

On 25 May 1969, leftist officers led by Colonel Ja'afar Nimeiri overthrew the democratically elected Sudanese government amidst growing doubts that the promises of peace and prosperity that the political class had made at independence in 1956 would be kept.³⁹ Nimeiri held the upper hand militarily

37 Halliday, F. 2005. *The Middle East in International Relations*, Cambridge: Cambridge University Press; Clapham, C. 1996. *Africa and the International System: the Politics of State Survival*, Cambridge: Cambridge University Press; De Waal, 2015, *op. cit.*

38 Draws on Verhoeven, *op. cit.*, 73–81.

39 Niblock, T. 1987. *Class and Power in Sudan: The Dynamics of Sudanese Politics, 1898–1985*, Albany: SUNY Press.

but lacked the organization in the form of a national political party and requisite patronage networks to durably establish control over Sudan. Moreover, once in power Nimeiri soon realised that promising development was easier than actually delivering it in a poor African country. Seeking a way out, the new president gambled that the solution lay in a partnership with the Gulf states whose revenues were skyrocketing as oil prices shot up in the early 1970s. Nimeiri knew that Kuwait, the Emirates and Saudi Arabia worried about rising water and food scarcity as consumption and population levels soared.⁴⁰ Sudanese officials trumpeted that 200 million acres of arable land were available in the country's interior. Sudan could become the "Breadbasket" of Africa and the Middle East but, for it to fulfil this historical destiny, Western technology and Gulf Arab petrodollars would be needed on a massive scale, or so Nimeiri and his aides said.⁴¹ This strategically calibrated message coincided with mounting global fears about desertification, drought and famine; 1974 had been a devastating year, hundreds of thousands dying of hunger in the Sahel and Bangladesh. Khartoum's offer to put its land, labour and water resources at the disposal of the Gulf thus simultaneously suggested that a failure to put such unique potential to good use would spell a Malthusian disaster.⁴²

Funded bilaterally by the dominant states on the Arabian Peninsula, and multilaterally through multiple Gulf Arab development funds, the Breadbasket was hailed by the World Bank, IMF and Western governments as a visionary policy. Yet what presented itself as an economic and environmental proposition was in fact a deeply political gambit. Nimeiri needed the petrodollars to pay for his state-building project, the crafting of new coalitions and the penetration of his rivals' rural political strongholds. Under the guise of technocratic advice, only those crops, regions and networks that Nimeiri favoured would benefit from the Breadbasket largesse as billions of dollars in Gulf money poured into Sudan – a mechanism that acted as a punishment for recalcitrant local politicians and businessmen and as an incentive for these groups to switch to the president's side. The expansion of mechanised farming in Sudan obeyed an iron political logic but continued to explain itself in terms of agricultural objectives and instruments.

40 Woertz, E. 2013. *Oil for Food: The Global Food Crisis and the Middle East*, Oxford: Oxford University Press, chapters 2 and 6.

41 Verhoeven, H. 2011. 'Climate Change, Conflict and Development in Sudan: Global Neo-Malthusian Narratives and Local Power Struggles', *Development and Change*, 42(3), 679–707.

42 Wilson, R. 1979. *The Economies of the Middle East: The Ghost of Malthus Lingers on*, London: MacMillan Press.

Although Riyadh, Kuwait City and other Gulf governments did indeed see an opportunity to address the rapidly growing “food gap” between lagging domestic production and soaring consumption (particularly following the post-1970 economic boom),⁴³ they too had, from the start, political motives too for partaking in the Breadbasket.⁴⁴ The Breadbasket was as much about Gulf foreign and domestic policies as it was internal and external objectives for Sudan. Nimeiri had initially modelled himself on Egypt’s revolutionary leader Gamal Abdel Nasser (1952–1970) and had entered into an alliance with the Sudanese Communist Party, which preoccupied King Faisal of Saudi Arabia greatly. When the Sudanese ruler fell out with the communists in 1971, Faisal was keen to put Khartoum on a more conservative trajectory; committing petrodollars to Sudanese agriculture anchored Nimeiri in a pro-Saudi orbit and kept it safely away from any socialist allegiances that Riyadh abhorred. Sudan became a loyal friend of the Gulf Arabs and the West; Washington provided it with military assistance, turning it into a major client state. Expanding mechanised agriculture in the Sudanese peripheries thus served greater geopolitical purposes.

The Breadbasket dream and the internal and external alliances it had helped to build came crashing down in 1985 when protests toppled Ja’afar Nimeiri. Shortages and rampant inflation were the proximate cause of regime change but underlying was the failure of the extraversion gambit to which the president had tied his political fate. Although the Breadbasket had promised to transform Sudan into an agricultural superpower, by the early 1980s the country faced the return of famine to its western, central and southern regions.⁴⁵ Soils were being exhausted, land was being degraded and productivity was sinking rather than soaring. Agricultural projects failed to live up to expectations as political and patronage considerations precluded sound agricultural management and development practices, leading to various problems such as soil erosion. Tens of thousands – maybe hundreds of thousands – of people had been displaced to feed the Middle East and Africa. However, Nimeiri had neither managed to vanquish the old political elites nor to counter the rising new forces in Sudanese politics, whether the Islamists of Hassan Al-Turabi or the rebels of the Sudan People’s Liberation Army/Movement. The latter in particular attracted recruits and support from those dispossessed by the Breadbasket.⁴⁶

43 Woertz, E. 2014. ‘Environment, Food Security and Conflict Narratives in the Middle East’, *Global Environment*, 7(2), 490–516.

44 Verhoeven and Woertz, *op. cit.*

45 De Waal, A. 1989. *Famine that Kills: Darfur, Sudan, 1984–85*, Oxford: Clarendon Press.

46 Komey, G. 2010. *Land, Governance, Conflict & the Nuba of Sudan*, Woodbridge: James Currey.

Nimeiri's erstwhile foreign friends had left disappointed too. The oil price had fallen back from its peak of more than USD 100 in 1979–1980, meaning that petrodollars were no longer just spare cash at the disposal of the foreign policy of Gulf states but were actually needed at home to sustain the ballooning cost of the huge patronage systems the Gulf royals had built to sustain domestic stability. Moreover, many Gulf investors felt tricked by the Nimeiri regime, losing their way in Sudan maze's of crony politics and bureaucracy. As the questionable hydro-agricultural assumptions underpinning the Breadbasket were exposed by disappointing production figures, Gulf capital pulled out, seeking easier returns and more transparent projects to invest in.⁴⁷

Although Horn states differ significantly in their domestic political and economic situations as well as in the relationships they maintain with Gulf states, Sudan's bid in the 1970s and 1980s to become the Breadbasket of Africa and the Middle East provides several lessons which apply to some degree to many of the relationships between the elites of the Arabian Peninsula and those of the Horn. It is a cautionary tale for those (over)enthusiastically seeking regional integration between both shores of the Red Sea today. The Breadbasket story underlines the fundamentally political motivations that often determine aid, investment and trade flows, rather than discrete economic variables or sound ecological arguments, whether on the side of the donor (the Gulf) or the recipient (the states of the Horn).⁴⁸ It also highlights the ways in which extraversion is not only a lucrative but also a risky strategy for African states to pursue, not least because of the dependence on factors they do not control (e.g., oil prices). Finally, it underscores the crucial point that the stakes of political-economic ventures are quite different for both partners: whereas the sums of money are comparatively small for Gulf states (and therefore an irritant in case of losses but inconsequential for their macroeconomic balance sheets), for the countries of the Horn they can be positively transformative or catastrophically destabilising. Three decades after the collapse of the Breadbasket, these insights remain highly pertinent.

These lessons are also particularly important in light of the dramatic scaling-up of the political, military and economic presence of Gulf Arab actors in the Horn of Africa over the last ten to fifteen years. After a near-total withdrawal in the late 1980s and 1990s, Emirati, Kuwaiti, Qatari and Saudi actors have returned to the Horn – hesitantly at first, but with increased vigour since 2008. This comeback began in Sudan: Gulf governments and multilateral funds provided the lion share of the funding for Khartoum's multibillion

47 Verhoeven, 2015, *op. cit.*, chapter 5.

48 For a longitudinal analysis of the political determinants of aid specifically, see: Neumayer, E. 2003. 'What Factors Determine the Allocation of Aid by Arab Countries and Multilateral Agencies?', *The Journal of Development Studies*, 39(4), 134–147.

dollar Dam Programme from 2001 and 2002 onwards.⁴⁹ Given the close connections between dam building and the rejuvenation of large-scale, capital-intensive irrigated agriculture in Sudan, a flurry of Gulf enterprises followed in the wake of visiting monarchs and scouted out possibilities for an updated version of the Breadbasket: once again, the Sudanese government was offering its land, water and labour to outside investors and hoping to capitalise politically and financially on the inflow of FDI and aid. Some Gulf partners sceptically remembered the debacle of twenty years earlier and withheld their cash. Those who did invest did so in part because the political imperative was clear. Just as their support of the Breadbasket had been intended by Riyadh to keep Nimeiri out of the socialist camp, so the funding of the dams and of Sudan's Agricultural Revival Programme sought to bolster the military and business wing of the regime that came to power in Khartoum in 1989, marginalising the radical Islamists associated with Hassan Al-Turabi who had been dominant in the 1990s. In more recent years, Saudi support to Sudan, such as billions in concessional loans and bank deposits, for the Sudanese regime has been instrumental to securing the continued engagement of Sudanese troops in Yemen and Sudan's breaking off ties with Iran in the wake of the Saudi execution of Shia cleric Sheikh Nimr al-Nimr.⁵⁰

3.2 (Mostly) economic determinants

Bringing Sudan back into the Saudi-led fold of GCC states has proven a major driver for Gulf aid, investment and trade. From 2007 onwards, it has been complemented as a determinant of economic ventures by a dramatic spike in commodity prices. When Asian states banned rice exports and grain prices spiralled out of control a decade ago, food riots broke out in several African countries and fears of a Malthusian crunch returned to the Arabian Peninsula: a repeat of the 1970s seemed to be in the making.⁵¹ The prospect of running out of food and water, and the associated risk of political instability,⁵² compelled sovereign wealth funds and holding companies from Saudi Arabia, Qatar and the UAE to aggressively move on international markets with a view to

49 Verhoeven, H. 2016. 'African Dam Building as Extraversion: the case of Sudan's Dam Programme, Nubian Resistance and the Saudi-Iranian Proxy War in Yemen', *African Affairs*, 115(461), 562–573.

50 Mohammed, B. 2015. 'Gulf States Lend Sudan \$2 Billion to Boost Foreign Reserves', Bloomberg, 20 July, <https://www.bloomberg.com/news/articles/2015-07-20/gulf-arab-states-lend-sudan-2-billion-to-boost-foreign-reserves> (accessed 28 February 2018); The Guardian. 2016. 'Why has Sudan ditched Iran in favour of Saudi Arabia?', 12 January, <https://www.theguardian.com/world/2016/jan/12/sudan-siding-with-saudi-arabia-long-term-ally-iran> (accessed 28 February 2018).

51 Runge, C.F., and Runge, C.P. 2010. 'Against the Grain: why failing to complete the green revolution could bring the next famine', *Foreign Affairs*, 89, 8–15.

52 Bellemare, M. 2015. 'Rising Food Prices, Food Price Volatility, and Social Unrest', *American Journal of Agricultural Economics*, 97(1), 1–21.

buying up or leasing productive land and concluding long-term agreements to secure regular supplies.⁵³ Soaring prices made the cultivation of previously marginal land attractive again. The geographic proximity of the Horn, coupled with cultural similarities and people-to-people familiarity in a number of cases, is an obvious pull factor for Gulf investment in agricultural projects, especially in Sudan and Ethiopia.⁵⁴ Saudi investments are further facilitated by the returning Sudanese and Ethiopian diaspora, who frequently start businesses on their return, drawing on their Saudi connections to find business partners or investors.

Deradicalising Sudan and concerns about food and water security have therefore been flanked as determinants of increased Gulf economic activity in the Horn by more apparently commercial motives as well. Middle Eastern companies have taken up important positions in the telecoms, banking and hospitality sector as well as opening for-profit schools, launching mining operations and acquiring valuable real estate. Gulf-owned enterprises have been central to this move. This presence is in part related to improved macroeconomic management in many African states and reduced exchange rate volatility and inflation.⁵⁵ The much discussed 2010 report by McKinsey & Company, *Lions on the Move: The Progress and Potential of African Economies*, has embodied this recent period of newfound gusto about African markets (often referred to as Africa Rising). Reports of an emerging middle class with greater than hitherto appreciated purchasing power have underpinned this bullishness about economies such as Ethiopia's and Kenya's and increased the buzz about investment in them. The claim is twofold. First, the return on FDI in Africa is higher than anywhere else in the developing world. Second, the gradual urbanisation of the continent will produce a permanent consumer bloc that could revolutionise demand for foreign and African-made goods.⁵⁶

Consumer-facing industries, infrastructure and agriculture across the continent could generate more than USD 2 trillion in revenue annually, which would turn the likes of Ethiopia, Kenya and Sudan into African equivalents of Asian Tigers.⁵⁷ Interestingly, McKinsey's public and private work has not just been important in altering some perceptions regarding (East) Africa's investment climate, but also in drafting extensive

53 Keulertz, M., and Woertz, E. 2015. 'Financial Challenges of the Nexus: Pathways for Investment in Water, Energy and Agriculture in the Arab World', *International Journal of Water Resources Development*, 31(3), 312–325.

54 Verhoeven, H. 2012. 'Sudan and Its Agricultural Revival: A Regional Breadbasket at Last or Another Mirage in the Desert?', in: *Handbook of African Land- and Watergrabs*, ed. Allen, T., et al. London: Routledge, 43–56.

55 Gulf support has been an important factor underpinning the stable exchange rates of the Ethiopian birr and the Sudanese pound.

56 See also Mahajan, V. 2011. *Africa Rising: How 900 million African consumers offer more than you think*, Upper Saddle River: Prentice Hall.

57 Consumer-facing industries are those selling directly to consumers rather than to businesses.

reforms to do so in the Gulf as well, notably in close partnership with the office of Saudi Crown Prince Mohammad bin Salman. It is widely understood that Riyadh's much vaunted (and criticised) *Saudi Vision 2030*, which aims to reduce the Kingdom's oil dependence and diversify its economic base by entering into new international partnerships (including with Africa), was strongly inspired by consultants of McKinsey.⁵⁸ Even if the main thrust of these reforms has little to do with the Horn and investments into Africa rank below those envisaged in Asia and Europe, capturing even a fraction of Saudi Arabia's USD 2 trillion capital funds available to implement Vision 2030 would result in a huge bonanza for any East African state.⁵⁹

This trend of looking towards Africa to recycle some of the Peninsula's petrodollars in the form of investment has been further strengthened by the hundreds of thousands of Ethiopian, Sudanese, Somali, and Eritrean professionals working in the Gulf. Many of these – especially the Sudanese in Abu Dhabi, Eastern Saudi Arabia and Qatar and the Somalis in Dubai – have been key conduits for advice and channelling capital inflows from Gulf economies into their countries of origin. Moreover, diaspora returnees to the Horn in the last decade have brought substantial savings with them from North America, Europe and the Gulf, which has boosted domestic demand and led to the expansion of the banking and services sector. Combined with years of sustained economic growth, itself driven mostly by high commodity prices and expanding cities, this inflow has bolstered the disposable income of a small but meaningful middle class in Addis Ababa, Hargeisa, Khartoum, Mogadishu and Nairobi. For the first time since independence, a group of people – perhaps 20 to 25 million across the Horn (if Kenya is included) – has enough purchasing power to acquire some of the consumer goods that multinational corporations, including Gulf based players in the aforementioned sectors, provide. Whereas 30 years ago the number of potential customers, say, a profit-driven Emirati investor would have counted was too limited to warrant the complex procedures of setting up risky operations on the continent, today's growing market size is changing the cost-benefit ratio and bringing Kuwaiti telecom operators, Qatari property developers and Saudi banks to the Horn. Many investments are further de-risked through the political backing from their home governments they can potentially call upon.

By way of conclusion, it is worth highlighting that as important as these economic motivations for augmented Gulf interest in the Horn are, they remain heavily dependent on political backing by state governments. Few investors would dare to wade into markets they still struggle to understand and navigate autonomously. Economic considerations may be cited as a legitimating factor by Gulf entrepreneurs venturing into

58 Khashan, H. 2017. 'Saudi Arabia's Flawed "Vision 2030"', *Middle East Quarterly*, 24(1). The governments of Kuwait, the United Arab Emirates and Qatar have published similar strategic plans directed towards economic diversification.

59 Khashan, H. 2017. 'Saudi Arabia's Flawed "Vision 2030"', *Middle East Quarterly* 24(1).

the Horn, especially in the case of agricultural projects, but the underlying business case is often questionable. For agricultural (excluding livestock) projects, it should be noted that 1) Gulf states are located on a major shipping route, and could reliably source from other areas while hedging prices; 2) Horn states are food insecure, indicating difficulties with food production in the region; 3) developing and operating large-scale farms in a developing context takes significant expertise, which is not in abundant supply in most Gulf states; and 4) returns on investment from such projects are rarely evaluated by investing Gulf parties, making economic motives as a driving factor unlikely.⁶⁰

3.3 Geopolitical determinants

A third, and currently the most crucial element, that brings Gulf capital to the shores of northeast Africa is geopolitical. Developments like the Emirati and Saudi investments in the ports of Berbera (Somaliland), Doraleh (Djibouti), Bosaso (Somalia) and Assab (Eritrea), the ongoing Saudi support for Sudan's ambitious Dam Programme and promises of billions of Qatari riyals for agriculture, and light manufacturing and social services in Darfur⁶¹ are all to be understood in the context of escalating rivalries between Middle Eastern states and clashing identity paradigms.⁶² Two fault lines are vital. First, the proxy war between Iran and Saudi Arabia (and to a lesser extent the Emirates) is the main factor shaping the violence and diplomatic jockeying in the contemporary Middle East.⁶³ Riyadh is convinced that Iran seeks to undermine the stability of the Gulf and encircle Saudi Arabia with Shia (or at least pro-Iranian) regimes in Bahrain, Iraq, Lebanon, Syria and Yemen.⁶⁴ King Salman and Crown Prince Mohammad bin Salman are supported in this conclusion by de facto ruler Emirati Crown Prince Mohammad bin Zayed who, like his Saudi peers, is convinced that Tehran is still pursuing the revolutionary foreign policy it launched in 1979 when the Islamic Revolution led by Ayatollah Khomeini toppled the shah. Africa's eastern flank is an extension of the battlefield of the Saudi-Iranian rivalry – Tehran and Riyadh each accusing the other

60 In practice, mainly Dutch, Israeli and Chinese investors have managed to develop successful productive farms, though Chinese projects have at times been linked to unsustainable practices and environmental degradation. Interview with an agricultural manager.

61 Doha acted for much of the last decade as the key peace mediator between the government and Darfuri rebels.

62 For a good contextualization and theorization, see: Hinnebusch, R. 2016. 'The Politics of Identity in Middle East International Relations', in: *International Relations of the Middle East*, 4th edition, ed. Fawcett, L., Oxford: Oxford University Press, 155–175.

63 Mason, R. 2015. *Foreign Policy in Iran and Saudi Arabia: Economics and Diplomacy in the Middle East*, London: I.B. Tauris.

64 Cordesman, A., and Obaid, N. 2005. *National Security in Saudi Arabia: Threats, Responses and Challenges*, Westport: Praeger.

of seeking to use African allies to commit aggression against the other. Because the Saudi ruling family sees Iran as an existential threat, no efforts are spared to counter it. This has not only meant rallying Gulf Cooperation Council states (including Kuwait, Qatar and UAE) to support the Saudi-led war in Yemen but also persuading Eritrea, Sudan and Somalia through investments, loans and central bank to central bank transfers to sign up to the pro-Saudi camp and keep Iranian ships out of the Red Sea. Sudan's cutting of ties with Tehran in 2016, despite a previously close politico-military relationship, should be seen in light of this as well as an attempt to enlist Saudi support to delist Sudan from the state sponsors of terrorism list and (partial) lifting of the US sanctions regime.⁶⁵ In a similar vein, in previous years the port of Assab (Eritrea) saw frequent Iranian traffic, but is now hosting Saudi and Emirati military presences and Eritrean fighters are supporting the Saudi-led coalition in Yemen.⁶⁶ The establishment of Emirati and Saudi military bases across the Horn coastline could be seen in a similar light, though the military significance of these bases, when completed, remains rather limited.

The second defining geopolitical fault line is the enmity amongst the Gulf Arabs themselves. Saudi Arabia continues to see itself as the unassailable regional hegemon (and the voice of Sunni Islam globally) whose policies cannot be challenged by other actors in the region. Qatar and the UAE feel both capable of and entitled to an independent foreign policy in which they pursue their own interests in and ideological vision of the Middle East, North Africa and the Horn of Africa.⁶⁷ Doha and Abu Dhabi cannot match the sheer size and firepower of the Saudi armed forces, but by virtue of their oil and gas wealth and nimble financial management have material resources that put them in the same league as Riyadh, even if they are not quite equals. Emirati and Qatari aid and investment into the Horn is thus driven by the same geopolitical objectives as that of their Saudi friends-cum-rivals: commercial projects are meant to consolidate political relations and gain greater influence in regional politics; any profit they might yield is a welcome bonus but not an expected outcome.

This rivalry was mostly hidden from outsiders, but dramatically came to the fore when Saudi Arabia, the UAE, Bahrain and Egypt imposed a sweeping embargo on Qatar in June 2017, seeking to force Emir Tamim bin Hamad Al-Thani to either altogether ditch Qatar's independent foreign policy in Africa and the Middle East or to be ousted by an internal coup. The embargo has so far failed to bring about either of these objectives,

65 Verhoeven, H. 2016. 'African Dam Building as Extraversion: the case of Sudan's Dam Programme, Nubian Resistance and the Saudi-Iranian Proxy War in Yemen', *African Affairs*, 115(461), 562–573.

66 UN Monitoring Group on Somalia and Eritrea. 2017. *Report of the Monitoring Group on Somalia and Eritrea pursuant to Security Council resolution 2317 (2016): Eritrea*, New York: United Nations.

67 Kamrava, M. 2015. *Qatar: Small State, Big Politics*, Ithaca: Cornell University Press; Ulrichsen, K. 2017. *The United Arab Emirates. Power, Politics and Policymaking*, London: Routledge.

but it has led to severe economic stress in Qatar and is likely to have a negative impact on Qatar's financial and diplomatic ability to project influence and power across the Red Sea. The Eritrean government has already decided to side with the Saudi coalition, breaking off ties with its former main economic partner and financial supporter.⁶⁸ Muhammad bin Salman's aggressive posturing – complemented by an internal centralisation of power as evidenced by the dramatic developments of November 2017 – sends a clear warning to potential other contenders for regional hegemony. Although the Saudi-Emirati alliance appears solid for the time being, the core interests of Saudi Arabia and the UAE are not always aligned, including in Yemen⁶⁹ and in the Horn of Africa, as demonstrated when Somalia President Mohamed Abdullahi Mohamed Farmaajo lobbied its backer Saudi Arabia to prevent a UAE military base from being established in Somaliland.⁷⁰ The two countries thus may risk clashing in the near future as well. Such structural geopolitical tensions should temper the buoyant investment bulletins sent into the world by McKinsey and others.

3.4 Religion as a determinant of aid, investment and trade?

A frequent question in the context of Gulf foreign policies broadly and economic engagement with the Horn specifically is that of the perceived influence of (religious) ideology in shaping partners, motives and instruments. As discussed earlier, both the Arabian Peninsula and the Horn of Africa have deeply religious populations; that monotheistic traditions originated in this region remains important today as a source of pride and self-identification. Many ordinary people reject any in their eyes arbitrary separation between religion and politics and believe strongly that power must be religiously sanctioned, or, at the very least, that public officeholders must respect the core tenets of society's dominant faith. This is most evident in the central position occupied by the Al Ash Shaykh – the leading family in the Wahhabi clergy – in Mecca and Medina: the monarchy and the *ulema* depend on each other for the political, economic and societal power, a pact at the heart of state formation and consolidation

68 UN Monitoring Group on Somalia and Eritrea. 2011. *Report of the Monitoring Group on Somalia and Eritrea pursuant to Security Council resolution 1916 (2010)*, New York: United Nations.

69 Salisbury, P. 2016. 'The UAE's Yemen Pivot Could Make Differences With Riyadh Unbridgeable', World Politics Review, 28 June, <https://www.worldpoliticsreview.com/articles/19184/the-uae-s-yemen-pivot-could-make-differences-with-riyadh-unbridgeable> (accessed 28 February 2018).

70 AllAfrica, 2017. 'Somalia: Farmaajo Seeks Saudi Arabia Intervention in Controversial Berbera UAE Military Base', 24 February, <http://allafrica.com/stories/201702240588.html> (accessed 28 February 2018); Al-Mutairi, G. 2017. 'Maqadeshu tatlub wasata Saudia li-iqnaa el-Emarat bi-adam iqamat qaeda askariyah fi Ard al-Somal,' (Mogadishu seeks Saudi mediation to convince the UAE not to establish a military base in Somaliland), Riyadh Post, February 26, <http://www.riyadhpост.live/9708.html> (accessed 28 February 2018).

in Saudi Arabia.⁷¹ Yet elsewhere too religion and politics continue to entwine. The rulers of Qatar and the UAE reject Western interpretations of liberal electoral democracy by arguing that their form of governance is derived from the Islamic concept of shura (consultation), which holds far greater legitimacy in the eyes of their subjects.⁷² This is also true in the Horn of Africa. Generations of Ethiopian leaders have sought symbiotic relations with the Ethiopian Orthodox Tewahedo Church and continue to don themselves in the Orthodox symbolism of power and legitimacy. Even though the current EPRDF government is officially secular, its interpretation of Ethiopian nationalism is infused with Orthodox narratives and the Tewahedo Church remains *primus inter pares* in Ethiopia's religious landscape.⁷³ Sudan has been ruled since 1989 by a military-Islamist regime which saw the Islamization of society – specifically, the functioning of the market, the education system, the public propagation of Islam and the state's foreign relations – as its top priority. Virtually the entire new political establishment in Somalia describes itself, in some shape or form, as Islamist: many of these individuals studied in Sudan (including the two last presidents, Sheikh Sharif Sheikh Ahmed and Hassan Sheikh Mohamud) and returned home with a belief that a more conservative societal orientation and a more public role for religion would be key ingredients of state reconstruction.

This said, as important as religion is in both public discourse and ideas of political legitimacy in the Gulf and the Horn of Africa, its importance for foreign policy and in dynamics of aid, investment and trade should not be overstated either. Saudi Arabia does indeed seek to aggressively promote its particular interpretation of Islam across the Red Sea, but has never made its foreign political or economic relations conditional on embracing Wahhabism. Quite the contrary, it sometimes seems. As outlined earlier, Riyadh had particularly difficult relations with Sudan when the regime there was at its most religiously zealous and has quite comfortably dealt with secular military dictatorships in Egypt. Qatar too, often accused by its detractors of promoting the Muslim Brotherhood and its Islamist ideology,⁷⁴ is in practice rather pragmatic when it comes to business deals and developing diplomatic relations. For two decades, perhaps its most consistently good relationship in the Horn was with Eritrea, the most aggressively secular of the Horn of Africa states and which boasts a track record of

71 For an exploration, see Erlich, H. 2007. *Saudi Arabia and Ethiopia: Islam, Christianity and politics entwined*, Boulder, Lynne Rienner; Al-Rasheed, M. 2007. *Contesting the Saudi state: Islamic voices of a new generation*, New York: Cambridge University Press; Nevo, J. 1998. 'Religion and national identity in Saudi Arabia', *Middle Eastern Studies*, 34(3), 34–53.

72 Bertelsmann Stiftung. 2016. *Bertelsmann Transformation Index – United Arab Emirates Country Report*, Gütersloh; Bertelsmann Stiftung. 2016. *Bertelsmann Transformation Index – Qatar Country Report*, Gütersloh.

73 International Crisis Group. 2016. *Ethiopia: Governing the Faithful*, Crisis Group Africa Briefing no. 117, Brussels.

74 Roberts, D. 2014. 'Qatar and the Brotherhood', *Survival*, 56(4), 23–32.

cracking down ferociously on the likes of the Brotherhood. Thus, leaders from the Horn of Africa, such as Omar Al-Bashir, often engage in public performances from performing the pilgrimages of *hajj* or *umrah* whenever in Saudi Arabia to lauding King Salman as the custodian of the Two Holy Mosques of Mecca and Medina (rather than as an ordinary head of state). But the substance of international relations remains predominantly dictated by political interests and framed in identity politics, which are much more multilayered than religious binaries suggest. Religion matters, in other words, but only up to a point.⁷⁵

Box 2 Somalia and the Gulf

The engagement of the leading Gulf states with Somalia differs, to some extent, from that with other partners in the Horn. The weakness of the Somali state, the continuing insecurity in large swathes of the territory and the dominance of Al-Shabaab in the countryside and in key coastal areas all hinder large-scale and long-term investments by Gulf actors. Ever since 1991, Somalia has remained simply too risky for deep economic commitments, especially in immovable assets. This does not imply that Somalia is of no importance to the states of the Arabian Peninsula: Omani, Yemeni and Iranian fishermen are active in Somali waters; Somali charcoal has for years been smuggled (illegally) to the Gulf for consumption in shisha (hookah) bars and grilled meat & seafood restaurants; and Somali livestock remains an important source of fresh camel, goat and (to a lesser extent) cow meat for Gulf customers.⁷⁶ Economic engagement has been conducted instead mainly through direct financial transfers and trade incentives, avoiding the requirements of high risk on the investor's side of long-term investments in assets or institutions. Especially the UAE and Saudi Arabia have been able to claim considerable influence (see figure 5).

Somalia has also been the arena in which Gulf jockeying for influence through proxies has been going on for years, though with limited success by most accounts. Ethiopia and the US accused Qatar of supporting Al-Shabaab via Eritrea between 2008 and 2012. The UAE has provided extensive security assistance, especially to the Puntland Maritime Police Forces, at different times to different levels of the nascent Somali government, often pitting them against

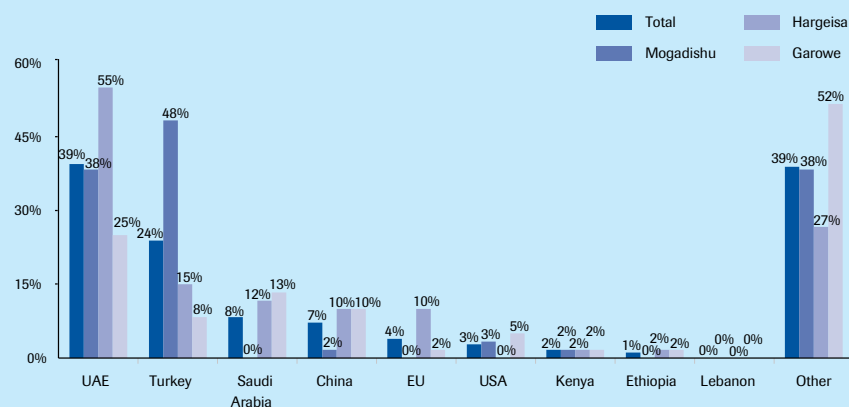
75 Calculi, M., and Legrenzi, M. 2016. 'Middle East Security: Conflict and Securitization of Identities', in: *International Relations of the Middle East*, 4th edition, ed. Fawcett, L., Oxford: Oxford University Press, 218–235.

76 Mahmoud, H. 2010. *Livestock Trade in the Kenyan, Somali and Ethiopian Borderlands*, London: Chatham House; Gridneff, I. forthcoming. 'Burning Somalia's Future: The Illegal Charcoal Trade between the Horn of Africa and the Gulf', in: *Environmental Politics in the Middle East*, ed. Verhoeven, H., London: Hurst.

each other (e.g., Puntland and the federal government). Nonetheless, the Arab Emirates have also been implicated in Al-Shabaab's charcoal and sugar trade. A number of Al-Shabaab-affiliated charcoal traders benefited from tax breaks in Kismayo port for their charcoal exports to the Emirates, from where it is transported on by road to Saudi Arabia. One trader allegedly also served as a conduit for laundering contributions from Saudi individuals to Al-Shabaab.⁷⁷

Figure 5 Actors with the greatest influence on private-sector activity

Based on a Clingendael survey in October 2016. Share of survey respondents from Mogadishu/Hargeisa/Garowe indicating actor as influential.



The Emirates also sought to support former head of state Sheikh Sharif in the presidential elections of February 2017 against the incumbent, a politician widely seen as the candidate of Qatar and Turkey, Hassan Sheikh Mohamud.⁷⁸ However, neither managed to rally a majority of delegates. The eventual winner, Mohamed Abdullahi Mohamed 'Farmaajo', allegedly also received small sums of cash from Abu Dhabi, Doha and Riyadh but his surprise victory over Sheikh Sharif and Hassan Sheikh was widely seen by Somalis as a nationalist rebuke to Gulf interference. Farmaajo has tried to maintain his nationalist credentials after taking office while balancing relations with creditors of his cash-strapped government. Thus he refused to endorse the Saudi-Emirati embargo imposed on Qatar in June 2017, allegedly turning down an initial USD 80 million in

77 UN Monitoring Group on Somalia and Eritrea, 2011, *op. cit.*

78 UN Monitoring Group on Somalia and Eritrea, 2017. *Letter dated 2 November 2017 from the Monitoring Group on Somalia and Eritrea addressed to the Chair of the Security Council Committee pursuant to resolutions 751 (1992) and 1907 (2009) concerning Somalia and Eritrea*, New York: United Nations.

Saudi funds,⁷⁹ despite facing substantial criticism from the Somali regions, parliamentarians and the business community.⁸⁰ He also visited Riyadh and Abu Dhabi, reassuring them of his continued participation in the Saudi-led Islamic military counterterrorism coalition. The tiny budget of the Somali federal state condemns it to a structural dependence on outside funders, perpetuating patron-client relations with external powers and undermining both the legitimacy and the effectiveness of the fight of any government in Mogadishu against Al-Shabaab. A comparable situation exists in Somaliland, where 75 percent of the state budget is reliant on the livestock exports through Berbera port (mainly to Saudi Arabia, Egypt and Yemen).⁸¹

The influence of the Emirates extends beyond its direct monetary incentives. The UAE also functions as an important hub for the Somali business community, as many Somali entrepreneurs operate their Somali businesses out of Dubai. Gaining residency in this emirate is relatively easy for many in the Somali diaspora, and operating out of the UAE (sometimes through intermediary companies) offers these entrepreneurs access to financial services and suppliers that will not service or deliver to companies incorporated or located within Somalia itself. Re-exporting supplies received in the UAE to businesses in Somalia is relatively easy and quick as well. The Somali business diaspora in the Emirates is thus estimated to approximate 100.000 individuals, many of whom maintain close ties with (and at times fund) political actors in Somalia.⁸²

3.5 Policy instruments and actors

As discussed earlier, any assessment of Gulf aid, investment or trade into Africa must take into account the political economy of that activity. That so much of this economic activity is politically determined in terms of its motivations and expected outcomes is, unsurprisingly, also reflected in who drives these policies forward and how they are pursued.

79 Middle East Monitor, 2017. 'Somalia turns down \$80m to cut ties with Qatar', 12 June, <https://www.middleeastmonitor.com/20170612-somalia-turns-down-80m-to-cut-ties-with-qatar/amp/> (accessed 13 March 2018).

80 UN Monitoring Group on Somalia and Eritrea, 2017, *op. cit.*

81 Schemm, P. 2015. 'How a breakaway region of Somalia hopes to build a new country', Washington Post, 26 December, https://www.washingtonpost.com/world/africa/how-a-breakaway-region-of-somalia-hopes-to-build-a-new-country/2015/12/26/47ae8f76-a441-11e5-8318-bd8caed8c588_story.html (accessed 3 November 2017).

82 Wikileaks. 2008. 'Somalia - Political Perspectives from Dubai', 20 November, https://wikileaks.org/plusd/cables/08NAIROBI2619_a.html (accessed 21 March 2018).

Precious little capital in Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE is genuinely private, that is, has been generated and is reproduced through strictly competitive economic activity, separate from state patronage networks (for the example of Ethiopia's Sheikh Al-Amoudi's rise to wealth, see box 4). The Gulf states are famous for being textbook rentier states: in the classic definitions of Hussein Mahdavy, Hazem Beblawi and Giacomo Luciani, they derive the vast majority of their national revenues from the rent of extractive economic activities in which external clients play a crucial role. Rentier states do not require – and probably even preclude – a vibrant internal productive sector, because the state is able to forgo the taxation of productive activity in the real economy and can instead fund its operations and the control of its population through (in this case hydrocarbon) rents. This has important implications for the type of capitalism that dominates in such systems.⁸³

Capital itself and commercial activity more broadly in economies like those of Abu Dhabi, Qatar or Saudi Arabia – and even that of Dubai, often assumed to be the economically most liberal of the Gulf – are mostly concentrated in the hands of different wings of the royal families and their main supporters. Statistically this is often categorised as 'private' and distinct from state-owned enterprises and state-led initiatives, but in reality it is the centralisation of rents around the monarch and then their parcelling out – in the form of contracts, market shares, niche monopolies, etc. – to loyal clients that is the order of the day.⁸⁴ This supposedly private activity hence fully depends on public authority and cannot exist without it. At the same time, what passes for public expenditure in Gulf economies is mostly spent in function of the needs and preferences of a small number of private individuals – the monarchs in power and their close kin. It is true that the strongly tribal basis of all Gulf societies forces the ruler to both consult and to effectively distribute to societal actors a significant chunk of the rents that accrue to him, but there can be no denying of the quasi-complete dominance of the royal elite of both the public and private realms of the economy.⁸⁵

83 Beblawi, H., and Luciani, G., ed. 1987. *The Rentier State: Nation, State and the Integration of the Arab World*, London: Croom Helm.

84 For an approach that sees such strategies as relatively successful, see: Hertog, S. 2010. 'Defying the Resource Curse: Explaining Successful State-Owned Enterprises in Rentier States', *World Politics*, 62(2), 261–301.

85 Crystal, J. 1990. *Oil and Politics in the Gulf: Rulers and Merchants in Kuwait and Qatar*, Cambridge: Cambridge University Press; Jones, T. 2010. *Desert Kingdom. How Oil and Water Forged Modern Saudi Arabia*, Cambridge: Harvard University Press.

Foreign policy is more often than not an extension of these domestic political and financial dynamics.⁸⁶ In the same way that, for example, the construction sector is carved up by the diwan (ruler's office) between four or five major enterprises, each owned by a lesser royal or head of a prominent family, so are contracts for operating abroad and associated lobbying by Gulf embassies and state visits shared out amongst constituencies. Letting one firm or family or constituency monopolise all foreign or domestic activity would be politically foolish from the diwan's point of view. Balancing is the order of the day unless a particular sector or investment is deemed of such capital importance that either a fully state-owned enterprise or a company directly owned by the ruler must assume leadership. Classic examples of the latter scenario are the roles played by the UAE's Mubadala Development Company and its Abu Dhabi Investment Authority, internally in the Emirates and abroad.⁸⁷ What further strengthens these dynamics is the absence of strong expeditionary armies and experienced diplomatic services on the part of Gulf states. Having neither much willingness nor the requisite ability to militarily coerce Horn of Africa states to align with their international positions, pursuing an activist foreign policy necessitates the mobilisation of significant amounts of private and public capital as the external relations tool par excellence of Gulf states. One Omani observer wittily dubbed this 'Riyal Politik'.⁸⁸

Given this extremely skewed political economy of the Arabian Peninsula and its dominant states' particular approach to foreign policy, a number of key instruments can be drawn upon to pursue these goals. The first instrument are the Gulf sovereign wealth funds (SWF), state-owned investment vehicles that seek to acquire stakes in just about every type of asset (stocks, bonds, real estate, agricultural land, strategic mineral reserves, etc.) the market can make available. Every Gulf state has at least one, but some, like the UAE, have several at their disposal (both at the federal level and the level of individual emirates), allowing them to either specialise in specific niches or to strategically corner pivotal markets. Management of these SWFs is a highly politically sensitive affair. For instance, although the Abu Dhabi Investment Authority claims considerable independence from political decision makers, six out of 10 board members are members of the ruling Al-Nahyan family with limited technical qualifications

86 Nonneman, G. 2004. 'Analyzing the Foreign Policies of the Middle East and North Africa: a Conceptual Framework', in: *Analyzing Middle Eastern Foreign Policies*, ed. Nonneman, G., London: Routledge, 6–18.

87 Young, K. 2014. *The Political Economy of Energy, Finance and Security in the United Arab Emirates*, New York: Palgrave MacMillan.

88 Baaboud, A. 2005. 'Dynamics and Determinants of the GCC States' Foreign Policy, with Special Reference to the EU', in: *Analyzing Middle East Foreign Policies and the Relationship with Europe*, ed. Nonneman, G., London: Routledge.

contradicts such statements.⁸⁹ Gulf family feuds therefore have a direct bearing on regional and global economic and political developments. The Abu Dhabi Investment Authority, Saudi Arabia's Public Investment Fund, the Qatar Investment Authority, the Investment Corporation of Dubai and the Kuwaiti Investment Authority feature in the ranking of the 10 biggest SWFs in the world, their combined assets totalling more than USD 2 trillion.⁹⁰

Closely related to these SWFs, but analytically somewhat distinct from them, are the state-owned holding companies that often function in ways similar than SWFs but do much more than acquire stakes or claim ownership. Often times, they seek to exert a more direct managerial role. The Emirates provide the best example of how these operate. Mubadala Development Company, Abu Dhabi's crown jewel chaired by Crown Prince Muhammad bin Zayed himself, not only makes capital available for investments but also provides strategic guidance to join up particular asset acquisition with broader UAE objectives. Mubadala also directs, through its countless subsidiaries, on-the-ground operations in overseas markets where it operates, from production or extraction to product assemblage to marketing and research. Large procurement orders from Mubadala-controlled companies to foreign companies have been noted in connection with informal return favours in the form of arms transfers.⁹¹ The operations of these holding companies are often closely associated and coordinated with those of enterprises with a more apparently straight-forward commercial outlook and global reach, such as DP World (shipping/infrastructure) and Nakheel (real estate and hospitality) or even public joint-stock companies such as Emaar (real estate). DP World, for instance, will do its best to purchase a share or operate ports in the region such as in Berbera (Somaliland) and Doraleh (Djibouti), but such acquisitions first and foremost serve Emirati foreign policy and the projection of power in the Red Sea and Indian Ocean. Similarly, Emaar's property development in Khartoum and Cairo is not merely meant to offer Dubai-style luxury accommodation to Sudanese and Egyptian wealthy families: it is an integral part of the strategy of bringing these elites into the Emirati political orbit.⁹²

89 For an excellent exploration of SWFs political objectives and connections throughout their organizational structure, see Bazoobandi, S. 2013. *Political economy of the Gulf sovereign wealth funds: A case study of Iran, Kuwait, Saudi Arabia and United Arab Emirates*, New York: Routledge.

90 "Sovereign Wealth Fund Rankings," Sovereign Wealth Fund Institute, <https://www.swfinstitute.org/sovereign-wealth-fund-rankings/> (accessed 28 March 2018).

91 Bazoobandi, S. 2013. *Political economy of the Gulf sovereign wealth funds: A case study of Iran, Kuwait, Saudi Arabia and United Arab Emirates*, New York: Routledge, 69.

92 For an example, see: Elshahed, M. 2014. 'From Tahrir Square to Emaar Square: Cairo's private road to a private city', The Guardian, 7 April, <https://www.theguardian.com/cities/2014/apr/07/tahrir-square-emaar-square-cairo-private-road-city> (accessed 28 February 2018).

A third important economic instrument are the central banks of the region. The Saudi Arabian Monetary Authority (SAMA), the Qatar Central Bank and the Central Bank of the Emirates do not just provide monetary stability at home, but also engage, when deemed necessary by the ruler, in central bank to central bank support with partners on the other side of the Red Sea. Sudan in particular, when it teetered on the edge of economic collapse in July 2011 after the secession of South Sudan, which broke away with three-quarters of (united) Sudan's proven oil reserves, has been a major recipient of Saudi and Qatari monetary transfers that have helped arrest (or at least slow down) the depreciation of the Sudanese pound and to manage public unrest following food price hikes.⁹³ Such assistance proved essential in helping Omar Al-Bashir stay in power. Similar loans have likely been made to Ethiopia.⁹⁴ Eritrea too is believed to have benefited from such help from SAMA and the Central Bank of the Emirates after it gave the green-light in 2015 for its southern port of Assab to be used as the spearhead of the Saudi and Emirati bombing campaign against the Houthis in Yemen.⁹⁵

A fourth conduit that serves to both promote economic interdependence and to provide political leverage over Horn of Africa states are the development funds operated or hosted by the Gulf.⁹⁶ If the Jeddah-based Organisation of Islamic Cooperation mostly offers Saudi Arabia some diplomatic clout, its financial arm, the Islamic Development Bank (IDB) with its capital base of more than USD 150 billion allows for more direct (and hence costly) developmental initiatives, driving development for the recipient government and supporting wider geopolitical aims of the major donors (especially Riyadh). Another important player is the Arab Fund for Economic and Social Development (Kuwait based), which holds close to USD 10 billion in assets and has been especially active in Sudan, including during the Breadbasket strategy of the 1970s and 1980s and, more recently, as a prime funder of Sudan's ambitious but controversial Dam Programme.⁹⁷ The OPEC fund plays a more limited and discrete role: in theory all member states of the Organisation of Petroleum Exporting Countries contribute; its activities, however, are usually closely aligned with the objectives of the dominant Gulf states. Of note is that its Director-General has for many years been a Saudi national.

93 Interview with a senior Ethiopian banking executive and institutional investor, Addis Ababa, 2017; Mohammed, B. 2015. 'Gulf States Lend Sudan \$2 Billion to Boost Foreign Reserves', Bloomberg, July 20, <https://www.bloomberg.com/news/articles/2015-07-20/gulf-arab-states-lend-sudan-2-billion-to-boost-foreign-reserves> (accessed 28 February 2018).

94 Interview with a senior Ethiopian banking executive and institutional investor, Addis Ababa, 2017.

95 Plaut, M. 2016. *Understanding Eritrea: Inside Africa's Most Repressive State*, New York: Oxford University Press.

96 Villanger, E. 2007. 'Arab Foreign Aid: Disbursement patterns, aid policies and motives', Bergen: Chr. Michelsen Institute.

97 Verhoeven, 2015, *op. cit.*

The multilateral funds are complemented by a number of national institutions, including the national ministries of finance, the Abu Dhabi Development Fund, the Saudi Fund and the Kuwait Fund for Arab Economic Development.⁹⁸ The Kuwait Fund is part of the multiple channels Kuwait uses to garner influence and promote economic prosperity in Asia and Africa. Kuwait not only has long proven one of the main backers of the World Bank, it is also the only nation in the world to spend consistently more than 1 percent of national income on foreign aid.⁹⁹ Last year more than 2 percent of Kuwaiti GDP went to overseas development assistance. A mention should be made here to of the activities of the Qatar Foundation (taking place in Qatar). This organisation is not strictly speaking either a development fund or even primarily oriented towards projects outside of Qatar.¹⁰⁰ However, as perhaps the biggest not-for-profit organization in the world (its annual budget is likely to exceed USD 2 billion), its deep involvement in the education of children in the world's least developed countries, its leadership in technological innovation and its dazzling investments in cultural heritage make it a key foreign policy tool – soft power. The Qatar Foundation is chaired by Sheikha Moza bint Nasser, mother of the current emir and a global icon for women's empowerment and cultural activism; her daughter (and full sister of the emir) Sheikha Hind is its CEO.

A sixth channel involves charity organisations and private foundations. Although officially totally committed to strictly humanitarian objectives under the umbrella terms of *zakat* (the mandatory Islamic tax) and *sadaqa* (voluntary alms), many such organisations act as an extension of the objectives of the royal family and its closest allies. Cases in point are the Sultan bin Abdulaziz Al Saud Foundation (Saudi Arabia), the Khalifa Foundation (UAE/Abu Dhabi), the Muhammad bin Rashid Al-Maktoum Foundation (UAE/Dubai), the Muslim World League and the Islamic Relief Fund and, above all, the various activities organised or sponsored by the various Wuzara Al-Awqaf (ministries of religious endowment). These ministries often seek to harness the soft power of their national states by projecting an image of compassionate conservatism and, especially in the cases of Saudi Arabia and Qatar, they often promote a specific (mostly literalist) understanding of Islam. Mosque building and the development of social infrastructure is often a priority, as are scholarships to undertake Islamic Studies in Medina, Doha or other centres of learning.¹⁰¹ These are for the most part not targeted solely at the elites in African states, but instead reach a much wider population, often leading Djibouti, Eritrea and Ethiopia leaders to worry greatly about the potentially

98 Tok, E., et al. 2014. 'Arab development aid and the new dynamic of multilateralism: Towards better governance?' *European Scientific Journal*, 1, 591–604.

99 Miller, *op. cit.*, 36.





100 Ibnouf, A., Dou, L. and Knight, J. 2014. 'The evolution of Qatar as an education hub: Moving to a knowledge-based economy', in: *International Education Hubs*, ed. Knight, J., Springer, 43–61.

101 Desplat, P., Østebø, T. 2013. *Muslim Ethiopia. The Christian Legacy, Identity Politics, and Islamic Reformism*, New York: Palgrave MacMillan.

destabilising effects of such bottom-up promotion of Wahhabism, support for which frequently bypasses central governments.

Figure 6 summarises the main interests, instruments and actors linked to Gulf states in the Horn of Africa.¹⁰²

Figure 6 Overview of Gulf interests and instruments in the Horn of Africa

	 Saudi Arabia	 United Arab Emirates	 Qatar	 Kuwait
Main target in the Horn of Africa:	Sudan	Eritrea Somaliland	Sudan Somalia Exploring options in Ethiopia	Sudan
Dominant political interest:	Isolating Iran	Isolating Iran	Leverage vis-à-vis Saudi Arabia Isolating Iran	Regional stability
Dominant economic interest:	Food production	Regional trade Ports' expansion	Financial diversification	Food production
Key policy instruments:	Budgetary support Multilateral funds	Budgetary support DP World	Central Bank of Qatar Qatar Foundation	Bilateral and multilateral development funds
Military presence:	Assab Djibouti	Assab Berbera Mogadishu	None (presence on Eritrean-Djibouti border withdrawn)	None

¹⁰² Economic sanctions are not a policy instrument Gulf states are able to draw on. Although Western states frequently impose sanctions, through concerted efforts in the European Union, through coalition building in the UN Security Council or unilaterally (in the case of the US), as foreign policy tools, Gulf states have had neither the hard economic muscle nor the requisite diplomatic instruments to deploy sanctions. Even in the seemingly obvious case of Iran, Saudi Arabia's archenemy, the GCC as a regional body was not able to agree on a resolution to expand already existing UN and US sanctions on the Islamic Republic—mostly because of Qatari and Emirati resistance against any Saudi ideas (both Qatar and the UAE, Dubai and Sharjah especially, have deep economic ties with Tehran, as does Oman). No effort by the GCC or any individual Gulf state has ever been undertaken to slap sanctions on a Horn of Africa state. Even when Sudan was a pariah state in the 1990s, the Saudi-Kuwaiti isolation of Sudan mostly consisted of disinvestment and the suspension of aid, not the imposition of blanket sanctions.

4 Mapping the extent of Gulf investments and ODA in the Horn of Africa

To determine the focus, scope, and developments over time of Gulf investments in the Horn of Africa, this report maps the extent of these investments. This mapping is derived from Clingendael's database on commercial investments by entities connected to Gulf countries (Saudi Arabia, the UAE, Kuwait, Qatar) in the Horn of Africa (Ethiopia, Sudan, South Sudan, Somalia, Djibouti, and Somaliland). The investments include foreign direct investments and foreign portfolio investments, and involve Gulf entities buying assets of or setting up business interests in the Horn of Africa (both greenfield and brownfield, including affiliates, fully owned subsidiaries and joint ventures). The database is an overview of commercial investments and therefore does not include religious funding, macroeconomic credit, payments to individuals in the Horn, payments for peace processes or similar activities. Official development assistance by Gulf development funds is covered in section 4.5.

The database contains 434 investments from 2000 to 2017 in 16 distinct sectors, worth approximately USD 13 billion. The data includes dates, locations, sectors, investment amount, investment type, investment partners and employment creation. Not all entries could be completed in full detail due to differing data quality across sources. Because not all investment values were traceable for each transaction, the analysis tends to focus on the number of projects rather than the figure invested (see also box 3). For countrywide projects and those for which the specific location data is not available, the project has been coded as taking place in the capital city when represented visually. Similarly, for regional projects the centre of the region was coded. The data for Ethiopia is of a higher quality than the other Horn of Africa countries. Consequently, some parts of the analysis will examine only Ethiopia, and overviews of the entire Horn may overrepresent Ethiopia. Nonetheless, the data manages to capture important patterns and trends of Gulf investment in the entire Horn region. The data originates from both public and private databases, news articles and companies' annual reports, as well as by private connections with investment agencies of individual countries. The figures in this dataset should be seen as an indication of overall investment patterns by Gulf actors in the Horn rather than a definitive and complete overview (see box 3).

Box 3 A cautionary note on quantifying financial transactions

Quantifying the volume, economic and geographic scope of recent investments is a necessary step to assessing the significance and consequences of Gulf involvement in the Horn. Quantifying and assessing the relative importance, the size and operations of different investments and the financing streams are notoriously difficult however. Elite politics around the world is almost always hard to penetrate, especially to the extent it includes particularistic and clientelistic arrangements deliberately kept opaque. The foreign and economic policies of Gulf states are particularly opaque, however, as even general budgets are seldom published and contracts almost never disclosed or debated (whether in parliament or the press). Additionally, the results of investment projects are seldom systematically assessed, let alone published. Efforts are further compounded by the generally poor quality of statistical data in the Horn due to underdeveloped measurement and reporting standards. On top of that, several Horn states that do produce data have been known to amend the official data specifically to show consistent growth and development. Analysts therefore often have to work with low quality data and second-best guestimates, and reason through inference based on interviews, rumours and imprecise judgements. As a consequence, data presented in this section ought to be read as indications of political interest or economic activity in the designated regions and sectors, rather than as hard numbers. Closer inspection of investment projects is likely to demonstrate funding that remains unaccounted for, mismatches between different accounting systems, lacking or unrealistically high reported production and a variety of other issues. Nonetheless, attempts have been made to keep the data presented here as reliable as possible (for an overview of the methodology, see annex 1).

4.1 Overview of Investment activity in the region

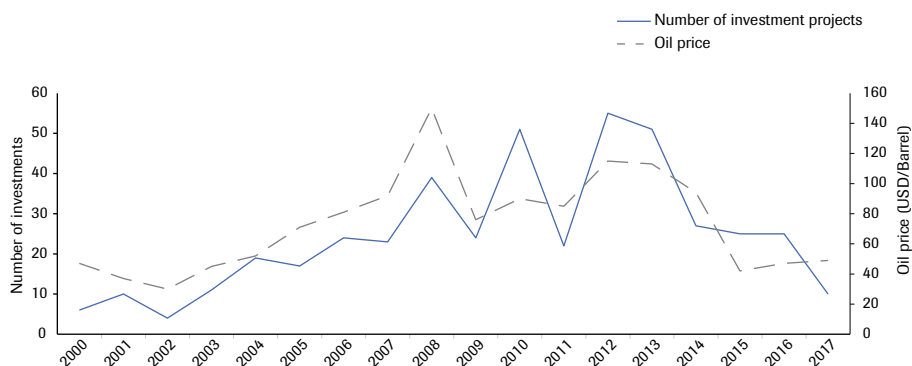
The 1990s saw a politically tumultuous period in the Horn of Africa combine with a low oil price of USD 20 to USD 40 a barrel. The start of this decade witnessed the Derg regime fall in Ethiopia and Siad Barre's regime collapse into civil war in Somalia; the end of it saw Ethiopia and Eritrea fight a two-year war.¹⁰³ During this period investment was scant from the Gulf states, which had neither the cash on hand nor the risk appetite for commercial investments in such fragile states. By 2000, the oil price had begun picking up; unsurprisingly so did Gulf investments, especially in the wake of the end of overt Eritrean-Ethiopian hostilities and a peace agreement in Sudan (2005). For example, in the 1990s there were only 35 Gulf investments in Ethiopia, relative to 365 since 2000. Figure 7 shows the correlation between the Brent Crude oil price and Gulf investments

103 Tronvoll, K. 2009. *War & The Politics of Identity in Ethiopia*. Woodbridge: James Currey.

in the Horn of Africa from 2000 to 2017. The annual number of investments rose from fewer than 10 in 2000 to more than 50 in 2012 for the entire Horn of Africa, roughly following the oil price during that time. Both the oil price and the number of investments peaked from 2008 to 2014, and have fallen since then.

Figure 7 Gulf investments in the Horn of Africa and Brent Crude oil prices

434 investments.



Investments in Ethiopia more than halved between 2016 and 2017, which could be explained by the protests in the Oromia region in late 2015. In 2016 Gulf investments in Oromia declined slightly. In 2017 they dried up completely. Sudan followed a similar trend. Investments steadily rose there from 2000 to 2008, despite the sanctions from 1997 to 2017. Sudan received 52 investments between 2000 and 2017, the most coming in 2008. Investments after 2008 decreased in the wake of the decline in the price of oil. South Sudan saw six investments spread between 2008 and 2014, and no notable change after its independence in 2011. Somalia saw five investments spread out thinly between 2000 and 2017. Djibouti saw five between 2000 and 2008, mainly from the UAE. One explanation for the end of Gulf investments in Djibouti after 2008 is that relations between Djibouti and the Emirates become strained when the government of Djibouti accused well-known businessman Abourahman Boreh of corruption and took DP World to court over the matter.¹⁰⁴ Since then, Djibouti has gone through ups and downs (including the February 2018 nationalisation of the Doraleh facility) and the government of President Ismail Omar Guelleh has looked to China for many of its key investments,

¹⁰⁴ Kerr, S., and Aglionby, J. 2017. 'DP World wins tribunal case against Djibouti over bribe case', Financial Times, February 21, <https://www.ft.com/content/9bca1468-f837-11e6-9516-2d969e0d3b65> (accessed 22 December 2017).

including port expansions. The lack of commercial investment in Eritrea has several possible explanations: there is little of commercial interest; the finance that does enter Eritrea is not commercial and does not go through public channels; and given imposed sanctions and the nature of the Eritrean regime little reporting covers commercial investments in the country.

Total spend as well as average spend per project followed a more jagged trend line than that presented in figure 7. Both did show increases from the early 2000s and peaked between 2006 and 2010, when the oil price was at its high point, before declining afterwards. The exception to this trend is a UAE investment in Ethiopian sugar manufacturing worth around USD 3 billion in 2017, the single largest investment made in the period. Overall, around 40 percent of the investments have been worth less than USD 1 million, 36 percent between USD 1 and USD 10 million, 18 percent between USD 10 and USD 100 million, and 6 percent more than USD 100 million.

Figure 8 Gulf investments in the Horn of Africa, 2000–2017

Somaliland is included in Somalia.










		National alignment of investor			
					
		Saudi Arabia	United Arab Emirates	Qatar	Kuwait
Recipient		233	104	12	16
		16	19	4	13
		1	2	2	1
		1	5	-	-
		1	3	-	1

Figure 8 presents a breakdown of the individual investor states and recipient states. Two patterns are immediately visible. Firstly, Saudi and Emirati actors have made the

most investments. Secondly, Ethiopia and Sudan have received the most.¹⁰⁵ Clearly, investments from the UAE and Saudi Arabia into Ethiopia and Sudan make up a large portion of the total by Gulf countries in the Horn of Africa. However, this does not take into account the size of the investments. Several sizeable investments have been made into Djibouti and Somalia; Kuwait has also made large single investments.

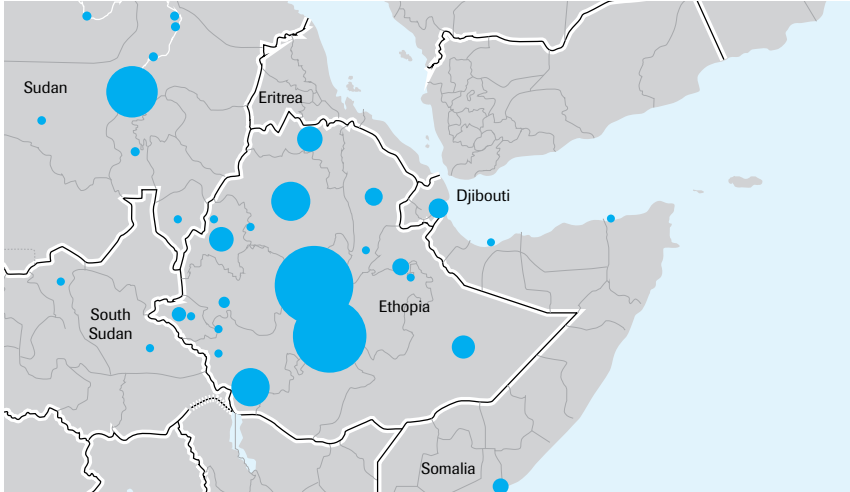
4.2 Geographic investment patterns

Figure 8 presents the number of investments from 2000 to 2017 in the Horn of Africa by each of the four Gulf states. Several important geographic patterns are noticeable. Firstly, Ethiopia and Sudan received the most investments. Although this pattern may to some extent reflect Sudan's historical and religious ties to the Gulf (see section 3), the focus of investments on both Ethiopia and Sudan also reflects the relative importance of these two states to politics in the wider Horn, increasing these states' leverage. Around one-third of the investments in Ethiopia were in Addis Ababa (mainly manufacturing and a range of services), another third in the Oromia region and the final third was spread throughout the rest of the country (both mainly agriculture and manufacturing). The investments in Sudan tend to focus on Khartoum (especially banking and telecommunications) and agricultural investments along the Nile. South Sudan has received several investments, mainly in Juba (banking, telecom, and construction), and agricultural investments outside of the capital. A limited number of investments have been made in Djibouti, Somaliland, and Somalia; all are located along the coast. Large investments have been made in the ports of Djibouti, Berbera, and Bossaso. Additionally, Djibouti City and Mogadishu have received several small investments in services such as trading and logistics. Investments in Somalia and South Sudan may be reduced, as investing in fixed assets has been a difficult undertaking at best given instability there, and the bargaining power of its political elites may have been undermined given the fragmentation of the political settlement.

¹⁰⁵ Ethiopia is overrepresented because of the higher data availability, but it would likely still be a major target if the quality of data were equal for all countries.

Figure 9 Map of Gulf investments in the Horn of Africa, 2000–2017

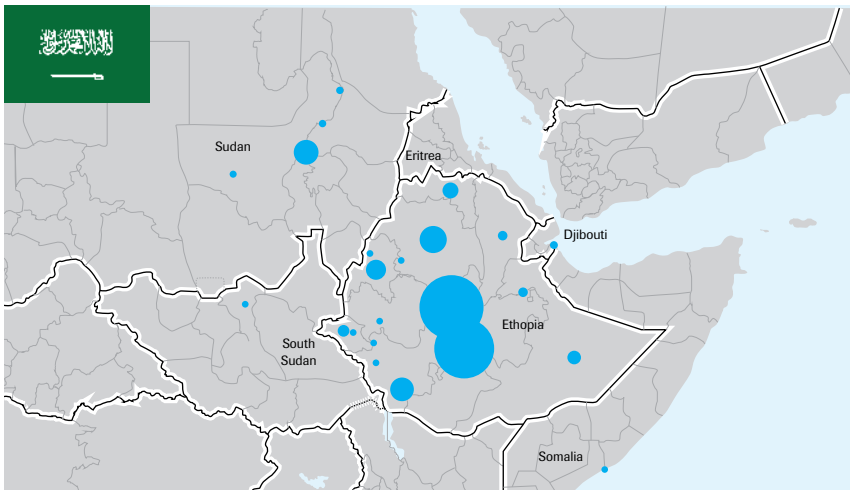
434 investments, approximately USD 13 billion.



To disaggregate the figure 9 map, those that follow show only a single Gulf investor in order to highlight which countries and regions they invest in, and whether there are any significant differences (see figures 10–13).

Figure 10 Map of Saudi Arabian investments in the Horn of Africa

252 investments, approximately USD 4.9 billion.



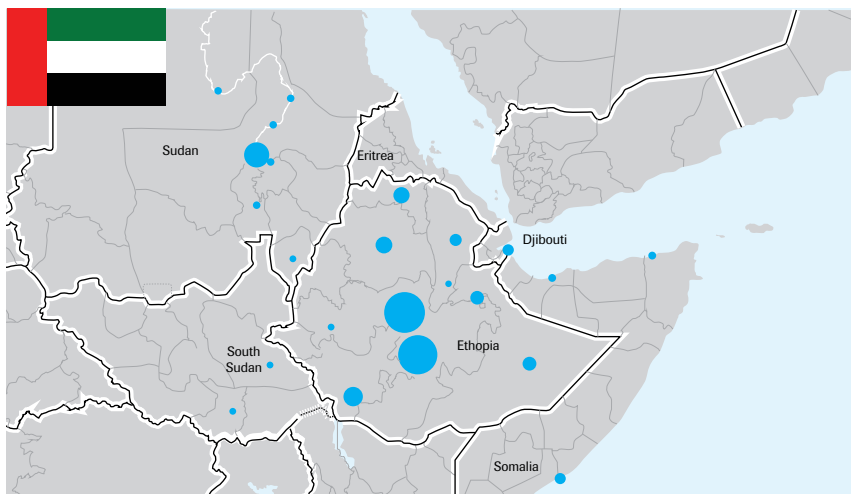
Most Saudi investments have been in Ethiopia, followed by Sudan. Investments in Ethiopia have primarily been in agriculture and manufacturing; investments in Sudan have focussed on agriculture. Only several small investments have been made in South Sudan (agriculture), Djibouti (trading), and Somalia (trading). The 233 investments by Saudi actors in Ethiopia are spread throughout the country, the majority in Addis Ababa and Oromia. By far the most prominent Saudi investor in Ethiopia is Sheikh Mohammed Al-Amoudi (see box 4). Through his company MIDROC (Mohammed International Development Research and Organization Companies), he has invested in a diverse range of sectors, including agriculture, manufacturing, mining and real estate. He has been a pioneer in investing in Ethiopia, often paving the way for others to follow. Interviews from Ethiopia suggest that a large proportion of land bought by Saudi Arabia in Sudan and Ethiopia for agricultural purposes is left undeveloped and does not reach the operational stage.¹⁰⁶ The total value of the investments for Saudi Arabia in the Horn of Africa is around USD 4.9 billion.

As a side note, one of Saudi Arabia's political interests in the region is isolating its rival Iran and denying Iranian access. Although the rivalry is fought out in many domains, in terms of investments in the region Saudi Arabia dwarfs Iran. For a comparison, from 2000 to 2017 Iran made 22 investments in Ethiopia worth around USD 20 million. This asymmetry is unsurprising, as Saudi Arabia shares the Red Sea and a long history with the Horn of Africa, in addition to having a larger economy and higher oil exports than Iran. It is interesting to note that the focus of Iranian investments in Ethiopia in terms of location and sectors is identical to both Saudi Arabia and the UAE. Around half of Iranian investments were in manufacturing, followed by agriculture. Oromia was the largest recipient of the investments, followed by Addis Ababa.

¹⁰⁶ Interviews with Ethiopian businessmen and researchers, Addis Ababa, December 2017. See also: Woertz, E. 2013. *Oil for Food. The global food crisis and the Middle East*, Oxford: Oxford University Press.

Figure 11 Map of number of UAE investments in the Horn of Africa

133 investments, approximately USD 5.1 billion.



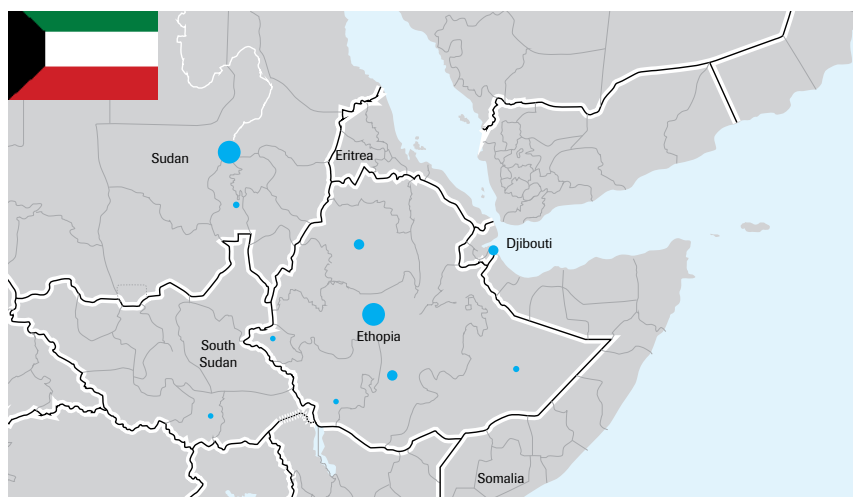
Emirati actors have been responsible for the second most investments in the Horn. Their investments have primarily gone to Ethiopia and Sudan, but it has also had four other large port investments: two in Djibouti city along with very large recent deals in Berbera (reportedly worth USD 442 million) in 2016 and Bosaso (reportedly USD 336 million) in 2017. Those are the only Gulf investments in Berbera and Bosaso. Because of their size, the UAE is the largest Gulf provider of FDI in Somalia and Somaliland. These investments were made by DP World, a company formed in 2005 when Dubai Ports Authority and Dubai Ports International merged. It is frequently perceived as a foreign policy tool by the UAE state that acts in tandem with the UAE's security apparatus: for example, immediately following the DP World and Somaliland government deal for the management of Berbera port in 2016, the UAE was granted rights by the Somaliland government to set up a military base in the region.¹⁰⁷ DP World and the UAE now face stiff competition in the logistics sector in the region from Chinese firms, who have supplanted the UAE in Djibouti and are heavily engaged in the Horn of Africa with their Belt and Road initiative. Although DP World is not (officially) active in Eritrea, the UAE has established a military base in the port of Assab.

¹⁰⁷ The Economist, 2017. 'The ambitious United Arab Emirates', 6 April, <https://www.economist.com/news/middle-east-and-africa/21720319-driven-energetic-crown-prince-uae-building-bases-far-beyond-its> (accessed 2 February 2018).

Like Saudi Arabia's, Emirati investments in Ethiopia are widespread, with Addis Ababa and Oromia again hosting the most projects. The single largest Gulf investment in the Horn is a UAE capital outlay in the Somali region of Ethiopia in 2017 for the manufacturing of a sugar plantation, worth around USD 3 billion. This is noteworthy because the UAE is one of the primary destinations for Somalia's illegal charcoal export, in which ships carrying charcoal travel from Kismayo in Somalia to the Gulf, and return with sugar that is smuggled over the Kenyan border into the Common Market for Eastern and Southern Africa, a free trade area that includes Ethiopia.¹⁰⁸ Emiratis also have made small investments in agriculture and construction in South Sudan. The total value of UAE investments is around USD 5 billion.

Figure 12 Map of number of Kuwaiti investments in the Horn of Africa

31 investments, approximately USD 2.4 billion.



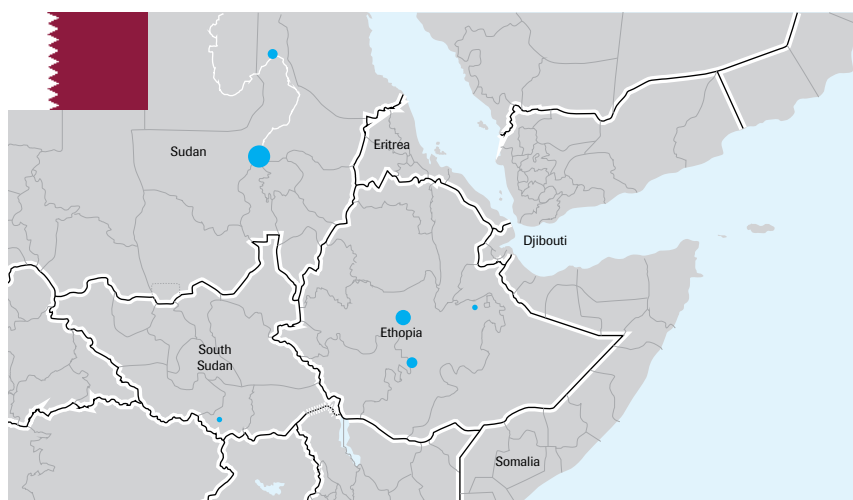
Kuwait has significantly fewer total investments than Saudi Arabia and the UAE. However, it has had several large brownfield investments, particularly in Sudan. Acquiring a 5 percent stake in the Sudanese oil company Sudapet Company and all of Sudan Telecommunications Company together account for almost USD 2 billion, around 80 percent of Kuwait's total investment volume. Around a third of Kuwait's total number of investments are in agriculture, split between Ethiopia and Sudan, but their value is low. Kuwaiti companies have also made several large investments in banking in Sudan, as well as investments in construction and logistics and shipping in Ethiopia.

108 Worden, R. 2018. 'The UAE still supports al-Shabaab through Somalia's illicit charcoal trade,' *Alaraby*, 5 March, <https://www.alaraby.co.uk/english/comment/2018/3/5/uae-still-supports-al-shabaab-through-somalias-illicit-charcoal-trade> (accessed 2 February 2018).

The brownfield nature of the largest Kuwaiti investments indicate that the country may be less politically driven than the other Gulf states (given that such assets can be subjected to relatively high quality due diligence and valuation) and more focussed on profitability of their investments. Unlike other Gulf states, Kuwaiti investments seem to be primarily in established and profitable enterprises at realistic valuations. The total value of the transactions involving Kuwait is around USD 2.4 billion.

Figure 13 Map of number Qatari investments in the Horn of Africa

18 investments, approximately USD 0.6 billion.



Qatar's investments over the last 20 years have been reasonably limited. It has a small assortment of investments in Ethiopia, the largest of which is a slaughterhouse in Harari. In Sudan it has a large real estate investments and an agriculture investment through Qatar's Sovereign Wealth Fund, together worth more than USD 500 million. Qatar National Bank opened a branch in South Sudan in 2011, making it the first foreign bank to open in the new country.¹⁰⁹ Qatar National Bank also owns a substantial stake in Ecobank, which operates in South Sudan as well. Because of its close ties to Eritrea – exemplified by Qatari mediation and peacekeeping troops on the Djibouti-Eritrea border – Qatar has not been as welcome in Ethiopia as other Gulf states even though Eritrea cut its ties with Qatar in June 2017 following the GCC crisis and pressure from the Saudi and Emirati side. The total value of the investments for Qatar is around USD 0.6 billion.

109 Qatar National Bank. 'Welcome to QNB South Sudan', https://www.qnb.com/cs/Satellite/QNBSouthSudan/en_SSU/enQNBWelocmemessageSouthSudan (accessed 2 February 2018).

4.3 Sectoral investment patterns

The two sectors with the most investments are agriculture and manufacturing, which have seen significantly more investments than all other sectors combined, as shown in figures 14 and 15. Despite numerous agricultural investments in Sudan, manufacturing investments have gone almost exclusively into Ethiopia, though given its higher relative data quality Ethiopia may be overrepresented in the data.

Figure 14 Gulf investments in the Horn of Africa by sector and investor
434 investments.

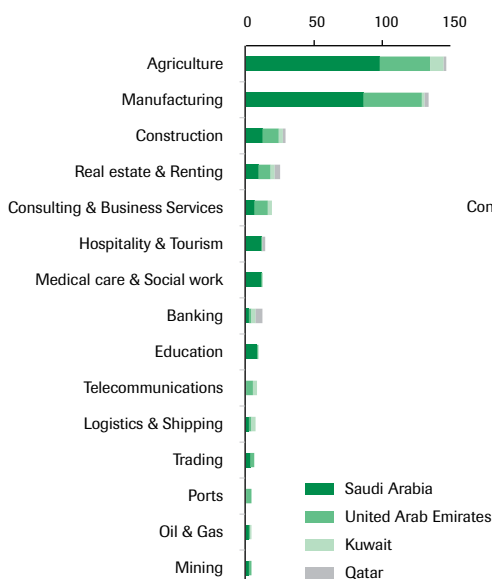
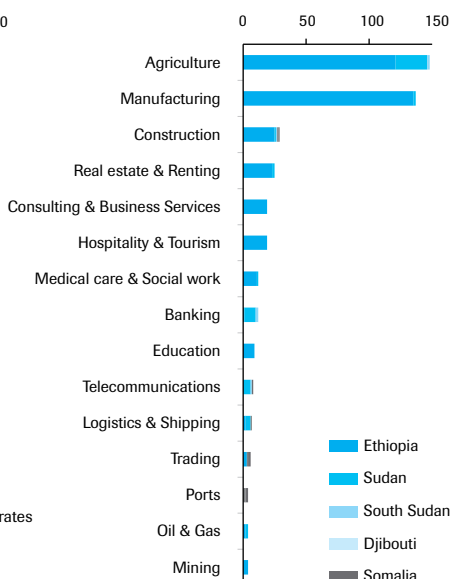


Figure 15 Gulf investments in the Horn of Africa by sector and recipient
434 investments.



Agriculture and manufacturing also have the highest investment value of the various sectors, as shown in figures 16 and 17. As indicated earlier, these two sectors are frequently cited as a strategic asset to the Gulf and Horn. Large tracts of undeveloped fertile land in the Horn of Africa are appealing to food-insecure Gulf states. At the same time, African states, particularly Ethiopia, want to transition from being primarily commodity exporters into economies with significant manufacturing operations. Additionally, the economic viability of developing such agricultural lands is often questionable. Figure 17 also shows that although telecommunications and ports have relatively few investments, several of them have been quite large. For example, the UAE's DP World's 2016 Berbera Port deal with the government of Somaliland was worth USD 442 million, and Kuwait's Mobile Telecommunications Company acquired a 61 percent

stake in Sudanese Mobile Telephone in 2006 for USD 1.3 billion. This last deal is particularly interesting as it gives a Kuwaiti company a controlling stake in a Sudanese telecommunications operator, while foreign investors are usually restricted to a 49 percent stake (often with Sudanese governmental agencies maintaining 51 percent), and in some countries telecommunications is a protected industry (such as Ethiopia).

Figure 16 Value of Gulf investments in the Horn of Africa by sector and investor

approximately USD 13 billion.

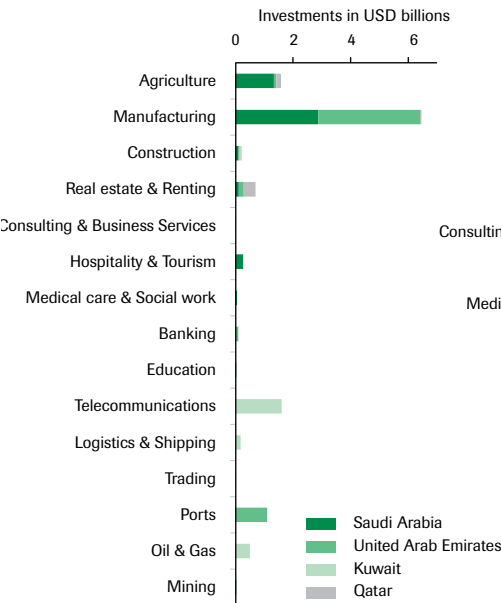
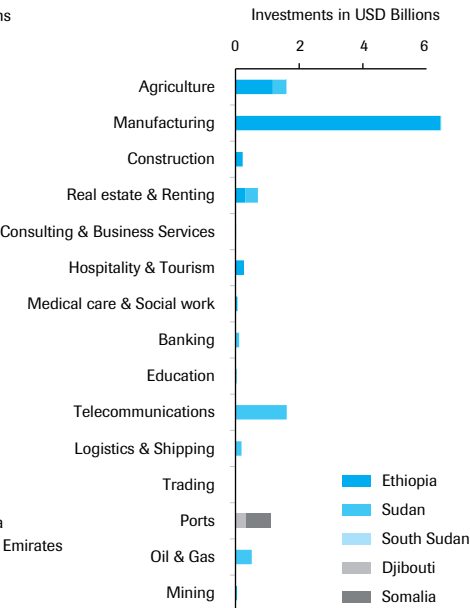


Figure 17 Value of Gulf investments in the Horn of Africa by sector and recipient

approximately USD 13 billion.



Within Ethiopia, Gulf investments are estimated to have created close to 300,000 jobs between 2000 and 2017, about one-third permanent and two-thirds temporary. More than half are in agriculture and most of the rest in manufacturing. Oromia received almost half of the total jobs, followed by Benishangul-Gumuz and Addis Ababa at around 10 percent each. In both sectors, Saudi-led projects created most of the jobs, followed by those initiated by Emirati actors. The creation of jobs is highly relevant for the developmental ideology of Ethiopia's ruling party (see section 5). Gulf investments that create jobs are one means by which economic development and poverty reduction are achieved, contributing to the legitimacy of the regime.

4.4 Modes of investment

Several noteworthy differences in the ways Gulf countries invest are discernible. This section considers only Ethiopia, as it provides significant detailed information for all investing parties. Slightly more than half of the Gulf investments that have gone into Ethiopia since 2000 have been wholly foreign owned; the rest have been joint ventures with domestic Ethiopian companies. Saudi Arabian companies that invest in Ethiopia have done so alone just under half of the time, and with an Ethiopian company just under half of the time. They have partnered with a range of other foreign investors as well, most often the USA or Sudan. Saudi companies investing in manufacturing are significantly more likely to engage in joint ventures with Ethiopian companies than in agriculture. By far the largest single Gulf investor in Ethiopia is Sheikh Mohammed Hussein Ali Al-Amoudi, a dual citizen of Ethiopia and Saudi Arabia. Although Al-Amoudi is half Ethiopian, his investment vehicles such as the MIDROC Ethiopia Investment Group and Saudi Star are classified as Saudi Arabian and 'wholly foreign' given that the origin of the capital is predominantly Saudi Arabian.

Box 4 Sheikh Mohammed Al-Amoudi

Mohammed Hussein Al-Amoudi was born in Ethiopia in 1946 to an Ethiopian mother and a Saudi father. He moved to Saudi Arabia in 1963 and built a fortune through his businesses in a range of industries, including construction, agriculture and energy. His success is seen by many as attributable to his connections with the Saudi ruling elite as he was politically selected for several very profitable public contracts. When he first arrived in Saudi Arabia, he became the driver of Ali bin Moussalem, who was at that time very close to the Saudi minister of defence. Through this network, he came into contact with investors and likely became the Saudi sponsor of a large Swedish construction company.¹¹⁰ In his business ventures he has represented Saudi investors across the world, and is the public face of Saudi investors in Ethiopia. Al-Amoudi is currently estimated to be worth around USD 10 billion, is the richest Ethiopian and is one of the richest Saudis. He has invested heavily in Ethiopia over recent decades through a variety of companies, notably MIDROC Ethiopia Investment Group. Al-Amoudi has a close relationship with the ruling EPRDF government in Addis Ababa and is rumoured to have received favourable treatment in the allocation of privatisation tenders. Since privatization of state-owned enterprises begun in Ethiopia in 1994, companies owned by or affiliated with Al-Amoudi have bought

110 Calvary, R. 2017. 'Ce que signifie la vague d'arrestations dans les milieux d'affaires saoudiens: Le cas de Mohamed Al-Amoudi', Orient XXI, 21 November, <https://orientxxi.info/magazine/arabie-saoudite-l-arrestation-de-mohamed-al-amoudi-signe-la-mise-en-garde-du.2136> (accessed 2 February 18).

more than half of the dollar value of the sold enterprises.¹¹¹ His companies employ more than 100,000 Ethiopians and he has significant leverage with the government and privileged access to land and investment opportunities.

Al-Amoudi was one of several prominent businessmen to be arrested on corruption charges in Riyadh in November 2017. It is unclear what effect this will have on Saudi investment in Ethiopia. Some Ethiopians believe that the arrest was purely an internal Saudi dispute and that the Saudi state did not anticipate the consequences of his arrest on Ethiopia. Others in Ethiopia speculate that Egypt could be behind the arrest as a punishment for Al-Amoudi's proximity to the EPRDF.¹¹² Because he is the largest Gulf investor, his arrest could have considerable consequences for Ethiopia, even though the Ethiopian state has little leverage in the matter.¹¹³

Emirati companies that invest in Ethiopia have frequently done so through joint ventures (approximately two-third of investments take this form). Approximately half of these joint ventures involve Ethiopian companies, while the other half involves a variety of actors from other countries. Investments by UAE companies without partnerships one-third of the time, and investments with partnerships from other countries one-third of the time. UAE companies that invest in Ethiopia often partner with Indian companies, but they have also partnered with a range of other countries, most notably twice with Iran in 2006 and 2013 on bitumen importing and processing. Kuwait's investments in Ethiopia have almost all been exclusively foreign owned, without any partnerships with companies from other countries. Slightly more than half of Qatar's investments in Ethiopia have been in partnerships, usually with Ethiopian companies, but they have also had shared investments with Sudanese, Saudi Arabian and Indian companies.

111 Wikileaks. 2008. 'Privatization or monopolization in Ethiopia?', January 11, https://wikileaks.org/plusd/cables/08ADDISABABA82_a.html (accessed 02 February 2018).

112 Dahir, A. 2017. 'How the Saudi purge will affect detained billionaires' assets in Africa', *Quartz Africa*, November 23, <https://qz.com/1137157/saudi-arabia-purge-effect-on-mohammad-al-amoudi-and-al-waleed-bin-talal-businesses-in-ethiopia-kenya-and-egypt/> (accessed 2 February 2018); interviews in Addis Ababa, December 2017; Borkena. 2017. 'Ethiopian government "diplomatically" following up Al Amoudi's case', November 11, <https://www.borkena.com/2017/11/11/al-amoudi-ethiopian-government-diplomatically/> (accessed 2 February 2018).

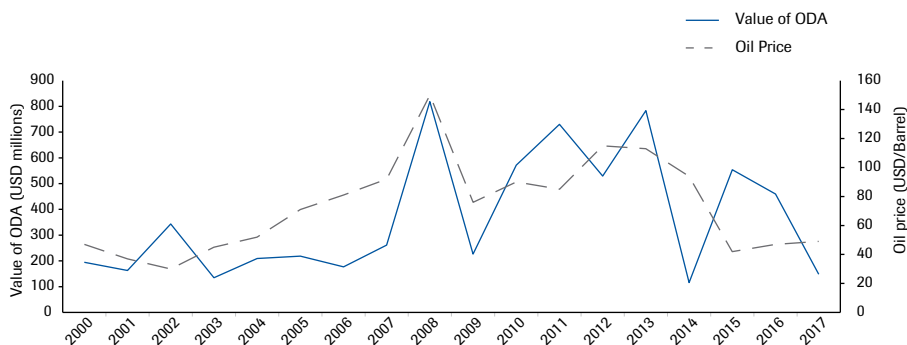
113 Interviews with senior Ethiopian banking executives in Addis Ababa, December 2017.

4.5 Comparison with Gulf ODA patterns

The Gulf countries also make use of multilateral and national development funds, which provide official development assistance in the Horn of Africa. The main funds are the Arab Fund for Economic and Social Development (AFESD), the Kuwait Fund for Arab Economic Development (KFAED), the Abu Dhabi Fund for Development (ADFD), the OPEC Fund for International Development (OFID), the Arab Bank for Economic Development in Africa (BADEA), the Saudi Fund for Development (SFD) and the Islamic Development Bank. Data from the ADFD could not be disaggregated and so does not feature in the following analysis. Together these funds (without the ADFD) have begun 309 operations in the Horn of Africa between 2000 and 2017 that are worth a combined total of USD 6.6 billion (figure 18).

Figure 18 ODA from Gulf development funds to Horn of Africa and oil prices

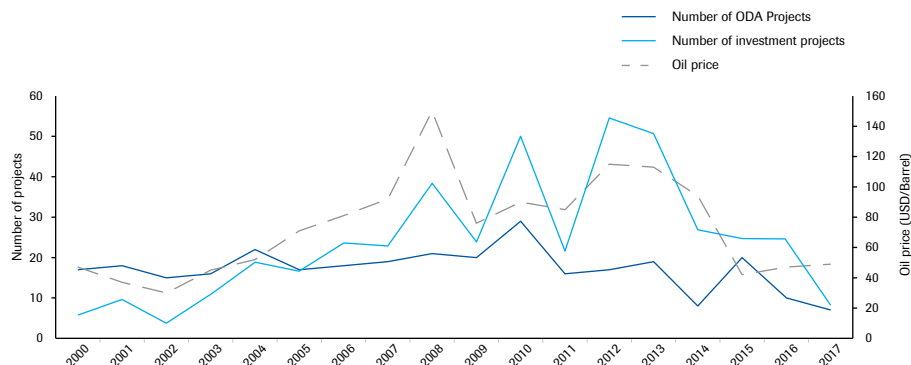
Approximately USD 6.6 billion of investments; oil prices in Brent Crude Oil.



Much like Gulf states investment in the Horn of Africa, ODA value was high between 2008 and 2013 that corresponded with a higher oil price. However, when only the number of projects is considered (rather than the value), the trend is slightly different, peaking in 2010 and then declining to 2017. Although the number of investments spiked between 2008 and 2013, the number of ODA projects did not (see figure 19).

Figure 19 ODA and FDI from Gulf to Horn of Africa and oil prices

FDI: 434 investments; ODA: 309 projects; oil prices in Brent Crude Oil.



The commercial investments and public ODA differ in two interesting ways (see figure 20). Firstly, the investments are heavily focussed on Ethiopia and Sudan, but the ODA projects also prominently feature Djibouti, which received roughly twice as many projects and ODA value as Ethiopia. This is particularly striking given that Djibouti has a population of less than one million, relative to Ethiopia's roughly 100 million; its strategic location next to the Bab al-Mandab strait may drive this development. ODA projects in Djibouti showed the same sectoral patterns as ODA projects in the rest of the Horn, although they did also prominently feature port developments and the construction of roads around its ports. Another reason Djibouti received more ODA than Ethiopia is that the Islamic Development Bank, the most active of the development funds, lends only to members of the Organisation of Islamic Cooperation. It therefore has no projects in Ethiopia, Eritrea or South Sudan. Similarly, the Arab Fund for Economic and Social Development has projects only in Djibouti, Somalia and Sudan. Sudan is the most frequent recipient of ODA, followed by Djibouti and then Ethiopia. Unlike commercial investments, Eritrea did receive several ODA projects, with the latest starting in 2014. But Eritrea, South Sudan and Somalia hosted relatively few projects and a low value compared to the total ODA. The ODA they did receive was spread over many sectors, with social services and education seeing most of the funding.

Figure 20 Gulf development funds ODA and investments to Horn of Africa, 2000 to 2017

FDI: 434 investments, approximately USD 13 billion; ODA: 309 projects, approximately USD 6.6 billion. Somalia includes Somaliland. Investment value data could not be found for all investment projects, so the number of investments column includes entries not included in the value of investments column.

Recipient	Number of ODA projects	Value of ODA (USD)	Number of investments	Value of investments
Sudan	132	4,681 million	52	3,253 million
Djibouti	82	1,359 million	5	330 million
Ethiopia	47	547 million	365	8,595 million
Somalia	32	23 million	6	778 million
Eritrea	14	14 million	-	-
South Sudan	2	14 million	6	3 million

Secondly, while the investments are heavily focussed on agriculture and manufacturing in both number of projects and amount invested, the ODA projects are heavily focussed on energy and transport as well as agriculture, as shown in figures 21 and 22. Many projects go into social services, education, the financial sector and health. Manufacturing is largely absent. These differences are noteworthy because it may indicate that ODA serves a different purpose than FDI and may also be regulated in a different way. Gulf states have been open in using aid to win political support, as evidenced for example by the role accorded to Kuwait's significant ODA spending in garnering support at the time of the Iraqi invasion in 1990.¹¹⁴ This could explain the much higher importance of ODA on areas like education and health compared with FDI.

Most of the development funds followed the sectoral pattern outlined in figures 21 and 22. The KFAED, however, had a higher proportion of projects in energy and transport. In addition, the IDB had a lower proportion in energy and transport, and by itself contributed to considerably more than half of the projects in education, finance and health.

Of the development banks, the AFESD and the IDB were the most engaged in the Horn of Africa from 2000 to 2017, as shown in figure 23. Both have projects only in Sudan, Djibouti and Somalia, as they are primarily Islamic and have large Arab-speaking populations. The KFAED reaches the most Horn countries: it has projects in every country except Somalia and is the only fund to have projects in South Sudan. Most of its projects are in Sudan and Djibouti. The Arab Bank for Economic Development in Africa has run projects only in Ethiopia and Eritrea. The two projects of the SFD are both in Djibouti in social housing and a port, but Saudi Arabia is the largest donor of the IDB and an important donor to the other multilateral development funds.

114 Villanger, *op. cit.*, 18.

Figure 21 Number of of Gulf ODA projects in the Horn of Africa by sector

309 projects.



Figure 22 Value of Gulf ODA projects in the Horn of Africa by sector

approximately USD 6.6 billion.

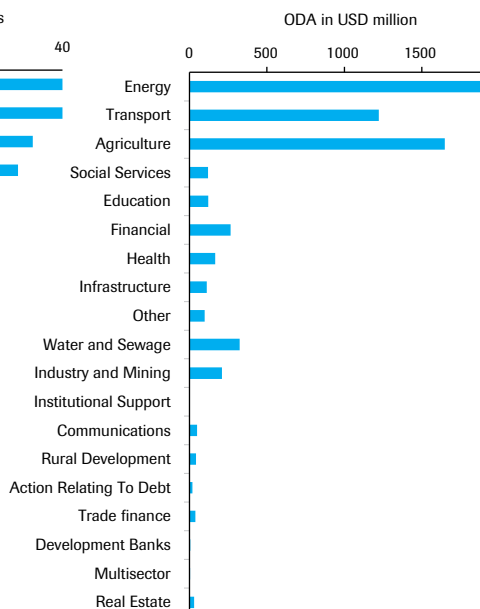


Figure 23 ODA from Gulf development funds to Horn of Africa by fund, 2000–2017

309 ODA projects, approximately USD 6.6 billion.

Fund	Value of ODA (USD)	Number of ODA projects
Arab Fund for Economic and Social Development	2,651 million	58
Islamic Development Bank	2,061 million	139
Kuwait Fund for Arab Economic Development	1,156 million	29
OPEC Fund for International Development	572 million	45
Arab Bank for Economic Development in Africa	163 million	36
Saudi Fund for Development	36 million	2

In summary, relative to investments, Gulf ODA to the Horn of Africa places a higher importance on Djibouti and a lower one on Ethiopia, and focusses on energy and transportation in addition to agriculture. Within the separate funds are different geographic and sectoral focus areas. The main distinctions are that the IDB and AFESD focus exclusively on Djibouti, Somalia and Sudan, and the IDB provides most of the funding for education, finance and health. Overall, Gulf ODA has a few important differences with FDI, but does not represent a radical departure.

5 Perceptions of Gulf investments in Ethiopia

Gulf states are significant actors in the Horn of Africa. Not only, then, do the Gulf states view the Bab-el-Mandeb strait and the Horn region as a strategic space relevant to both the containment of Iranian influences and intra-Arabian competition, they also actively engage Horn actors through a sizeable array of financial and economic instruments to secure these interests. Nonetheless, Gulf engagement in the Horn is fraught with differing accounts regarding investments and the impact on the ground, such as announced agricultural land grabs compared to operational assets on the ground.¹¹⁵ Interpretations stressing the importance of extraversion in the reception of monetary flows in the Horn may also frame the dynamic as a means of political finance obscuring the associated foreign policy aims.¹¹⁶ Such claims may cast doubt on the effectiveness of the economic foreign policy tools, but Gulf largesse and the impact of such ample availability of funding on the ground (whether intentional or not) is a significant factor facing cash-strapped Horn governments. Gulf investments in the Horn thus cannot be fully understood without taking perspectives from recipient countries into consideration.

115 Gulf investments in agricultural land can be found in Middle East Business Intelligence, 2013. 'GCC investors eye African farmland', 23 June, <https://www.meed.com/analysis/special-reports/gcc-investors-eye-african-farmland/3176877.article> (accessed 27 September 2017); Hussein, W. 2016. 'Will Saudi Agricultural Investments in Sudan leave Egypt high and dry?', Al Monitor, 1 June, <http://www.al-monitor.com/pulse/originals/2016/01/saudi-investments-agriculture-sudan-egypt-fears-water-nile.html> (accessed 27 September 2017). Reports of large-scale displacement of African farmers due to Gulf investment need to be examined carefully; for a cautionary note see: Verhoeven, H. and Woertz, E. 2012 'Mirage in the Desert: the myth of Africa's land grab', CNN Edition, 5 July, <https://edition.cnn.com/2012/07/05/business/op-ed-africa-land-grab/index.html> (accessed 5 April 2018).

116 Hagmann, T. 2016. *Stabilization, Extraversion and Political Settlements in Somalia*, London: The Rift Valley Institute; Hagmann, T., and Reyntjens, F., eds. 2016. *Aid and Authoritarianism in Africa: Development without Democracy*, London: Zed Books.

The reflections presented here take perceptions in Ethiopia as a critical case, and are largely derived from fieldwork in Addis Ababa and Dire Dawa (Ethiopia) throughout December 2017.¹¹⁷ The relevance of Ethiopia stems from three factors. Firstly, Ethiopia appears to be amongst the largest recipients of Gulf investment amongst Horn governments, seeing significant investments coming into primary (agriculture), secondary (industry) and tertiary (services) sectors. Secondly, Ethiopia, despite long historic and cultural ties with the Gulf, has not been considered predominantly in the context of long-standing intra-Islamic disputes. The country's largely Christian-dominated heritage is interpreted instead through ambivalent narratives in Islamic tradition,¹¹⁸ and its Muslim communities are predominantly Sufi (lacking strong political Muslim Brotherhood or Salafi factions). More recently, Ethiopia has remained neutral in the GCC crisis and is a recipient of investments from both sides of the divide. Lastly, frequently touted as a regional hegemon,¹¹⁹ Ethiopia both strongly influences and is strongly influenced by developments in the wider Horn region, considering trade and kinship ties spanning multiple states. Although Ethiopia thus has a range of traits shared with other Horn states, it should be reiterated that the significant ethnic, religious and economic differences with other Horn states may strongly shape Ethiopian relations with Gulf states. Dynamics from one case thus may indicate considerations elsewhere, but cannot be extrapolated to other states without taking into account the influence of the different (local) dynamics.

5.1 Gulf largesse in a cash-strapped economy

Following the ouster of the Derg regime, the Ethiopian People's Revolutionary Front (EPRDF) claimed power in Ethiopia based on a platform of self-determination for Ethiopia's nations and nationalities. Influenced by Stalinist interpretations of ethnic representation through ethnic federation, the party sought to define and mobilise ethnic groupings in a top-down fashion in an attempt to legitimate itself in contrast to previous centrally/Amhara-led regimes.¹²⁰ Although the EPRDF's ethnic federalism formally gave considerable autonomy to newly created regions and more than 80 officially recognised nations and nationalities, the space for locally derived ideas, institutions and governance remained limited by the party's revolutionary developmental ideology and the dominant

¹¹⁷ See annex 1 for a description of fieldwork.

¹¹⁸ For an overview, see Erlich, *op. cit.*

¹¹⁹ Maiyo, J. 2012. 'Ethiopia: new East African hegemon?', *African Arguments*, 20 April, <http://africanarguments.org/2012/04/20/ethiopia-and-somalia-joining-eac-will-transform-regions-security-architecture-by-josh-maiyo/> (accessed 19 January 2018); Verhoeven, H. 2015. *Africa's Next Hegemon: Behind Ethiopia's Power Plays*, Foreign Affairs Snapshot April 12, New York: Council on Foreign Relations; Cheru, F., et al., ed. 2017. *Ethiopia: The Rise of a Regional Hegemon*, London: Zed Books.

¹²⁰ Vaughan, S. 2003. *Ethnicity and Power in Ethiopia*, PhD diss., University of Edinburgh.

role of a predominantly Tigrayan elite in the security apparatus and business sector. Democratic governance was thus severely limited by the frequent use of instruments of co-optation and coercion, affecting the regime's domestic legitimacy.¹²¹ Instead of increasing the space for bottom-up ethnic representation and influence, the regime sought to build support for its rule through developmentalism. As a consequence, its main claim to domestic and international legitimacy is based on its performance in delivering a stable environment conducive to persistently high economic growth.¹²² Subsequently, the ability to showcase a record of economic growth and poverty reduction has come to be seen as a matter of domestic security, reflected in Ethiopia's tendency to securitise key export assets (export routes to Djibouti, special economic zones, and so on), nontransparent but persistently positive economic accounting, and the role of the military dominated Ethiopian Metals and Engineering Company (METEC) in the country's development.¹²³

Ethiopian foreign policy has historically stemmed from a siege mentality referencing the threat of Islamic encirclement. Ethiopia's foreign policy was redefined in 2002. The new policy sought to move away from the encirclement conception, but largely maintained the idea of external forays and interventions as a function of internal imperatives.¹²⁴ Following the definition of domestic poverty as the main threat, relations with Gulf regimes were reframed to incorporate "the key role these countries can play in our economic development, and focus on seeking development, finance, investment, and markets for our products".¹²⁵ Reflecting predominance of economic incentives, Ethiopian

121 Ibid.; Vaughan, S., and Tronvoll, K. 2014. 'The Culture of Power in Contemporary Ethiopian Political Life', *Sida Studies* (10).

122 Interviews with Ethiopian senior researchers, Addis Ababa, December 2017; also see Maru, M. 2016. 'Economic Development, Democratic Governance, Peace and Security and Regional Integration: the case of Ethiopia', *Mehari Taddele Maru blog*, 17 February, <https://meharitaddele.info/2016/02/economic-development-democratic-governance-peace-and-security-and-regional-integration-the-case-of-ethiopia/> (accessed 19 January 2018); The Ethiopian Herald. 2018. 'EPRDF's Executive Committee statement', 2 January, <http://ethpress.gov.et/herald/index.php/editorial-view-point/item/10478-eprdf-s-executive-committee-statement> (accessed 19 January 2018); regarding potential changes in the political settlement and the widening political space for a number of Ethnic groups, following the continued unrest within the regions, see: Gedamu, Y. 2018. 'Ethiopia: A Strong Opposition Is the Only Solution to Dislodging Ethiopia's Ruling Coalition', *All Africa*, 9 January, <http://allafrica.com/stories/201801100202.html> (accessed 19 January 2018).

123 Interview with Ethiopian senior researchers, Addis Ababa, December 2017; for an exploration of reported and actual growth and poverty figures in Ethiopia, see: Geda, A., and Yimer, A. forthcoming. *Growth, poverty and inequality in Ethiopia, 2000–2013: A Macroeconomic appraisal*; Van Veen, E. 2016. *Perpetuating power: Ethiopia's political settlement and the organization of security*, CRU report, The Hague: Clingendael.

124 Derso, B. 2017. 'How Ethiopia Synergizes Its economic opportunities with Gulf's Capital', *Ethiopian Herald*, 31 August, <http://www.ethpress.gov.et/herald/index.php/news/national-news/item/9481-how-ethiopia-synergizes-its-economic-opportunities-with-gulf-s-capital> (accessed 19 January 2018); Erlich, *op. cit.*; Verhoeven, H. 2015. *Africa's Next Hegemon: Behind Ethiopia's Power Plays*, Foreign Affairs Snapshot April 12, Council on Foreign Relations

125 Ministry of Information, *op. cit.* 131.

officials have largely refrained from commenting on potentially divisive issues, such as Yemen or the (domestically sensitive) (mis)treatment of Ethiopian migrants in the Gulf.¹²⁶ Career perspectives in the foreign service became related to diplomats' ability to secure foreign investment, reflecting the prominent role accorded to foreign investment in the key legitimating metric of the regime: development of the country and the reduction of poverty. A prime example is Mulatu Teshome, who was elevated to the position of president of Ethiopia in 2013 from his role as ambassador to Turkey (held next to other ambassadorships to, amongst others, China), which he had used to position himself as the main channel for the entry and allocation of Turkish investments in Ethiopia, efforts which are highly valued domestically.¹²⁷

The pressure to attract foreign funding is further compounded by the persistently negative balance of payments that Ethiopia, like other Horn countries, has maintained in recent years. Foreign currency reserves were at a negative USD 7.2 billion by the end of 2016, and the current account deficit at USD 7.4 billion in July of that year (driven by a sizeable trade deficit), indicating significant strains on the country's foreign currency reserves.¹²⁸ Although a negative balance on the current account does not by definition impair growth, the limited availability of hard currencies has limited economic growth in Ethiopia by making the importation of key goods and services difficult (gaining access to hard currency can take up to a year for entrepreneurs), risks the country to default on loans and might jeopardize the significant infrastructural development spending (such as the Grand Ethiopian Renaissance Dam).¹²⁹ Stringent currency controls have been put in place and a crackdown on both popular and elite-level informal currency markets is in effect, yet the central government remains in a weak financial position.¹³⁰ Sizeable Gulf loans and deposits (in the range of several billions) have been key to the continued solvability of state finances and the relatively stable exchange rate of the birr.¹³¹ Similar loans from Saudi Arabia have been important in helping the Al-Bashir government bridge the sanctions regime imposed on Sudan and substantial financial support played an important role in drawing Eritrea into the Saudi-led coalition.¹³² Eritrea also depends

126 Interviews with Ethiopian researchers, Addis Ababa, December 2017. Issues pertaining to Eritrea appear to form an exception to this pattern.

127 Interview with Ethiopian journalist, Addis Ababa, December 2017.

128 International Monetary Fund. 2017. 'World Economic Outlook Database: October, 2017', <https://www.imf.org> (accessed 19 January 2018); International Monetary Fund. 2016. IMF Country Report No. 16/322: The federal democratic republic of Ethiopia, Washington DC.

129 Interviews with Ethiopian senior researchers, Addis Ababa, December 2017; Abebe, K. 2017. 'Foreign Exchange Crunch Now, Then, Tomorrow', AllAfrica, September 2 2017, <http://allafrica.com/stories/201709050401.html> (accessed 19 January 2018).

130 ESAT. 2016. 'Ethiopia: Crackdown on black market following forex crunch', 3 November, <https://ethsat.com/2016/11/ethiopia-crackdown-black-market-exchanges-following-foreign-currency-crunch/>

131 Interviews with Ethiopians in the finance sector, Addis Ababa, December 2017.

132 Verhoeven, 2015, *op. cit.*

on Dubai as a central hub in its offshore financial network to discretely facilitate various payments. Hard currency drawn from the Eritrean diaspora are moved through banks in Dubai to facilitate procurement of goods and weapons and to finance the armed groups Eritrea supports in the Horn.¹³³

The developmentalist narrative may frame the public motivation for courting Gulf investment, but the attracted funds are also important to maintaining the political settlement. Although the Ethiopian state is highly centralised, its ability to economically reward selected actors is limited, because most economically viable assets have already been captured by firmly entrenched elites, and the capacity to maintain economically non-viable assets is relatively limited and requires a careful balancing act by the EPRDF politburo between different ethnic, regional and linguistic interests.¹³⁴ Given the myriad of ethnic and regional elites co-opted into the political settlement and such limited working capital for co-option and patronage, the maintenance of settlements stability is a careful balancing act.¹³⁵ This challenge has been further intensified owing to the sustained protests and elite schisms in the last three years.¹³⁶ Additional patronage demands have put a strain on resources, in part due to the heightened turnover of elites in the regional parties. The highly centralised and personalised channels through which Gulf investments enter Ethiopia allow a limited set of elites significant discretion in allocating funds.¹³⁷ Other significant investment flows (e.g., Chinese, Indian, European) are more tightly controlled by the investors and thus allow far less discretion in their allocation or are more fragmented across a wider set of small investors or personalized channels. Additionally, as Gulf investments have frequently run into delays to become operational, such investments have had relatively low visibility, both domestically and internationally. This could make it easier to divert funds to suit particularistic needs.

5.2 The other side of the Riyal

Despite the relevance of Gulf economic support to the continuity and stability in the Horn, the funds provided have not been viewed unequivocally positively by its recipients.

133 UN Monitoring Group on Somalia and Eritrea, 2011, *op. cit.*

134 Interviews with Ethiopian senior researchers, journalists, and senior banking executives, Addis Ababa, December 2017.

135 For an example, see: Wikileaks. 2009. 'Party-statal: How the ruling parties' "endowments" operate', 19 March, https://wikileaks.org/plusd/cables/09ADDISABABA677_a.html (accessed 19 January 2018).

136 Záhořík, J. 2017. 'Reconsidering Ethiopia's ethnic politics in the light of the Addis Ababa Master Plan and anti-governmental protests.' *The Journal of the Middle East and Africa* 8(3), 257-272; Verhoeven, H. 2016. 'Behind the Violence in Ethiopia', Foreign Affairs Snapshot August 29, New York: Council on Foreign Relations.

137 Interviews with Ethiopian senior researchers, Addis Ababa, December 2017.

One of the main criticisms is the relatively poor suitability of investment projects developed and their lack of sensitivity towards the sociopolitical context of the Horn region, including sub-state inequalities. In many cases, the regional policies of Gulf actors do not sufficiently take into account realities in the Horn. Such deficiencies arise as a consequence of two factors. Firstly, overall understanding amongst Gulf actors of the ethnic profiles, economic activities and trade relations between Horn communities may be limited in some cases (again, central Sudan with its close ties to the Gulf may prove an exception). Qatar's Ahmed bin Abdallah Al Mahmoud, the country's Deputy Prime Minister for many years, for example, was rumoured to have had scant knowledge of Sudan's many conflicts when he took up the role of lead negotiator in the Darfur crisis.¹³⁸ While it is not unusual for mediators to need considerable time to familiarize themselves with complex dossiers, in foreign policy contexts where there is little institutional support to rapidly remedy this, important blindspots may lead to grave consequences. Considerations to invest in certain regions and economic sectors often stem from state-based logic and do not take into account spillover to communities that may extend across state borders (see box 5).¹³⁹ Similarly, Gulf activity in Ethiopia is driven more by immediate concerns or opportunities than any longer-term strategic vision of the larger region's development. Given the asymmetric relations between the regions, this lack of attention is not surprising in light of the asymmetric relations between the regions. This limited stake in the region permits the Gulf states to view the Horn region mainly in terms of short-term Middle Eastern security concerns. This implies that the aims of Emirati, Saudi and Qatari policy are not necessarily tied to the long-term internal stability of the Horn region, unless it clearly impinges on the stability of the wider Red Sea region.

Box 5 Unconsidered effects and spillover

The UAE's DP World was awarded a 30-year concession to manage the development and operation of Somaliland's Berbera Port in 2016, promising to invest up to USD 442 million in the autonomous region. This investment will have a profound effect on Somaliland's political economy and external relations. It also represents a diplomatic statement from the UAE, as DP World is perceived to be a central factor in the UAE's foreign policy. This deal will also significantly affect Ethiopia and its relationship with Somaliland, given that trade between Somaliland and Ethiopia (particularly livestock and Khat) generates more than half of Somaliland government's revenue. Although the Ethiopian prime minister was included in the official photograph of the closing of the deal, the EPRDF reportedly felt marginalised during the process: the UAE's

138 Roberts, D. 2008. "Qatari Mediation," University of Durham.

139 Interviews with Ethiopian senior researchers, Addis Ababa, December 2017.

growing grip on imports into Ethiopia is seen as a major threat to Addis' ability to manoeuvre quickly and with agility in the region.¹⁴⁰ In the end, however, the deal suited Ethiopia, which is interested in diversifying its export routes away from Djibouti (and it acquired a 19 percent share in the Berbera deal). The feeling of marginalisation at the hand of DP World and the UAE is characteristic of Gulf states' involvement in the Horn, however.

A second issue impeding a balanced approach to the Horn is the highly hierarchical organisational structure of the Gulf states, which appears to allow for a substantial gap between political decision makers and ministry staff. While sufficient expertise to address the above mentioned policy concerns may exist within the organisation, the extent to which information and policy considerations can flow upward and reach the highly exclusionary circles of political decision making is questionable. One concern has been the frequent lack of availability or visibility of a Gulf counterpart on policy issues that is both informed and politically influential.¹⁴¹ Additional concerns arise over the experts contracted in policy-making bodies. While arguments can be made regarding reliance on expats to facilitate national policymaking, of particular concern is the involvement of experts from third countries with stakes in the process. For example, the employment of Egyptian personnel in ministries and the offices of the ruler of many Gulf states undoubtedly deepens the understanding of Horn politics, but has also raised a sense of suspicion amongst Ethiopian policy makers given the long and chequered history between Egypt and Ethiopia. Similar rumours exist in Ethiopia regarding potential conflicts of interest surround the Qatari mediation efforts in Darfur: the Qataris are mentioned as employing Sudanese staff, relying on expertise from the Eritrean Ministry of Foreign Affairs, and of foreign experts advising both rebel and government factions.¹⁴² Such rumours are raising the level of suspicion with which Gulf initiatives are received in the Horn.

Additional concerns arise when development of physical assets gets under way. Considering that the main asset of Horn states is its arable land, a significant share of Gulf investments aims to capitalise on agricultural opportunities.¹⁴³ In an attempt to court external investment, the Ethiopian government has been known to offer large plots

140 Interview with two members of the Ethiopian Federal Government, Ethiopian senior researcher and Ethiopian journalist, Addis Ababa, March 2018 and December 2017.

141 Interviews with former diplomatic staff of Ethiopia and an Ethiopian senior researcher, Addis Ababa, December 2017.

142 Interview with Ethiopian senior researcher, Addis Ababa, December 2017. See also: Suleiman, M. 2010. 'Doha forum is hardly conducive to resolve the crisis in Darfur', *Sudan Tribune*, 29 June, https://www.sudantribune.com/spip.php?iframe&page=imprimable&id_article=35424 (accessed 19 January 2018).

143 Although similar concerns can occur in other land based investment projects, such as real estate.

and to facilitate its development by taking responsibility for land clearance to ensure that development can begin.¹⁴⁴ Land clearance frequently involves the forceful displacement of the local population.¹⁴⁵ This issue is not unique to the Horn context, but its significance in Ethiopia should not be underestimated. The tensions generated through the coercive role such land sales demand from the central government in peripheral regions coincide with existing tensions stemming from the de facto dominance of the federal government over the regional states. Moreover, displaced populations are rarely allowed to work on the newly settled farms.¹⁴⁶ Instead, employees from different ethno-regional groups fill many of the local vacancies. Although some interviewees indicated that land clearance practices may be changing, as compensation is more frequently being granted, many of those who gave up their land find developing a new livelihood difficult as land prices rise and developing new farmland can prove challenging.¹⁴⁷

Challenges involved in moving from land acquisition to developing an operational asset are not unique to domestic entrepreneurs. Foreign investors face significant hurdles and delays in developing on-the-ground operations, undermining developmentalist claims to legitimacy after the initial displacement.¹⁴⁸ Gulf investors in particular have been known to face implementation delays, feeding discussions regarding the discrepancy between announced large-scale investments and lacklustre activity on the assets.¹⁴⁹ Such discrepancies can in part be attributed to difficulties related to a lack of infrastructure, an unclear regulatory environment requiring longer due diligence and other interactions with state bodies as well as the limited experience of many Gulf investors in developing such large-scale agricultural projects. Nonetheless, the return on investment is frequently not the main driver of Gulf investments in the region, and the cheap and long land leases provided by the Ethiopian state do not increase the pressure to develop the

144 For example, Saudi Star acquired 14,000 hectares in the Gambella region, Burgis, T. 2016. 'The great land rush Ethiopia: The billionaire's farm', Financial Times, 1 March, <https://ig.ft.com/sites/land-rush-investment/ethiopia/> (accessed 19 January 2018).

145 Lavers, T. 2012. 'Patterns of agrarian transformation in Ethiopia: State-mediated commercialisation and the 'land grab'.' *The Journal of Peasant Studies* 39(3-4), 795-822.

146 Interview with Ethiopian senior researcher and senior Ethiopian banking executive, Addis Ababa, December 2017; Human Rights Watch. 2012. *"Waiting Here for Death" Forced Displacement and "Villagization" in Ethiopia's Gambella Region*, New York; Vidal, J. 2011. 'Ethiopia at centre of global farmland rush,' 21 March 2011, *The Guardian*, <https://www.theguardian.com/world/2011/mar/21/ethiopia-centre-global-farmland-rush> (accessed 19 January 2018).

147 Interview with Ethiopian businessman in the horticulture sector, Addis Ababa, December 2017.

148 Interviews with the Ethiopian Investment Commission and Ethiopians in the finance and horticulture sectors, Addis Ababa, December 2017. Chinese investments have generally not suffered similar implementation delays.

149 Keeley, J., Seide, W., and Eid, A., et al., 2014. *Large-scale land deals in Ethiopia: Scale, trends, features and outcomes to date*, London: International Institute for Environment and Development; interview with Ethiopian businessman in the horticulture sector, Addis Ababa, December 2017.

plot or prevent land speculation.¹⁵⁰ Many assets are therefore not in operation, which delays expected hard currency income through export earnings, and leads to a heavy burden of nonperforming loans with the Ethiopian state. Because the investment policy provides for government support in start-up financing (up to 70 percent of the initial investment, depending on the type of investment), the lack of returns on a several such investments have left the Ethiopian Development Bank under substantial strain.¹⁵¹

Another frequently cited concern relates to proselytization efforts accompanying Gulf investments.¹⁵² Significant Salafi currents, associated with the Saudi export of its Wahhabi interpretation, can be identified within the Ethiopia's traditionally Sufi Muslim community. The rise in Salafi interpretations was to some extent supported by Saudi Arabian funding, flowing mainly through personal connections and Saudi NGOs such as the Muslim World League and the Islamic Relief Fund.¹⁵³ These funds facilitated the construction and operation of mosques and religious schools (as well as social and economic relief projects) in the Ethiopian regions such as Oromia. Developments like these gained a further impetus with the return of Ethiopian students from Wahhabi institutions in Saudi Arabia (such as Medina University), which has further strengthened the presence of Salafi strands in Ethiopia.¹⁵⁴ The ensuing rise in the salience and demands for political space from the Muslim community prompted the federal government to intervene in 2011. Although the heavy-handed approach prompted substantial conflict in the regions, they appear to have been relatively effective

150 For example, the cost of the 50-year Saudi Star lease on 10.000 hectares in Gambela state amounts to ETB 300.000 (approximately USD 11.000) annually (original contract: 'Land rent contractual agreement made between Ministry of Agriculture and Saudi Star Agricultural Development Plc').

151 Interview with the Ethiopian Investment Commission and with a senior Ethiopian banking executive and lawyer, Addis Ababa, 2017.

152 See, for instance, Wikileaks. 1997. 'Allah in Ethiopia: Mostly quiet on the Islamic front', 1 April, https://wikileaks.org/plusd/cables/97ADDISABABA2584_a.html (accessed 19 January 2018); Wikileaks. 2009. 'Growing Wahabi influence in Ethiopia – Amhara region and the "Jama Negus mosque"', 15 July, https://wikileaks.org/plusd/cables/09ADDISABABA1672_a.html (accessed 19 January 2018); Shinn, D. 2014. 'A Look at Muslim-Christian Relations in Ethiopia', 21 January, <http://intpolicydigest.org/2014/01/21/a-look-at-muslim-christian-relations-in-ethiopia/> (accessed 19 January 2018).

153 Abbink, J. 2014. 'Religious freedom and the political order: the Ethiopian 'secular state' and the containment of Muslim identity politics', *Journal of Eastern African Studies*, 8(3), 346–365; Østebø, T. 2007. *The Question of Becoming: Islamic Reform-Movements in Contemporary Ethiopia*, Bergen: Chr. Michelsen Institute; interview with Ethiopian businessman in the horticulture sector, Addis Ababa, December 2017.

154 Østebø, T. 2009. 'Religious Change and Islam: The Emergence of the Salafi Movement in Bale, Ethiopia', in: *Proceedings of the 16th International Conference of Ethiopian Studies*, ed. Ege, S. Aspen, H. Teferra, B., et al., Trondheim.

at stemming foreign funding.¹⁵⁵ The changes made to the composition of the Ethiopian Islamic Affairs Council have interfered with many of the personal channels through which funding entered the country.¹⁵⁶ Further controls on Islamic NGO activity and stringent reporting requirements for Ethiopian banks on suspicious bank transfers have effectively cut most other funding channels.¹⁵⁷ Nonetheless, proper auditing of financial streams remains difficult because the Ethiopian state's capacity is limited and a lack of clarity persists whether Gulf investors own or merely manage the funds they invest.

Central governmental attempts to control Islamist influences from the Gulf can easily backfire and fan ethno-regional tensions (e.g. in Oromia), as the case from neighbouring Djibouti illustrates. The state inherited a strictly secular governance model and tradition from French colonial rule. In an attempt to accommodate the return of Islamist and Islamic scholars from their education in Gulf states, the Djiboutian government sought to establish strictly controlled religious institutions in order to avoid the emergence of politicised religious movements outside state control. Nonetheless, returning scholars managed to effectively dominate the newly formed institutions at the expense of traditional Islamic leaders. Utilising the state's attempt to control religious institutions, Islamist leaders have been able to break with secular traditions and bring religious narratives and actors into the political sphere.¹⁵⁸

Lastly, although most Ethiopian foreign policy thinking is based on overcoming internal tensions, a resurgence of Gulf engagement in the Horn appears to be reintroducing the historically rooted conceptions of Islamic encirclement into foreign policy considerations.¹⁵⁹ The emergence of Gulf military bases in major ports, Eritrea moving out of isolation through its Gulf alliance and the Gulf's influence in Somalia are underlining both Ethiopia's vulnerability to its periphery, its reliance on port access and Ethiopia's reduced leverage because of substantial Gulf funding. The fault lines imported from the Gulf are currently relatively separate from conflict dimensions in the Horn, but there is no guarantee they will remain so in the future.

155 On the promotion of the Al-Abash interpretation by governmental institutions, Nigussie, H. 2013. 'Audience reception analysis on "Jihadawi Harakat" documentary film among Addis Ababa communities,' master's thesis, Addis Ababa University; Stockmans, J. 2014. 'Ethiopian Muslims in the Public Space of Addis Ababa since 1991,' master's thesis, University of Gent; Maasho, A. 2012. 'Ethiopian Muslims protest government "interference"', Al Arabiya News. 2012. 'Ethiopia charges 29 Muslims under anti-terror law', 29 October, <https://english.alarabiya.net/articles/2012/10/29/246554.html> (accessed 28 March 2018); interviews with Ethiopian senior researchers and senior banking executives, Addis Ababa, December 2017.

156 VOA News. 2012. 'Ethiopia Presents New Islamic Council', 5 November, https://www.voanews.com/a/ethiopia_presents_new_islamic_council/1539512.html (accessed 28 March 2018).

157 Interview with a senior Ethiopian banking executive, Addis Ababa, December 2017.

158 Abidllahi, A. 2014. *Note 1 - La dimension politique de l'islam à Djibouti*, Observatoire des Enjeux Politiques et Sécuritaires dans la Corne de l'Afrique.

159 Interviews with Ethiopian senior researchers, Addis Ababa, December 2017.

6 Main conclusions and practical implications for research and policy

This report has presented a comprehensive, though not exhaustive, overview and political-economic analysis of Gulf-Horn economic relations. Here it explicitly teases out the main conclusions regarding such economic relations and indicates some of the main implications these have for policy makers active in the region.

6.1 Understanding the implications of Gulf activities in the Horn requires a nuanced understanding of the scope and aims of these activities

An increasing number of analysts and policy makers active in the Horn of Africa have been noticing the resurgence in Gulf activity and influence in the Horn in recent years. For some, this activity has raised serious concerns over the methods and aims of Gulf states as well as their consequences for the stability in the region, including the development of governance, rule of law and security in the individual Horn states. From this perspective, Gulf actors can be interpreted as a considerable spoiler to the European political and developmental activities in the region.

As noted, Gulf states' activities in the Horn are indeed substantial, and Gulf influence in the Horn is a long-standing phenomenon deeply entrenched in politics in the Horn. Actors from both shores have significant interests vested in the continuation of the relationship. The Horn has a long history of cultural, religious and economic ties with the other side of the Red Sea. Developments in the Horn hence cannot be understood without taking into account the influences stemming from the Gulf states, as these states have had and will continue to play a major role in shaping the contemporary political and economic landscape in the Horn. Subsequently, any attempts to curb Gulf influence or isolate the Horn from Gulf funding will likely be an uphill battle. Both the volume of Gulf funding and its importance to the maintenance of Horn political settlements is such that attempts to control this influence will require substantial long-term concerted political efforts and may be prohibitively costly.

Categorising all Gulf influence as a spoiler to European activities in the region may also be an oversimplification of a more complex reality. Though Gulf policy agendas significantly deviate from their European counterparts, the practical implications may

not always cause a conflict of interest. Examples such as the Kuwaiti acquisition of Sudan Telecommunications Company, the substantial financial support to stabilise Horn currencies and the investments in the manufacturing sector cannot be considered similarly destabilising as Gulf influences in the Somali elections. Gulf influence in the Horn is by no means homogenous: significant differences exist between each Gulf state's aims, different instruments, different types of projects and the recipients in the Horn. Effective engagement in this context thus requires a more nuanced understanding of the role specific Gulf actors play in a given region, rather than a generalised and securitised interpretation of the risks associated with Gulf influences. An accurate assessment of the involved actors, aims and scope of Gulf activities in the context is required to effectively mitigate any associated risks.

Recommendation: Policy discussions and engagement strategies seeking to deal with Gulf influences in the context of the Horn of Africa should be informed by an accurate assessment of the involved actors, aims and scope of Gulf activities in their context to effectively mitigate any associated risks.

6.2 Stable economic and political development in the Horn of Africa is strongly connected to the geopolitical interests of Gulf states

Developments in the Gulf and Horn regions are intertwined, but it would be wrong to assume the states from both regions are equal partners. Relations have varied from partnership to animosity over the years, but most Horn states continue to rely heavily on the continued trade, investment, and remittances from the Arabian Peninsula. Such influences have even affected cultural and religious interpretations in the Horn, either through family ties, popular culture or religious traditions. The relationship of Gulf and Horn states thus cannot be reduced to merely highly visible aspects such as military emplacements. Soft power is a major constituent in the relationship.

In the short term, most interactions could be considered as largely one-way traffic from limited attentive Gulf patrons towards relatively eager recipients in the Horn. This means that Gulf states' political considerations largely predominate and frame the relationship, and that intrastate and intraregional tensions within the Horn of Africa take a backseat. Gulf investments in the Horn of Africa are largely structured along two dimensions: Arab-Iranian competition and intra-Arabian competition. Developments in the Horn unrelated to these dimensions are considered relatively inconsequential for the Gulf, and hence a deep understanding of the ethnic, religious and political make-up of Horn states is not deemed important. Neither should Gulf interventions in the Horn be interpreted as part of a long-term, coherent foreign policy on the region. Although economic motives along the lines of the Africa Rising or Vision 2030 narrative may be used to frame investments, the availability of finance for such investments is always predicated on a political motivation routed in Gulf politics. Horn states have a weak negotiating position and are considered relatively cheap clients.

In the longer term, however, Horn states cannot be characterised as merely passive recipients. Within the political considerations of Gulf states that frame the marketplace, Horn states actively manoeuvre to position themselves as worthy recipients of investment and relevant to the geopolitical considerations of the Gulf states. Although this extraversion strategy ensures a steady stream of revenue with which to maintain the domestic political settlement, the relationship built in the process also serves a strategic function in regional politics. The latter can be seen in Eritrea leveraging its Gulf connections to break out of the Ethiopian imposed isolation, Ethiopia leveraging its Arab connections to dampen tensions with Egypt, and the role of the Berbera port deal to reinforce Somaliland's independence from Somalia and for Ethiopia to reduce its dependence on Djibouti.

Important implications for policy makers are that the opportunities for stable economic development to a considerable extent depend on the short-term political interests from the Gulf. Horn economies are subject to economic vulnerabilities related to both the Horn states' relevance in the Gulf's political calculus, shifts in Gulf power arrangements and the availability of Gulf political financing (which is influenced by oil prices). Sudden changes in Gulf investments may occur, and may strongly affect the Horn states' currency stability, governments' solvability and other macroeconomic indicators. On a micro level, fluctuations in Gulf finance may heavily influence political stability given that it directly affects the ability of Horn political actors to finance patronage networks.

Stable economic and political development in the Horn will likely require diversification of Horn economies. Diversification would reduce the dependence of Horn economies on those of their Gulf patrons, potentially dampening the effects of an economic slowdown in the Gulf. Additionally, programming on poverty reduction, employment creation and improvements in domestic state-revenue generation may reduce the dependence of Horn actors on Gulf funding. This may in turn increase the bargaining power of Horn states in their relation to the Gulf, thereby increasing the space for Horn policy makers to tend to domestic concerns.

Recommendation: Early warning systems and context analyses used to inform humanitarian aid, peacebuilding and migration management policies should take into account the economic and political developments of Gulf states, and how these developments may influence the Horn.

Recommendation: European investments in programming for economic diversification and employment may improve stability because it may reduce the vulnerability of Horn states to economic and political shocks from the Gulf.

6.3 Gulf investments can significantly influence stability in the Horn of Africa

As explicated, Gulf funding is an important component in the continued stability of political settlements in the Horn. On the one hand, Gulf finance is an important resource keeping a system of clientelistic relations in place; on the other, the substantial deposits in hard currency are an important support for Horn governments' economic solvability and currency stability. Nonetheless, the lack of a sufficiently informed long-term Gulf policy towards the Horn means that the received funding may reinforce existing tensions, which easily propagate throughout the Horn's complex ethnic, religious and trade structure. Although the appeal of Gulf funding may be high from a state government's perspective, implementation of the associated projects may require a difficult and risky balancing of interests. The highly centralised channels through which most of the Gulf's foreign investment operates ties implementation with centre-periphery tensions. Additional risks may arise from a lack of conflict sensitivity throughout the implementation process. Horn-based recipients of Gulf largesse should thus not be considered unequivocally eager participants as the risks associated with Gulf finance are well understood.

Gulf states have proven willing and able to support stability in the region with sizeable investments, aid and financial contributions. A part of Gulf financing may be inherently incompatible with conflict-sensitive investments, but a substantial part is likely to suffer from weaknesses inherent in Gulf states' policies and implementing agencies rather than a clash of political aims amongst stakeholders. To mend this weakness, Gulf institutions have shown a great willingness to hire the expertise required to execute their function, even from foreign sources. On a multilateral level, Arab financing institutions such as the Islamic Development Bank have shown an interest in incorporating conflict-sensitive approaches in their programming. And though Gulf FDI in the Horn is frequently not driven primarily by economic considerations, this is an exception rather than a rule, given that Gulf FDI in other regions often does aim to achieve a return on investment.

European policy makers seeking to engage in the Horn of Africa may be able to find some common ground with their Gulf counterparts, both having an interest in stability in the Horn of Africa. Although Gulf actors are unlikely to change their instruments, an informed dialogue between European and Gulf policy makers may allow both parties to identify their complementarity in the areas of regional stability and conflict sensitivity. Such a dialogue would require the development of a shared narrative amongst European policy makers, illustrating a unified and realistic position setting clear aims and expectations regarding any potential complementarity. For such a narrative to form an effective starting point for discussion, it should demonstrate an accurate understanding of Gulf aims and activities in the Horn, and depart from the recognition that both European and Gulf states are unlikely to disengage from the region. Increasing interactions between Horn based diplomatic staff (on a bilateral basis) may be a starting

point as it may improve all parties' understanding of one another's stakes in the region and suggest areas in which complementarity may exist. Decision-making capacity is likely to be limited on this level, however, and the discussion ought to be raised to a political level in due time. Low levels of coordination on an implementing level may already reduce unintentional clashes between both region's activities however, and may thus contribute to stability in the region.

Recommendation: Strengthening the dialogue between European and Gulf policy makers could allow actors to capitalise on their shared interest in stability in the Horn of Africa. To do so would require European policy makers to develop a shared narrative explicating realistic aims and expectations from such coordination, and might benefit from increased interactions between Horn-based diplomatic staff on a bilateral basis.

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7.2 Press, media and digital sources

African Arguments

Al Araby

Al Jazeera

Al-Monitor

AllAfrica

Bloomberg

Borkena

Chatham House Resource Trade Earth

CNN Edition

Ethiopian Herald

Ethiopian Satellite Television and Radio

Financial Times

Foreign Policy

IRIN News

Meed

Meharitaddele.info

Middle East Business Intelligence

Middle East Monitor

Orient XXI

Qatar National Bank

Quartz Africa

Reuters

Riyadh Post

Sudan Tribune

The Economist

The Ethiopian Herald

The Guardian

The Horn Diplomat

The New York Times

The Reporter Ethiopia
The Washington Post
VOA News
Wikileaks
World Politics Review

Annex 1 Methodology

Annex 1.1 Political Economy Analysis

This study is conducted in accordance with CRU's political economy analysis framework. The purpose of moving the political economy analysis to a sector level is to situate the private sector and investment opportunities within a deeper context, in which the most significant power and state connections are understood. The framework combines traditional conflict analysis with elements from social network and power analysis, and draws on recent research across a range of disciplines, namely new political economy, new institutional economics as well as conflict studies. Combined, and especially when applied to a sector – such as the justice sector, the private sector, the security sector, or the political arena more generally – these analytical lenses help bring to the surface the politics and power dynamics that may facilitate or hamper proposed interventions in conflict-affected situations. This way it uncovers hidden stakeholders, the practices and exchanges that facilitate the main actors' relation to power, and the written and unwritten rules and structures that form the silent backdrop of these relations. This identification of arrangements of power helps identify potential spoilers and entry points for action by showing which structures might be amenable to changes and which structures might be used to the policy maker's advantage.

The report thus supports conflict sensitivity programming, by recognising that '[t]he success of most development efforts, including efforts to strengthen the state and build institutions of public accountability, rises or falls according to the degree to which these efforts are aligned with – or at least do not fundamentally threaten – the interests of powerful national and local actors who are in a position to thwart or co-opt those efforts.'¹⁶⁰ In a similar vein, the analysis recognises that 'many times well-intentioned interventions become ineffective because they reinforce an equilibrium that sustains the outcome the intervention attempted to change. These situations can arise from interventions that do not take into account the existing power balance.'¹⁶¹

160 Parks, T., and Cole, W. 2010. *Political Settlements: Implications for International Development Policy and Practice*, San Francisco: The Asia Foundation, 5.

161 World Bank 2017. *World Development Report 2017: Governance and the Law*, Washington DC: World Bank Group, 27.

Annex 1.2 Research design

The research design included desk research, quantitative research (see mapping methodology below) and field work. Desk research included a literature review of existing literature and news articles on the topic, as well as initial explorations of the drivers and motives behind Gulf investment projects. Field research was conducted by Jos Meester and Willem van den Berg in November and December of 2017 in Addis Ababa and Dire Dawa, Ethiopia. A total of 23 people were interviewed. These interviewees included bankers, lawyers, businessmen in the agricultural, horticultural, pharmaceutical and manufacturing industries, government officials at the Ministry of Trade and the Ethiopian Investment Commission, former diplomats, researchers at government funded think tanks, researchers at private think tanks, independent researchers, religious elders, and journalists. Reflecting the tensions surrounding the topic, government officials and religious elders are relatively lightly represented. Most of those approached were either unwilling to be interviewed on this topic, or were reluctant to share their views past the facts and figures presented in official government reporting. Only a few were willing to significantly elaborate on their views and experiences. While the information derived from these interviews is informative and may be generalisable to a certain extent, it should be noted that neither the Horn nor the Gulf forms a homogenous block. Extrapolations not taking into account the local context on either side of the Red Sea may therefore obscure important differences.

Annex 1.3 Mapping methodology

For this mapping Clingendael's database on commercial investments by Gulf countries (Saudi Arabia, the UAE, Kuwait, Qatar) in the Horn of Africa (Ethiopia, Sudan, South Sudan, Somalia, Djibouti, and Somaliland) has been used. These investments include foreign direct investments as well as foreign portfolio investments, and involve Gulf entities buying assets of or setting up business interests in the Horn of Africa (both greenfield and brownfield, including affiliates, fully owned subsidiaries and joint ventures). The database is an overview of commercial investments and therefore does not include religious funding, macroeconomic credit, payments to individuals in the Horn, payments for peace processes or similar activities.

This database draws on data from secondary systematic overviews, including Land Matrix,¹⁶² Grain,¹⁶³ farmlandgrab.org,¹⁶⁴ Zephyr's comprehensive mergers and

162 See: Land Matrix, 'Online Public Database on Land Deals', <http://www.landmatrix.org/en/> (accessed 31 March 2018).

163 See: Grain, <https://www.grain.org/> (accessed 31 March 2018).

164 See: Farmlandgrab, <https://www.farmlandgrab.org/> (accessed 31 March 2018).

acquisitions data,¹⁶⁵ the International Forum of Sovereign Wealth Funds,¹⁶⁶ and the Ethiopian Investment Commission.¹⁶⁷ The team examined the activities of the largest Gulf companies in six sectors (agriculture, banking, logistics and shipping, sovereign wealth funds, construction and infrastructure, telecommunications) in each of the Gulf states in scope. From this examination, all operations and investments partaking in the Horn of Africa were included in the database (following triangulation with secondary sources). A number of news websites and business registers were manually searched for any articles or entries pertaining to Gulf investments in the Horn of Africa. Any entries encountered that could be verified from multiple sources were included in the database. The database was further enriched with data on ODA projects drawn from the websites of the Arab Fund for Economic and Social Development,¹⁶⁸ the Kuwait Fund for Arab Economic Development,¹⁶⁹ the OPEC Fund for International Development,¹⁷⁰ the Arab Bank for Economic Development in Africa (BADEA),¹⁷¹ the Saudi Fund for Development,¹⁷² and the Islamic Development Bank.¹⁷³

The database contains 434 investments from 2000 to 2017, spread over 36 locations across the Horn of Africa, in 16 sectors, worth approximately USD 13 billion, and 309 ODA projects between 2000 and 2017, worth a combined total of USD 6.6 billion. The data includes dates, locations, sectors, investment amount, investment type, investment partners and employment creation. For countrywide projects where the specific city or region location data is not available, the project has been coded as taking place in the capital city when represented visually. Similarly, for regional projects the centre of the region was taken as the location of the project for visual representation.

165 See: Zephyr, <https://zephyr.bvinfo.com/version-2018312/Home.serv?product=zephyrneo> (accessed 31 March 2018).

166 See: International Forum of Sovereign Wealth Funds, <http://www.ifswf.org/research> (accessed 31 March 2018).

167 See: Ethiopian Investment Commission, <http://www.investethiopia.gov.et/> (accessed 31 March 2018).

168 See: Arab Fund for Economic & Social Development, <http://www.arabfund.org/> (accessed 31 March 2018).

169 See: Kuwait Fund for Arab Economic Development, <https://www.kuwait-fund.org/en/web/kfund> (accessed 31 March 2018).

170 See: OPEC Fund for International Development, <http://www.ofid.org/> (accessed 31 March 2018).

171 See: Arab Bank for Economic Development in Africa, <http://www.badea.org/> (accessed 31 March 2018).

172 See: The Saudi Fund for Development, <http://www.sfd.gov.sa> (accessed 31 March 2018).

173 See: Islamic Development Bank, https://www.isdb.org/irj/portal/anonymous/idb_faq_ar (accessed 31 March 2018).