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# **Opportunity to Recalibrate the Current Containment Investment Model**

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Global Perspectives Initiative in cooperation  
with the Inter Region Economic Network



### **Global Perspectives Initiative (GPI)**

As a non-profit and independent platform, GPI works towards enhanced engagement and responsibility for sustainable development by German and European decision-makers. At the same time, the initiative aims to strengthen African perspectives in policymaking. To this end, GPI regularly brings together decision-makers from politics, business, civil society, academia and media to discuss new approaches, provide new impulses and raise awareness on the common opportunities and challenges the two neighboring continents are facing.

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The Inter Region Economic Network is a leading think tank providing strategic insight and policy solutions tailored to spur prosperity in Africa through organized enterprises. IREN has over the last 20 years researched and hosted a series of think tank discussions on themes around Africa's economic cooperation and development.

The Global Perspectives Initiative thanks IREN for the excellent cooperation and for providing this White Paper for *The Africa Round-table* in Nairobi 2023.

# Opportunity to Recalibrate the Current Containment Investment Model

This White Paper is part of the preparatory materials for *The Africa Roundtable* hosted by the Global Perspectives Initiative. It synthesizes some key points as captured by James Shikwati (Founder and Director of IREN Kenya), Josephat Juma (Managing Editor of *The African Executive Magazine*) and Nashon Adero (Geospatial and Systems Modelling Expert and Lecturer at Taita-Taveta University School of Mines and Engineering).

## INTRODUCTION

There is intense competition by external powers to influence affairs in Africa and exploit its resources (de Carvalho & Rubidge, 2022). The continent continues to be trapped in unviable **fragmented markets** (Lijane et al., 2007) and weak supply chains (Kearney, 2014) prompted by **European containment investment models** that focused on spheres of influence at independence (Freeman, 2022), cold war era legacy, value systems driven by foreign policies, and the current fear of African migrants (Landau & Freemantle, 2021). The containment also manifests in pegging African currencies on European currencies (Promskaya, 2015), protection of European markets, projection of military power, and driving of narratives that make the West and Europe appear to be the center of the world (Olson, 2013). The spheres of influence created nationstates whose business and political character mirrored colonial legacy, e.g. Anglophone, Francophone and Lusophone, curtailing possibilities for intra-African supply chain development. The Cold War and its attendant valueladen foreign policies fragmented markets in Africa further and lately, the migrant question is heavy on keeping Africans away from Europe. **However, the world is changing with new global players crafting their own models to engage with Africa.**

Africa has the opportunity to leverage on the renewed interest from the West and emerging global actors to craft an investment model that can lead to efficient intra-African supply chains, cross-country infrastructure development, value addition on the continent, and boosting energy security, while modernizing technology, and information and communication technologies. The new investment model focuses **on activating indigenous African systems (medicine, foods, knowledge, skills and talent) to interoperate with international systems** and ensure timely and precise deliverables whose reach transcends regional geographies, beyond the Eurocentric nation-state maps on the continent.

Containment investment models: low profitability, high fragmentation and weak supply chains.

Interaction of indigenous African systems with international systems.

## AFRICA'S CORE INTERESTS PROVIDE OPPORTUNITY FOR INVESTMENTS

Africa is keen on leveraging on its over 1.4 billion people to create a functional Continental Free Trade Area (AfCFTA) that can enhance its participation in global affairs (AUC, 2015). Through the African Union (AU) and Regional Economic Blocs, the continent intends to achieve regional cohesion (Traoré, 2020), economies of scale, upscaled value chains (ECOWAS, 2023) and a shift from overreliance on raw natural resource exports to service industries (Omeje, 2017). While linguistic diversity has sometimes been portrayed as an obstacle, achieving this cohesion in a continent known to have over 3,000 ethnic communities is not a distant dream. African languages are a repository of the continent's history, culture, and values, and function as a carrier of identity. Four large linguistic clusters could rally the unification: the Niger-Congo speakers, the Nilo-Saharan speakers, the Afro-Asiatic speakers and the Southern African Khoisan speakers. The African continent's multilingualism is a powerful resource. **Re-empowering African languages is a way to contribute sustainably to Africa's transformation and economic progress** (Wolff, 2018) through building identity and cohesion and streamlining regional interests. African countries are interested in building robust supply chains to stimulate rapid economic growth (Oke et al., 2022), shifting from food imports estimated at \$35 billion per year and projected to rise to \$110 billion (AGRA, 2020), and diversifying their markets as witnessed in efforts in Côte d'Ivoire, Ethiopia, and Rwanda (Fofack, 2018) and fair achievements in Egypt, Kenya, Mauritius, Morocco, South Africa, and Tunisia (UNCTAD, 2022).

To deliver on Africa's core interests are sector-based opportunities for Europe and Germany to invest using the proposed investment model, namely:

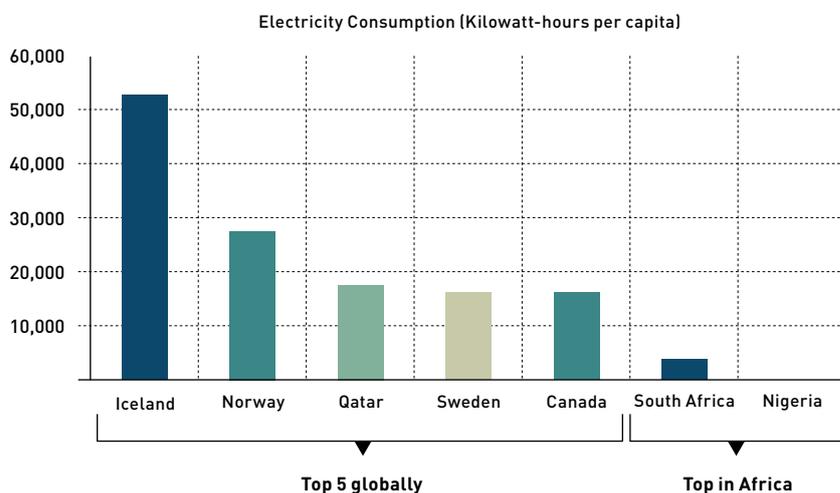
- **Unlock Africa's food systems and agro-processing industry:** Africa's food processing industry remains in its infancy, resulting in uncompetitive processed food exports. Collaboration between the AU and the European Union (EU) can develop frameworks that improve production and processing to meet mutually agreed upon EU health, safety, and quality standards, and create sustainable food systems. Africa boasts over 50,000 plant and around 10,500 animal species (Chapman et al., 2022) – a unique opportunity to create a diverse range of high-quality agricultural products for export.
- **Wholesale and retail trade:** Wholesale and retail trade is perhaps the most patronized sector by Africa's small & medium enterprises (SMEs). As Africa's economic growth outlook brightens, increased intraregional trade will play a major role in offsetting some of the export losses due to sluggish demand in other major markets. For instance, Asia is a vital market for Africa's commodities (Schiere et al., 2007), accounting for a whopping 40% of the continent's total merchandise exports.

If all goes well, **intra-African trade could increase by more than 50% or even double about a decade into the implementation of the AfCFTA**. As consumer and business spending surpasses \$4 trillion, the benefits of increased trade will be most significant for intra-African trade, which could increase in value between 15–25% by 2040 (Fofack, 2018).

- **Technology to power Africa using natural resources:** An estimated 90 million Africans need to be connected to electricity annually to achieve universal access by 2030. **Africa has the lowest per capita use of modern energy**, yet it holds 3.6% of global coal reserves, 7.5% of global natural gas reserves, and 7.6% of global oil reserves. Unclean energy dominates households now that a third of its population lacks access to electricity, and 53% rely on biomass for cooking, heating, and drying (IEA, 2022). Sub-Saharan Africa will require about **\$377 billion in financing for climate-mitigation investments and \$222 billion for climate adaptation to achieve its commitments** (UNU-INRA, 2019). Sub-Saharan Africa’s estimated 115.34 billion barrels of oil and 21.05 trillion cubic meters of gas (AEC, 2022) that is undiscovered but technically recoverable require strategic regional investments and collaborations to balance supply and demand across the continent.

Need for electrification using Africa’s natural resources vs climate mitigation efforts.

Figure 1  
**Comparison of electricity consumption between top global and African countries**



Source: Statista, 2023

- **The digital economy:** Africa's digital economy is growing. Its current market size of an estimated \$115 billion is projected to reach \$712 billion by 2050, driven by the youthful population, growing mobile phone penetration, and rising internet adoption. Mobile access is expected to grow to 50% by 2025 from the current 46%. The industry accounts for 8% of Africa's GDP. It has created 400,000 formal jobs and 2.8 million informal jobs. It intends to grow internet connectivity by extending 4G network coverage across countries and introducing 5G in cities. 17% of mobile subscribers are active on 4G network and the penetration is expected to reach 33% by 2025. 5G is still at its infancy in Kenya and South Africa (GSM Association, 2022). The mobile internet connectivity's growth has marshalled development of low-cost smart phones with several device manufacturers targeting sub-\$50 price point. **Africa's mobile revolution birthed tech innovations that have attracted global investors.** Venture capital funds in Europe, America, and Asia have backed successful tech startups in Egypt, Kenya, Nigeria, and South Africa – the leading African tech hubs that represent 32% of Africa's population, 51% of the continent's mobile network connections, 50% of its tech human capital, and 51% of its GDP (Kene-Okafor, 2022).
- **Security architecture for a secure investment environment:** The pursuit for peace and tranquillity is top of Africa's agenda, hence the AU's *Silencing the Guns* initiative. Africa is keen to invest in early warning and conflict prevention systems (AU, 2023).

## EMERGING ACTORS IN AFRICA: A COMPARATIVE ANALYSIS

Africa is an attractive destination for emerging actors such as China, Türkiye, and the Gulf states. China has emerged as the most consequential power player in Africa. **China's inroads are attributable to fundamental factors such as non-interference in the domestic politics of the African countries** (Aidoo & Hess, 2015), not attaching stringent conditionalities to its development assistance and loans (Tambo et al., 2016), and a majority of Africans considers Chinese loans and development assistance as having lesser conditionalities compared to Europe and the United States (US) (Selormey, 2020).

### What has changed?

The changing global economic landscape has seen China and India replace the US and the United Kingdom as the top export destinations for African countries. Although the EU as a bloc is still a significant source of imports, especially food, heavy machinery, energy products, vehicles, and high-skill technology products (Coulibaly et al., 2022), its position in Africa has weakened since the Brexit, as emerging players such as Türkiye expand their physical presence on the continent (Hackenesch & Keijzer, 2019).

The Covid-19 pandemic also changed market dynamics and disrupted the traditional global value chains. It pushed the Gulf states to diversify their economies (following a slowdown in the oil sector) and pursue food security hence forging stronger economic ties with Africa (Hodder, 2022).

### **What motivates Africa's collaborations with other countries?**

African governments tend to prefer partnership models that do not interfere with their domestic policies or exert undue political influence. China, India and Türkiye have observed this and focussed on investment opportunities, mutual respect, and reciprocity (Gu et al., 2022). **African governments view emerging partners favourably for their contribution to the continent's development, especially in infrastructure projects** (Chao, 2018). The Mombasa-Nairobi railway in Kenya, the international free trade zone in Djibouti, Dubai's DP World's investment inland logistics facility in Mali and Qatari investments in Sudan's Red Sea port management have received acclamation (Ordu & Golubski, 2022). The EU sponsors various frameworks but exhibits inconsistency by continuously adding new standards and values to enable access. Some of the EU's five frameworks to support African products access the European market include the Economic Partnership Agreements (EPAs), trade agreements with North Africa, Everything But Arms (EBA), Generalised Scheme of Preferences Plus (GSP+), and Generalised Scheme of Preferences (GSP), which currently cover 48 African countries (EEAS, 2022). These partnerships, though skewed more towards Europe's geostrategic interests, strive to bring Africa and Europe closer together by strengthening economic cooperation, peace and security and promoting sustainable development.

### **Impact of key emerging partners in Africa**

China is Africa's prominent emerging partner. China's engagements with Africa are less complicated compared to Europe and the US (Chao, 2018). European countries accuse China of luring vulnerable countries into a '**debt trap**' that could see them lose control over strategic state assets should they default on loans. Recent reports, nonetheless, indicate that China granted at least \$12.1 billion in global debt relief to several countries in 2020 and 2021. **The balance of trade with Africa is in China's favour.** As of 2021, the trade volume stood at \$254.29 billion, with 58% representing Chinese exports to Africa. Since China's focus is on raw materials extraction from Africa's rich natural resource base to fuel its surging economy, only mineral-rich Angola, Nigeria, and South Africa record a trade surplus with China. China has plans to invest \$60 billion in Africa by 2035 to support agriculture, manufacturing, infrastructure development, environmental protection, the digital economy and the blue economy (Gu et al., 2022).

China's perceived attractiveness as a partner: non-interference, reciprocity, quick execution of infrastructure projects.

Potential 'debt trap' and terms of trade favoring China over African countries.

Figure 2

### Top 10 African countries with highest bilateral trade volumes with China

Country	Exports to China (USD '000)	Imports from China (USD '000)	BOT (USD ,000)
South Africa	33,227,570	21,119,650	12,107,920
Nigeria	3,042,160	22,641,264	-19,599,104
Angola	20,850,561	2,493,080	18,357,481
Egypt	1,706,783	18,266,614	-16,559,831
DRC	11,635,035	2,757,313	8,877,722
Ghana	1,464,982	8,105,157	-6,640,175
Algeria	1,080,771	6,350,062	-5,269,291
Kenya	226,576	6,735,258	-6,508,682
Tanzania	605,564	6,188,957	-5,583,393
Morocco	823,967	5,689,529	-4,865,562

**Africa has strong diplomatic and economic ties with the Gulf Cooperation Council (GCC) states**, including Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE). The UAE is the largest investor among GCC states in Africa and the fourth largest globally, investing \$16.6 billion in more than 66 projects across 28 African countries in 2018 alone (UNCTAD, 2022). Although Saudi Arabia is no longer the largest GCC investor in Africa, it has invested significantly in energy, mining, and agri-business projects, driven by food security concerns and the instability of global oil prices (Hodder, 2022). **Partnerships with Gulf companies have generated large-scale infrastructure projects** such as Dubai's DP World's \$50 million investment in an inland logistics facility in Mali, and Qatari investments in Sudan's Red Sea port management totalling \$4 billion (Todman, 2022).

Established relations with GCC states resulting in large-scale infrastructure projects.

Figure 3

**Status of BITs between Africa and GCC**

<b>Country</b>	<b>Bilateral Investment Treaties in force</b>	<b>Bilateral Investment Treaties in place but not in force</b>
<b>Bahrain</b>	Algeria, Egypt, Morocco	Sudan
<b>Kuwait</b>	Benin, Egypt, Ethiopia, Kenya, Morocco, Tunisia, Zimbabwe	Mauritania, Nigeria, Senegal, South Africa, Sudan, Tanzania
<b>Oman</b>	Algeria, Egypt, Morocco, Sudan, Tunisia	Tanzania
<b>Qatar</b>	Egypt, Morocco	Algeria, Chad, Ethiopia, Kenya, Libya, Mali, Mauritania, South Africa, Sudan, Tunisia
<b>Saudi Arabia</b>	None	None
<b>UAE</b>	Algeria, Egypt, Guinea, Kenya, Mauritania, Morocco, Tunisia, Zambia	Angola, Benin, Burundi, Chad, DRC, Equatorial Guinea, Ethiopia, Gabon, Guinea Bissau, Liberia, Mali, Mozambique, Niger, Nigeria, Rwanda, Senegal, Sierra Leone, South Sudan, Sudan, Uganda, Zimbabwe

Source: UNCTAD, 2023

**DRIVING AFRICA-EU PRIVATE SECTOR LINKAGES**

Africa's private sector forms an integral part of the AU's plan for transforming Africa. It accounts for over 80% of total production, two thirds of total investment, and three fourths of lending within the economy. A conversation with the sector should involve SMEs which employ 90% of the working-age population, make up 90% of businesses, and contribute at least 50% of the GDP (AfDB, 2023). SMEs operate sub-optimally due to challenges such as access to finance, markets, support and an enabling regulatory environment. If well facilitated, they can spur Africa-EU partnership through innovation and value chain linkages.

Africa's private sector is the driving force of transformation, accounting for 80% of total production and >60% of total investments.

## What are African entrepreneurs looking for?

- **Access to markets and trade opportunities:** African entrepreneurs want increased acceptance of African goods into the EU. Sub-Saharan Africa only accounts for 2% of production and 3% of trade on the global stage (World Bank, 2013). This is a far cry from its population, number of countries and the abundance of natural resources.
- **Value addition opportunities:** African entrepreneurs, particularly at the SME level, seek opportunities to participate in industrial value chains (Adesina, 2022). EU-based industries should explore collaboration opportunities with their African counterparts in such areas as outsourcing the manufacture of some machine components and promoting intermediate goods. African and EU governments can support this process through **coherent industrial and trade policies that foster value addition and economic diversification.**
- **Local production for local consumption:** Africa trades less with itself. Africa exports raw materials abroad and imports finished goods. With about 30% of the global mineral reserve, Africa needs to add value to its raw materials locally to promote decarbonisation through low-carbon materials and technology including efficient battery storage systems and e-mobility. **The AfCFTA intends to promote local production for local consumption.** The AU estimates a 50% growth in intra-African trade once implemented (AUC, 2015).
- **Financial inclusion:** Financial inclusion has improved tremendously across Africa, thanks to the wide acceptance of mobile money delivered by mobile network operators (GSM Association, 2022). Services such as M-Pesa, Airtel Money, MTN Mobile Money and Orange Money play a vital role in trade ecosystems by enabling efficient methods of making payments and accessing financial products. The conversation is now shifting away from access to finance to access to affordable finance. Africa requires investments in finance technology and in financial market development to harness domestic resources for access by a range of businesses. This includes enabling SMEs raise funds through capital markets and a wide range of fundraising options. Harnessing cross-border financial flows from Africa's diaspora resident in the EU and foreign resource mobilization can be added to the mix (European Commission, 2022).
- **Robust public-private dialogues:** The AU and EU leadership need to champion frequent public-private dialogues within nation-states and across the continents (Marchetti, 2022). This will deliver value to the private sector through the streamlining of standards, regulations and policies that will boost inter-continental trade. Such dialogues will also help treat perceptions that EU development activities are designed to benefit European businesses more than African ones.

## Imperatives for AU-EU collaboration

- **Economic diversification:** The composition of Africa's exports is getting greater attention as the continent seeks to **reduce the decades-long dependence on raw materials which are estimated to be 50% of total exports** (Coulibaly et al., 2022). Much of the composition of the continent's exports to Europe has remained the same for more than 20 years (UNCTAD, 2022). Africa can leverage on the demand for food in the Gulf and agricultural produce in Europe to develop agro-processing capabilities within the continent through collaborations with the GCC and the EU (Yousef, 2022). Demand for clean energy offers a great opportunity to invest in tapping into solar solutions, energy storage and transfer systems.
- **Creation of job opportunities for Africans:** African states need to create an additional 25 million jobs every year (BMZ, 2023). The private sector should create these jobs as governments provide support through restructuring existing sectors of their economies and establishing new ones. This includes structuring emigration of Africans to take up work and entrepreneurship opportunities in the EU.
- **Infrastructure development:** Africa's population, projected to triple by 2050 will need urban infrastructure, reliable energy, and transport and communications networks for quality living. Almost 50% of Africa's households do not have access to electricity (IEA, 2022).
- **Trade and investment incentives:** Businesses investment incentives such as strong domestic demand, stable macro-economic environment; vibrant urbanized communities and stable currencies to enable expansion into new markets and partnering with other companies across borders (Mendez-Parra et al., 2020).
- **Demographic dividend:** With a median age of barely 20, Africa has 60% of its population under the age of 25 and 40% under the age of 15. This is in stark contrast with global average, a median age of 31 with 40% below 25. It is projected that by 2050, half of the world's population under 25 will be resident in Africa (European Commission, 2022). **Investors are attracted to Africa largely on account of the continent's population demographics, expansive consumer market, abundance of strategic minerals and vast underdeveloped natural resources.** The continent makes up about 28% of the UN General Assembly members and potentially one-quarter of the world's population. The growth of Foreign Direct Investments to Africa by 113% to \$3 billion in 2021 (AfDB, 2023) from the previous year is a testament to African markets' growing attraction.

Diversification  
away from raw  
material exports.

Attractiveness of  
Africa's young and  
dynamic demography  
for investors.

## VISION FOR FUTURE SUPPLY CHAIN DEVELOPMENT

To achieve a vision for future supply chain development, Sub-Saharan African countries need to focus on promoting participation in global supply and value chains. At the same time, there are opportunities for trade and investment with Germany, particularly as the AfCFTA takes effect and economic integration accelerates. Germany's experience with EU integration (BMZ, 2017) could be valuable in promoting African integration, and private investment could supplement traditional development aid to support socio-economic development in the region. Finally, promoting new energy systems and environmental protection could help create a more sustainable, resilient supply chain ecosystem in Africa.

## CONCLUSION: THE NEW MODEL

In conclusion, the dynamic growth in terms of population, urbanisation, middleclass expansion, and natural resources presents an opportunity for a thriving integrated markets for investment. To achieve this, **the outdated European containment investment model must be transformed to one that fosters the integration of supply and value chains and harness synergies that arise from accommodating diversity and utilizing systems approach at scale.** The new model must prioritise data-driven insights over colonial legacies, political narratives and hysteria, ensuring comprehensive perspectives.

African countries must adopt a multi-pronged approach to optimise market growth and access: (a) Integrating to scale up supply capacity, (b) aligning indigenous systems to international operations and (c) diversifying market access while capitalizing on preference schemes (Coulibaly et al., 2022). Investment policies on the continent must include a checklist to prevent backend containment bugs. Africa and the EU have three urgent tasks to deliver to ensure a non-containment approach to partnership.

### Africa must:

- **Remodel its security architecture:** A system that guarantees peaceful resolution to competing interests will motivate both domestic and foreign investors to increase productivity on the continent. Africa must remodel its security architecture away from individual nation-state orientation to a regional and continental system that manages competing interests to scale down conflict. This will involve mapping out those who benefit or lose out from current conflict situations and designing a win-win or the 'big pie' approach for both short term and long term. In security terms, the biggest enemy for Africa is that which prevents the continent from profitably and sustainably exploiting its resources.

- **Align indigenous systems to international systems:** Africa has a big opportunity to utilize data and evidence-based approach to diversify and bring new value to international systems through leveraging on its indigenous knowledge, products, skills, talent and labour.
- **Accelerate regional integration:** The continent should tap on the social capital from the Regional Economic Blocs to drive momentum towards the AfCFTA.

#### **Europe must:**

- **Shift away from containment investment model:** The old containment model is uncompetitive in the current geopolitical shifts. Investing to grow efficient indigenous and international supply chains in Africa will boost aspirations of both Europe and Africa.
- **Prioritise data-driven insights:** The EU should emphasize evidence-based decision making as opposed to echo-chamber based approach to navigate political narratives and hysteria when crafting policies and partnerships with African countries.
- **Engage in strategic partnerships:** As a youthful continent, Africa offers long-term strategic partnerships that guarantee future markets. Even as developed countries invest in artificial intelligence, they will still need people – and Africa offers the population of tomorrow.

Europe needs to shift away from containment investment model and engage in pragmatic and data-driven partnerships.

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