Analysis of the UAE-Africa Trade Market:

Opportunities and Challenges

A whitepaper by investopia

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INTRODUCTION

As global focus shifts towards emerging economies, Africa is coming into the limelight as a key investment destination with ambitious potential. Being home to the world's youngest and fastest-growing population that is forecast to almost double to 2.5 billion people by 2050, it represents the last remaining frontier market in terms of dynamism and growth, and its importance continues to rise for other countries, with the UAE being no exception.

The UAE-Africa economic partnership, shaped by geographical proximity, continues to grow, with the UAE having invested nearly USD 60 billion in the continent over the last decade. A key pillar of this economic relationship is trade, with Africa fast emerging as one of the UAE's key markets. These trade ties are driven by mutual economic interests and strategic collaboration, reflecting both regions' desire for economic growth and diversification.

During the past decade, the sum of imports and exports between UAE and sub-Saharan Africa alone has increased by over 30%, with the Africa Continental Free Trade Area (AfCFTA) expected to accelerate this trend with the creation of a single unified market.

Within this landscape of increased ties with Africa, the UAE aims to conclude more Comprehensive Economic Partnership Agreements (CEPAs) with countries in the continent. It has already completed talks with Kenya, Mauritius and the Republic of Congo, increasing access to the African market.

The UAE's interest in East Africa has also increased as it seeks to establish commercial ties and ensure access across the strategic Bab al-Mandab Strait in the Red Sea. Additionally, the UAE has strategic interests in East Africa's maritime and food security, as well as in its mineral resources.

Investopia aims to encourage and accelerate investments into initiatives in sectors such as agriculture, technology and energy in the continent by fostering collaborations and amplifying the UAE's commitment to investing in and trading with Africa.

CURRENT STATE OF UAE-AFRICA TRADE

Trade between the UAE and Africa has steadily increased over the years, with the total trade volume between the UAE and just six non-Arab African countries (Angola, Kenya, Nigeria, Ethiopia, South Africa and Tanzania) crossing USD 8 billion in 2020. While South Africa has historically been the UAE's most important trading partner, other countries in the continent are now gaining importance. Nigeria is one example, featuring prominently as a destination for UAE exports and reexports. Tanzania has also risen to prominence, with trade between the two countries having increased to USD 1.2 billion in 2020.

Trade between the UAE and the countries within the COMESA economic bloc has been growing in recent times. COMESA, the largest economic bloc in Africa, comprises 19 member states, including Burundi, Comoros, the Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Eswatini, Uganda, Zambia, and Zimbabwe. The COMESA market is projected to become one of the most lucrative in Africa, with an estimated 600 million consumers by 2025. In 2019, UAE's total trade with COMESA countries amounted to USD 47 billion (exports and imports). In 2022, the UAE was COMESA's third largest export destination after China and Italy, with exports amounting to USD 17.6 billion, while imports from the UAE were even greater that year, reaching USD 21.6 billion.

OPPORTUNITIES FOR PRIVATE INVESTMENT

The UAE aims to gain a large share of Africa's resources, including oil and gas, mining, and agriculture. It also wants to consolidate its strong presence in transport infrastructure and logistics services while expanding into renewable energy, digital infrastructure, manufacturing ventures, and financial services. In the transport infrastructure and logistics services industry, the government of Dubai, in particular, has actively partnered with many African countries, with Dubai World having around 30 investment projects across Africa. These include marine terminals in Djibouti, Algeria, Dakar (Senegal) and Maputo (Mozambique), wildlife reserves in Rwanda and South Africa, and a hotel project on the Comoros Island.

The UAE has significant investments in Africa's mining sector. The country has invested substantially in copper-rich Zambia and the Democratic Republic of Congo (DRC). While other Gulf countries have expressed interest in investing in the continent's critical minerals industry, the UAE has been the first to actually acquire African mines. In 2022, the UAE and the Democratic Republic of the Congo formed a joint venture named Primera Gold, with the UAE holding a 55% stake and the DRC holding 45%. Within only 45 days, this venture successfully exported 207 kg of gold from the DRC to the UAE.

In March this year, International Holding Company, an Emirati company, purchased a 51% stake in Zambia's Mopani Copper Mines through its mining arm, International Resources Holding (IRH). The deal was closed for USD 1.1 billion. IRH has also made a bid for the Lubambe Copper Mine in Zambia. Ultimately, this is leading to more investment opportunities in Zambia and the continent, with the possibility of investing in other energy transition metals, including cobalt, nickel, manganese, graphite and the 3T minerals – tin, tungsten and tantalum.

In East Africa, which has a market of over 300 million people and a total GDP of over USD 300 billion, Kenya offers opportunities for investment in the agriculture, manufacturing, tourism and energy sectors. The country is a leading producer of agricultural products such as tea, coffee, fruits and vegetables. Within the agriculture sector, there is room for value addition, agro-processing, irrigation, and mechanization. Value addition can come through increased yields so that agricultural output matches that of global peers.

Kenya also offers opportunities in the technology sector, being a leader in innovation in Africa, and houses a dynamic startup ecosystem and a sound digital infrastructure. The technology sector in Africa itself presents significant investment opportunities, with over a six-fold increase recorded in start-up funding over five years, with technology startups raising a record USD 5 billion in 2021. However, the total investment is still less than 1% of what US-based startups managed to raise during the same period, This emphasizes an investment funding gap that can be addressed by investors in the UAE and the wider Middle East.

PRIMERA
GROUP LIMITED

IHC
International
Holding Company

IRH

KEY SECTORS FOR INVESTMENT

Africa faces significant challenges in terms of digital development, including underdeveloped digital infrastructure and a lack of accessible and affordable connectivity. These challenges, in turn, present opportunities for investment in digital transformation, with the International Finance Corporation (IFC) estimating that over 600,000 formal businesses and 40 million microenterprises could benefit from technological advancement. The annual investment needs for infrastructure and digital transformation of businesses are expected to be around USD 6 billion and USD 2.7 billion respectively.

Over the past few years, Africa has seen more rapid expansion in digital infrastructure than any other region. Between 2010 and 2022, the international internet bandwidth utilized, which reflects the capacity of submarine cables, increased by approximately 50 percent annually. Despite this, an estimated investment of $21-32 billion in middle- and last-mile digital infrastructure is required to enhance access to high-speed internet and capitalize on the anticipated expansion of submarine cables by 2027.

The agriculture sector also presents economic collaboration opportunities for the UAE and Africa, with the former likely to benefit from synergies with African countries to further its food security goal. In this regard, the UAE is in the process of closing several land acquisition deals in Africa, which possesses the majority of the world's unused agricultural land. In July last year, Dubai Investments and E20 Investment, an agribusiness investment firm based in Abu Dhabi, signed an agreement to develop a large plot of land in Angola. The partners plan to produce 28,000 tonnes of rice and 5,500 tonnes of avocados over the next 18 months on the land, which is equivalent in size to 9,300 football fields. Al Dahra, an Emirati agribusiness firm, has also been negotiating with Egypt to purchase or lease land in Toshka under a long-term agreement aimed at cultivating staple grain crops. These investments are in line with the UAE's national strategy for food security, which aims for it to rank first in the Economist's Global Food Security Index by 205

The renewable energy sector in Africa presents another investment opportunity. The continent aims to increase its renewable capacity to 300 gigawatts by 2030 from 56 gigawatts at present. This number should further rise to 700 gigawatts by 2040. However, in order to meet these goals, USD 1.3 trillion in investments is needed, with only USD 30 billion committed so far. UAE's Masdar has already committed to funding USD 2 billion of equity in Africa as part of the UAE-led Africa Green Investment Finance Initiative.

Overall, the UAE has committed USD 4.5 billion to significantly expand renewable energy development in Africa, aiming to reach 15 gigawatts by 2030. This pioneering initiative between the UAE and Africa aims to harness Africa's potential for sustainable prosperity.The investment will be facilitated by the Abu Dhabi Fund for Development (ADFD), Etihad Credit Insurance (ECI), Masdar, and AMEA Power. These four entities will collaborate with Africa 50, a pan-African infrastructure investment platform, to develop and finance renewable energy projects across the continent. The objective is to "demonstrate the commercial viability of clean investments" in Africa and establish "a scalable model that can and should be replicated."

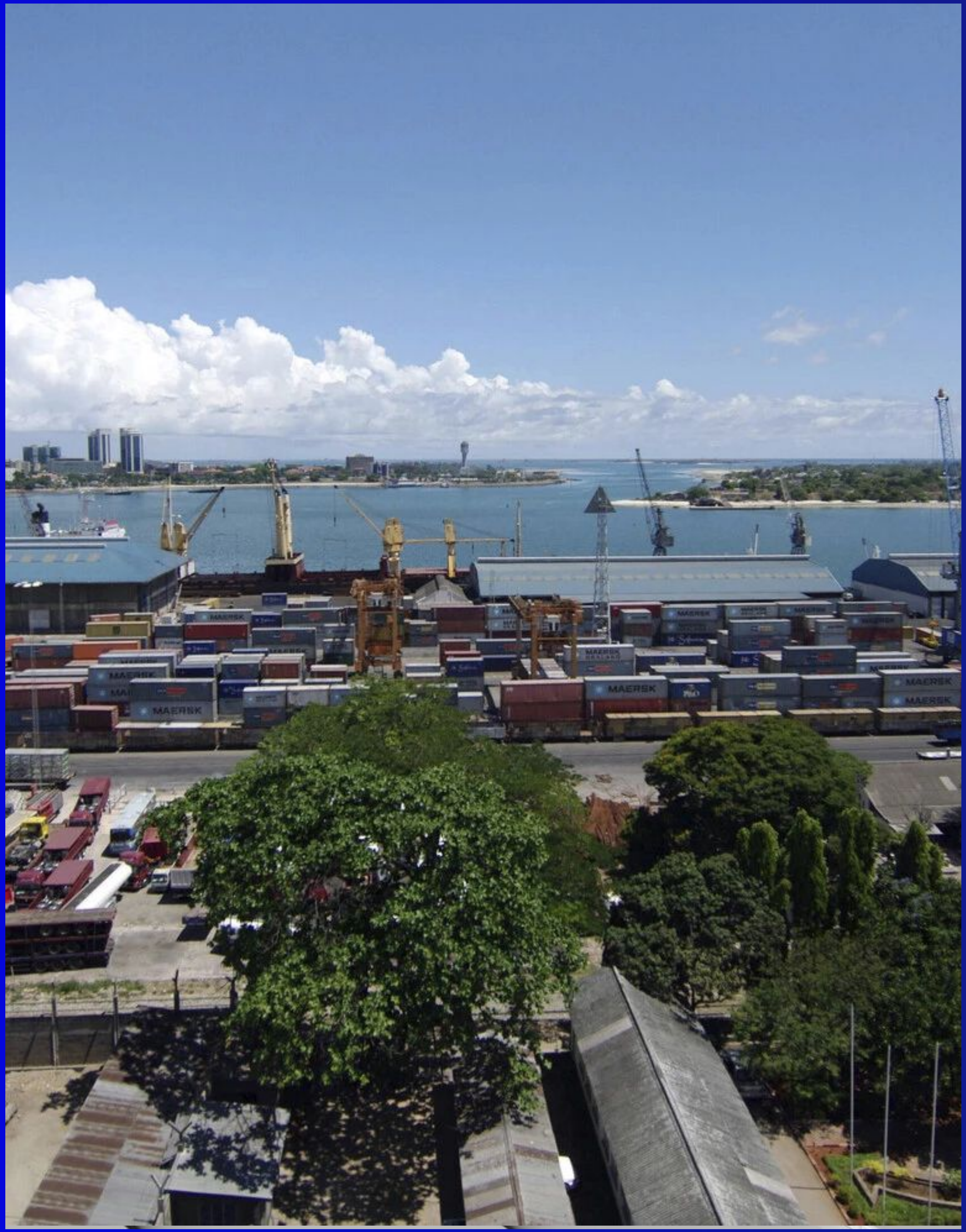
STRATEGIC RECOMMENDATIONS FOR INVESTORS

Deloitte identified Cote d'Ivoire, Ghana and Nigeria as the three most attractive investment destinations in 2022, with the business environment and market access and size being identified as the two main criteria when selecting a country, followed by tax and regulations.

According to the African Development Bank, Africa's energy transition represents a USD100 billion per year investment potential and investors could cover 70% of infrastructure financing requirements. The indicative return profiles for this sector are among the highest, with 80% of Investment Opportunity Areas (IOAs) achieving a Return on Investment (ROI) above 15% and all IOAs maintaining a Gross Profit Margin exceeding 25%. Notably, this sector presents numerous small ticket size opportunities below USD 500,000, making it attractive to small-scale investors and SMEs. Regionally, Western Africa offers the largest market sizes for Renewable Resources and Alternative Energy opportunities, exceeding USD 1 billion.

In order to overcome investment challenges in Africa, public-private partnerships (PPPs) need to be established. This is particularly important when addressing supply chain risks, which affect 28% of investment opportunities in Africa.

Many African governments are struggling to bridge the energy infrastructure gap due to increasingly constrained fiscal capacities. The COVID-19 pandemic, combined with the conflict in Ukraine, has further impeded their ability to finance infrastructure amidst rapidly escalating debt levels. In sub-Saharan Africa, the average debt ratio has markedly increased over the past decade, rising from 30% of GDP at the end of 2013 to nearly 60% by the end of 2022. As of 2022, over half of the low-income countries in sub-Saharan Africa were at high risk of or already experiencing debt distress. Consequently, with Africa's estimated annual energy infrastructure need reaching up to USD 170 billion, PPPs are emerging as a vital resource for governments to advance their energy sectors.



CONCLUSION

As we delve into the UAE-Africa economic partnership, it's evident that this relationship is pivotal toward realizing the full potential of both economies.

Looking ahead, Africa's ongoing digitalization offers a wide range of investment opportunities for both the public and private sectors.

The continent also presents investment opportunities in the agriculture and energy sector, with renewables being the focus in the latter. Given that food security is high on the UAE's political agenda, investments in Africa's agriculture sector remain an area of priority.

In this context, PPPs are particularly important as they lower project costs while bringing in the required expertise. According to various World Bank Group databases compiling PPP-related evaluation metrics, Kenya, Morocco, South Africa, and Zambia are considered the most mature countries in terms of energy public-private partnerships (PPPs).

The demands of the future require continued strategic investments in the continent, which will serve both the regions. Africa stands at the threshold of unprecedented growth and development, offering a wealth of investment opportunities across various sectors. For businesses and policymakers, now is the time to seize these emerging prospects to drive economic progress and foster sustainable development in the continent.

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