



IMPACT OF DONALD TRUMP'S RETURN TO THE WHITE HOUSE ON AFRICAN ECONOMIES

Issuer Commentary

21 November 2024



Introduction

Credit Positive Factors:

Transactional Deals and Investment: Trump's return to the White House may accelerate direct, high-value deals with African nations, particularly with authoritarian leaders who prioritise immediate economic benefits. For example, the U.S. lifted sanctions on Sudan in exchange for its participation in the Abraham Accords, offering a potential boost to Sudan's economy. Such deals could lead to foreign direct investment (FDI) inflows in countries that align with U.S. strategic interests.

Strategic Partnerships with Middle Eastern Allies: Trump's alliances with Middle Eastern powers like Saudi Arabia, UAE, and Egypt may lead to economic benefits for African nations involved in their geopolitical initiatives. Increased support from these allies could result in enhanced infrastructure investment, trade agreements, and military contracts in regions like the Horn of Africa.

Peace and Stability Through External Influence: In conflict hotspots such as Sudan and Ethiopia, external influence from powerful actors like the UAE may shift the dynamics, potentially bringing about short-term stabilisation. Although this approach may prioritise the interests of external powers, it could provide a temporary boost to economic activity in conflict-affected areas.

Credit Negative Factors:

Decline of Multilateral Diplomacy and Peacekeeping: Trump's first-term withdrawal from multilateral frameworks, such as the African Union (AU) peacekeeping missions, and a focus on transactional politics, reduces international co-operation on peace and stability initiatives. With the decline of such diplomatic efforts, the long-term economic impact could be negative, particularly in conflict-prone regions like the Sahel and Central Africa, where instability disrupts economic activity.

Increased Regional Instability: Trump's transactional politics risks exacerbating regional tensions, particularly in the Horn of Africa (e.g., Ethiopia-Egypt tensions over the Grand Renaissance Dam). His support for Egypt, coupled with a reduction in U.S. aid to Ethiopia, could worsen the economic environment, dampening investor confidence and limiting access to development financing for Ethiopia and neighbouring countries.

Reduction of U.S. Military Presence: Trump's disinterest in maintaining a U.S. military presence in Africa, exemplified by the withdrawal from Somalia, could result in a security vacuum. This might be filled by regional actors or private contractors, leading to inconsistent security arrangements. Insecurity could disrupt business activities, particularly in the Sahel and East Africa, where jihadist groups pose significant economic risks.

Uncertain Peace Prospects in Conflict Zones: In countries like Sudan, where external powers back opposing sides in the conflict, Trump's transactional approach risks undermining long-term peace efforts. Without addressing the root causes of conflict and prioritising democratic reforms, peace deals under Trump may lack the necessary framework for sustainable economic recovery. This continued instability could lead to further displacement, famine, and economic stagnation in affected regions.

Overall Economic Outlook:

While Trump's transactional approach may offer short-term economic gains through direct deals and investments, particularly for nations that align with U.S. interests, the broader picture remains

negative due to the decline of multilateral diplomacy, increased regional instability, and a lack of long-term strategic peacebuilding. These factors could harm economic growth prospects, limit access to aid, and deter long-term investments in Africa, placing downward pressure on sovereign ratings for countries heavily affected by conflict and external meddling.

Key Metrics and Impact on Sovereign Ratings:

Peacekeeping and Multilateral Co-operation: A reduction in multilateral peacekeeping efforts could lead to a 5-10% decline in stability scores for affected nations.

FDI Inflows: Positive shifts in direct deals may lead to a 3-7% increase in sovereign ratings for countries that secure U.S. deals.

Security and Military Presence: A decrease in U.S. military engagement could raise security risks, potentially lowering ratings by 5-10% in fragile regions like the Sahel and East Africa.

Geopolitical Tensions: Ongoing conflicts, exacerbated by external powers, could lead to a 10-15% deterioration in ratings for countries like Sudan and Ethiopia.

Conclusion

Given the mixed implications of a potential Trump return to the White House, the outlook for African economies is one of caution. While transactional deals and strategic partnerships with Middle Eastern allies may offer short-term economic benefits, the decline in multilateral diplomacy and peacekeeping efforts, alongside rising regional instability, could hinder long-term growth prospects.

In this uncertain environment, a "wait and see" approach is warranted for African nations. If the Trump administration continues to prioritise short-term, transactional politics and sidelines Africa in favor of other geopolitical interests, it may become increasingly necessary for African countries to seek alternative partnerships. In this context, **China** remains a key player, offering a more consistent and long-term approach to infrastructure investment, trade, and development support.

Moreover, **intra-African collaboration** becomes ever more vital. The **African Continental Free Trade Area (AfCFTA)**, which aims to boost intra-African trade and economic integration, offers a pathway to reduce dependence on external powers. Strengthening co-operation within Africa and leveraging the AfCFTA's potential could serve as a buffer against external political risks, ensuring that African nations continue to thrive despite global uncertainties.

In summary, African countries should monitor developments in U.S. foreign policy while proactively fostering internal co-operation and exploring new partnerships to safeguard economic interests and secure sustainable growth.



Contributors:

- **Bekithemba Ndimande | Rating Analyst | bekithemba@saratings.com |**
- **Lomanja Malaba | Rating Analyst | lomanja@saratings.com |**

The analysis in this document is provided for information purposes only and should not be construed as financial or investment advice, nor should any information in this document be relied on when making credit rating decisions. The opinions and views expressed reflect the current opinions and assumptions of the credit rating team at Sovereign Africa Rating. Actual results, performances, or events may differ materially from those expressed or implied in this document.

