Launching a New Chapter in U.S.-Africa Relations

Deepening the Business Relationship

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A Report of the CSIS Project on U.S. Leadership in Development

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Contents

Acknowledgments iv

Executive Summary v

Introduction 1
Opportunity in Africa 2
The U.S. Response: Recognizing the Possibilities of Private Sector–Led Growth 4
Strengthening the Trade Agenda for Mutual Benefit 6
Getting Strategic about Trade-Capacity Building 9
Encouraging U.S. Businesses to Engage 13
Conclusion 16

About the Authors 17
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Africa's changing economic landscape is prompting a shift in how U.S. policymakers view the continent. High growth rates, new technologies, and a rapidly expanding consumer class are driving greater global competition for investment and access to potential export markets, and the United States is recognizing that it will need to step up its game to remain relevant and influential in an increasingly crowded and competitive environment. This will mean placing a stronger emphasis on strengthening trade and investment ties and encouraging U.S. companies to take fuller advantage of expanding opportunities. Playing up these opportunities will not only serve long-term U.S. commercial interests in Africa but will serve U.S. development and diplomatic objectives as well. U.S. investments, done right, can have long-term development impacts in Africa, through technology and knowledge transfer, training, systems development, and partnerships. And a new, more optimistic engagement with Africa's citizens and entrepreneurs will have strong resonance with the continent's up-and-coming generation, creating links based on enduring mutual interest.

The United States does not have the massive investment and export financing resources that other players—notably China—can wield. But the United States does have an array of institutions and mechanisms that can encourage and support trade and private investment, showcase the comparative advantage that many U.S. firms can bring to the table, and work with African governments and businesses to drive sustained and inclusive economic growth and development. The Africa Growth and Opportunity Act (AGOA), which provides trade preferences to eligible African states, has been seen as the principal vehicle for deepening the U.S.-Africa trade relationship, although the initiative has yielded only modest results in its first 13 years. If the United States is to position itself as a meaningful trade and investment partner in Africa over the long term, AGOA must be embedded in a much more deliberate and coordinated strategy to strengthen African trade capacities, mobilize U.S. investment and exports, and encourage more U.S. businesses to give Africa another look.

President Obama has promised to host a summit with African heads of state in 2014, to “help launch a new chapter in U.S.-African relations.” In the lead up to the summit, the administration and Congress can take a few practical steps to signal to African partners and U.S. business leaders that the United States is serious about deepening its commercial ties and improving its position in the African market.
Among the priority steps are to

- **Ensure timely reauthorization of AGOA:** The Africa Growth and Opportunity Act has had modest impact so far, but timely reauthorization of the act is nonetheless important. Uncertainty around reauthorization could reverse gains made to date, undercut potential benefits going forward, and send a negative political signal to African partners at a time when the United States is looking to deepen its trade relationships. Consultations on enhancements to the act must begin early, with strong bipartisan input to avoid protracted debates at the 11th hour.

- **Think ahead in supporting U.S. exports to Africa:** The United States will need to be more assertive in retaining and building its export market share in Africa in the face of competition from China, the European Union, and others. Opportunities for exports to Africa will expand significantly in the next 15 years, and the United States risks being edged out by more forward-thinking competitors. The United States should strengthen export-promotion institutions such as the Export-Import Bank and give greater priority to commercial diplomacy with African partner governments.

- **Get strategic about trade-capacity building:** AGOA will have little impact unless it is embedded in a more comprehensive effort to build trade capacity. The U.S. Agency for International Development’s three regional trade hubs, the principal vehicles for U.S. trade-capacity building efforts, should be strengthened and empowered to have greater strategic impact at national and regional levels. Greater priority should be given to working with potential U.S. buyers and linking them more directly with African producers. Agriculture, which employs 65 percent of the African workforce and has long-term growth potential for U.S. business, should receive particular attention.

- **Help U.S. businesses engage:** If the United States is serious about economic competition in Africa, it will need to strengthen and update existing tools that provide finance, risk mitigation, and information to U.S. investors. The Overseas Private Investment Corporation requires more staff and flexibility; the State Department can more assertively pursue bilateral investment treaties with key African partner states; and the U.S. and Foreign Commercial Service should quickly expand its presence in Africa, where it currently has just four offices.

- **Make the business case at home and in Africa:** The administration and Congress should reach out to a much broader segment of the U.S. private sector to deepen understanding of Africa’s diverse and dynamic economic landscape. High-level travel to the continent, trade missions, and reverse trade missions can expose U.S. investors to the countries, sectors, and businesses that hold greatest promise. At the same time, as competition within Africa intensifies, U.S. embassies and businesses can make the case through public diplomacy for the comparative advantages that U.S. business and investment can bring to the table.
Launching a New Chapter in U.S.-Africa Relations
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Introduction

Among the most significant shifts in U.S. Africa policy during the Obama administration’s tenure has been a new and more affirmative emphasis on bolstering economic and commercial engagement with the continent.

Multiple factors account for this shift. Traditional U.S. development assistance—long the mainstay of U.S. engagement in Africa—has come under increasing pressure and scrutiny from a Congress preoccupied by debt and government spending. The traditional view that development assistance is the best way to lift Africans out of poverty and stimulate broad-based economic growth is giving way to a recognition that complementary efforts to promote private enterprise, trade, and investment may be less expensive, more sustainable, and potentially more effective in the long run.

Even more important has been Africa’s changing economic landscape, where opportunities—and competition—for investment are expanding, where traditional donor-recipient aid relationships are giving way to more mature partnerships, and where the conventional levers of U.S. influence are becoming less relevant and effective. Jobs and economic opportunity are the first priority for more and more African citizens and governments, for whom the possibility of plugging into the global economy is increasingly real. New investors in Africa—from China to Brazil and from Turkey to Malaysia—are seeing high returns and are piquing the interest of U.S. investors and policymakers who fear they may be missing out. Africa’s population is expected to double to two billion by 2040, and those prospective markets are stirring recognition of how much the U.S. economy stands to gain over time in jobs and export opportunities.

As more and more external players today compete for commercial, political, and ideological influence among sub-Saharan Africa’s states, the United States is gradually recognizing that effectively pursuing its development, diplomatic, and commercial interests in Africa will require an evolution in strategy. This evolution need not entail a wholesale pivot or an abandonment of the long-standing pillars and values that have defined U.S.
engagement. But it will require a step-up in energy and coordination around a trade and investment agenda that creates more enduring ties of mutual interest, capitalizes on emerging and prospective commercial opportunities in Africa, and brings U.S. policy more in line with a changing African context and the aspirations of its citizens.

The U.S. government has a broad array of tools to pursue these objectives. Many have not been particularly prominent in Africa in the past but will become—with some already becoming—increasingly central to U.S-Africa engagement. This report examines some of these existing tools and offers recommendations on how they might be strengthened, updated, and refocused to maximize opportunities and adapt to new realities in Africa. Coordinating these various instruments and embedding them within a more strategic framework will be a challenge. New initiatives launched by the Obama administration—Power Africa, Trade Africa, Partnership for Growth, Feed the Future—all seek to align multiple agencies behind a common strategy and will be an early test of how these new collaborations work.

This report is drawn from a set of conversations held at CSIS with U.S. government officials, business executives, congressional representatives, and Africa experts from think tanks and academic institutions. It adds a complementary regional perspective to a report by the CSIS Executive Council on Development, *Our Shared Opportunity*, published in March 2013, which assessed the future role of the U.S. government in international development and the role of the private sector in advancing broad-based economic growth and poverty reduction.

It is important to note at the outset that most U.S. activity in the trade and investment arena is led by the private sector itself, rather than the U.S. government. U.S. companies will calculate risk, rewards, and opportunity costs and make choices accordingly, and the onus for making Africa an attractive investment destination lies first and foremost with African governments. Some leaders will fail to seize the opportunity. But a growing number are becoming more strategic in attracting competent and competitive private-sector partners and creating investment environments that will draw business, investment, and much needed finance. In these cases, the U.S. government can play an important role in helping U.S. companies to compete, building capacity among African partners, financing investments and mitigating risk, and raising awareness among U.S. companies of all sizes about the economic opportunities in Africa. This report will examine what the U.S. government is doing in some of these areas and suggest ways in which it could do better.

### Opportunity in Africa

Sub-Saharan Africa has made impressive economic progress in the last decade, with average growth rates currently forecast at five percent for 2013 and six percent in 2014. Many of the world’s fastest growing economies are currently in Africa.
High commodity prices—driven by high demand from China and others for mineral and energy resources—have contributed to this growth and helped the Africa continent weather the global economic crisis relatively unscathed. New oil and natural gas finds, some of world-class magnitude, are positioning formerly impoverished countries such as Mozambique, Tanzania, Liberia, and Sierra Leone for a potential boom that could draw big new investments and, if managed well, can drive a virtuous cycle of growth, demand, and investment. But countries without a significant resource base—Ethiopia, Kenya, Burkina Faso—have performed well also, thanks to macroeconomic reforms and wise investment choices. Sectors outside the extractive industries—telecommunications, transportation, construction, wholesale and retail, financial services—have played a major role in the growth story as well and point to a promising trend of economic diversification that will help insulate economies from future commodity price shocks.

New technologies and a rising cadre of youthful, tech-savvy entrepreneurs are helping African states and businesses find innovative ways to cut through long-standing barriers to growth and development. Kenya’s success with mobile money transfer and banking services is prompting other countries to follow suit. Many governments are using technology to speed customs procedures, improve tax administration, manage supply and distribution networks, and regulate land tenure.

A big story is the rise of an African consumer class, propelled by rapid urbanization and rising incomes, with demand projected to grow from $860 million in 2008 to $1.4 trillion by 2020. Intra-African investment and small-scale manufacturing are targeting these larger and more dynamic internal markets, as are Asian producers of low-cost manufactured goods. As the middle class expands in the continent’s bigger economies, so too will demand for more sophisticated and high-quality products, brand recognition, and product differentiation—areas where U.S. firms have significant advantage over many other external players. A strong and powerful middle class, combined with the newfound power of social media and global interconnectivity, will allow African citizens to mobilize more efficiently and effectively around demands for transparency, accountability, sound economic management, and rule of law.

Global investors are taking note—and doing well. Capital is flowing into Africa at record levels: Cumulative foreign direct investment (FDI) rose from $10 billion in 2000 to near $80 billion in 2010 and is expected to increase to $150 billion by 2014. China has gotten the big headlines—its trade with Africa surpassed that of the United States in 2009, but a host of other emerging powers, including Brazil, India, Malaysia, and Turkey, are making important commercial and diplomatic inroads as well. The European Union as a bloc remains Africa’s largest trading partner and is seeking to consolidate its position with Economic Partnership Agreements (EPAs) with more than 35 states.
The U.S. Response: Recognizing the Possibilities of Private Sector–Led Growth

The United States has been slower to recognize and react to these developments. U.S. energy and mining companies have long been active in Africa. And a number of corporate giants, which are able to think big and long-term—GE, IBM, Boeing, and Walmart, for example—are looking at Africa in a much more strategic way. But many more have been reluctant to venture into Africa, which is perceived to be risky and corrupt.

Until recently, the U.S. government has done little to encourage investors or counter this negative narrative. The commercial element of U.S. policy in Africa has generally been given rhetorical support, but because U.S. trade and investment ties in Africa have represented such a tiny fraction of total flows, it has often been dismissed as a feel-good add-on and a very long-term, aspirational goal. In official Africa policy pronouncements, successive administrations have tended to downplay U.S. commercial stakes on the continent, stressing instead U.S. interests in democracy, poverty alleviation, peace, and the well-being of citizens. The emphasis has been on assistance and resource flows to Africa; the notion of actually making money in Africa has generally been considered unseemly in policy and development circles.

This is beginning to change. The Africa Growth and Opportunity Act, signed by President Bill Clinton in 2000, was an important precursor. And the Millennium Challenge Corporation (MCC), launched in 2003 by President George W. Bush, moved further in this direction and neatly combined incentives for good governance with significant support to help unlock partner countries’ growth potential. But these important initiatives were still largely seen as development programs, not commercial and investment endeavors. The Obama White House first signaled a shift in its 2012 Presidential Policy Directive for Sub-Saharan Africa, which gave pride of place to economic growth and engagement, downplaying the threat-based agenda of previous documents.

President Obama reiterated this new message during an official visit to Africa in July 2013, which took him to three of the continent’s success stories, Senegal, South Africa, and Tanzania, accompanied by an expansive contingent of U.S. business leaders. In a speech at the University of Cape Town, the president pledged to “up our game” on a continent poised for takeoff and to “launch a new chapter in U.S.-Africa relations” with a summit with African heads of state planned for 2014.

New initiatives are placing greater emphasis on unlocking the potential of the private sector. Power Africa (see box) is perhaps the most high-profile signal of the shift. Announced during the president’s visit to Tanzania, Power Africa seeks to leverage private-sector interests to tackle one of the most significant constraints to growth and development in Africa, the lack of reliable electricity. Other initiatives, including Trade Africa, Partnership for Growth, the U.S. Agency for International Development (USAID) Private Capital Group for Africa, and Feed the Future, all put a strong emphasis on galvanizing
The U.S. Power Africa initiative seeks to harness the disparate strands of U.S. development and investment assistance to dramatically expand electricity generation and access in Africa. The lack of affordable, reliable electricity supply in Africa has been among the continent’s most significant constraints on growth, investment, trade capacity, and competitiveness. Announced during President Obama’s June 2013 visit to Cape Town, the initiative will initially target six states, aiming to deliver 10,000 megawatts of new power and provide reliable access to electricity to 20 million households and businesses by 2020.

Power Africa is seen as an important indication of the shift in U.S. thinking on Africa, emphasizing private sector–led growth, with the U.S. government playing a catalytic and facilitating role in breaking through long-standing bottlenecks to private-public collaboration. The initiative will work with projects that are already in the development stage, identifying the obstacles that are holding them back, focusing on getting viable power infrastructure deals signed, financed, and delivered. This might mean helping a host-country government negotiate a Power Purchasing Agreement, enlisting the USTDA’s assistance in conducting a feasibility study, or providing the political risk insurance that persuades a U.S. firm to sign on to an African energy project. The idea is that an interagency transactions group, meeting weekly, will troubleshoot projects and provide the necessary support to investors, host governments, and companies.

The initiative has so far attracted approximately $14 billion worth of investment—the majority of which has come from African companies and banks. It has won bipartisan support in Congress, where House and Senate versions of the Electrify Africa Act of 2013 now seek to embed in law longer-term U.S. engagement in bridging the electricity deficit in Africa.

private-sector activity. Along with new initiatives, existing agencies—the Overseas Private Investment Corporation, the Export-Import Bank, the U.S. Trade and Development Agency, for example—are being called upon to play a more prominent role in Africa than they have in the past, and there is growing discussion around how these agencies can be strengthened and adapted to Africa’s new economic realities.

Greater emphasis on economic engagement with Africa has won bipartisan support in Congress, in both the House of Representatives and the Senate, with legislation encouraging U.S. exports to Africa and greater investment in electricity generation under way.
Strengthening the Trade Agenda for Mutual Benefit

THE AFRICA GROWTH AND OPPORTUNITY ACT

The Africa Growth and Opportunity Act (AGOA), signed into law in 2000, has been the flagship U.S. vehicle for bolstering economic ties with Africa. AGOA was passed by Congress after a long and torturous process, driven by a core of dedicated advocates and congressional champions, who sought to end the continent’s economic marginalization and shift U.S. engagement away from the overweening focus on debt, disease, and conflict that defined U.S. policy in the 1990s. AGOA offers 39 eligible African countries’ duty-free access to the U.S. market for 6,000 products, including oil, minerals, car parts, apparel, and foodstuffs. Although initially set to expire in 2008, AGOA was extended in 2004 through 2015.

In its 13 years to date, AGOA has had modest success in a limited number of countries. There has been a steady increase of two-way trade since its inception: Imports to the United States under AGOA totaled $35 billion in 2012, four times the amount in 2001; U.S. exports to Africa under AGOA have more than tripled since 2001 to $22.6 billion in 2012.2

But AGOA has not fully lived up to the expectations of its early champions. Trade levels, though growing, have remained relatively small, and the number of countries that have benefited under the act are fewer than originally hoped.3 The vast majority of U.S. imports from Africa under AGOA—some 86 percent in 2012—petroleum products,4 which presumably would have been imported with or without duty-free status. The remaining 14 percent ($4.8 billion) is taken up with other products, including vehicles and parts, apparel, minerals and metals, and agricultural products,5 with almost half ($2.1 billion) coming from South Africa.6

Growth of the African apparel industry has been something of a bright spot, albeit with some setbacks: in the initiative’s first five years, AGOA was credited with tripling U.S. apparel imports from Africa and creating 300,000 new jobs, mainly in southern Africa. Expiration of the global Multi-Fiber Agreement in 2005, which ended the quota system that

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1. Countries are eligible if they are determined to have established or are making continual progress toward establishing market-based economies; the rule of law and political pluralism; elimination of barriers to U.S. trade and investment; protection of intellectual property; efforts to combat corruption; policies to reduce poverty and increase availability of health care and educational opportunities; protection of human rights and worker rights; and elimination of certain child labor practices. In practice, the bar is set low, and of sub-Saharan Africa’s 48 states, only eight have been deemed ineligible: Central Africa Republic, Democratic Republic of Congo, Equatorial Guinea, Eritrea, Guinea-Bissau, Madagascar, Mali, Somalia, Sudan, and Zimbabwe. Mali’s suspension was reversed at the end of 2013 following its return to civilian government.


3. In more than half of AGOA-eligible countries, exports to the United States are less than $1 million.


capped U.S. imports from developing countries, reversed many of those gains, as African manufacturers were unable to compete with the flood of imports from China and other Asian countries. Africa’s share has recovered somewhat since then. African apparel manufacturers consider AGOA’s third-country fabric provision crucial, as it allows the least developed participants to use fabrics and yarns from other countries. The provision currently affects some 95 percent of apparel exports under AGOA. Congress extended the fabric provision in August 2012, just one month before it was set to expire in September 2012. The uncertainty around its extension prior to passage created major losses for African manufacturers, as U.S. buyers typically place orders nine or 10 months in advance, and many decided to forgo the uncertainty by placing orders with Asian producers instead.7

AGOA GOING FORWARD: THE CHALLENGES AHEAD

With AGOA due to expire in September 2015, the president is urging Congress to renew the legislation in a timely manner. Opinion is divided between a “maximalist” approach to AGOA, which would seek to build in multiple enhancements but risks getting bogged down and delayed in legislative debates, or a “minimalist” approach, which would leave the agreement largely unchanged but ensure speedy and timely renewal. Delayed renewal risks placing the United States at a disadvantage vis-à-vis other trading competitors and creating costly uncertainties among African trading partners and U.S. importers. A renewal for an extended period of time—up to 15 years—would add a degree of permanence and predictability to the program.

But while there is a need for early renewal, at the same time, there are many pressures for enhancements and changes to AGOA. On the one hand, there are calls, including from African governments,8 for enhancements that will provide development benefits to African economies, improve the competitiveness of African producers and manufacturers, and, it is argued, build stronger, more capable U.S. trading partnerships across the continent. Proponents advocate for expansion of eligible product lines, particularly in the agricultural sector, where many African countries have a comparative advantage, strengthening trade-capacity building provisions, allowing greater flexibility in rules of origin requirements, and providing greater incentives for economic diversification, value-added production, and regional integration.

On the other hand, as global competition for African markets grows, there is some resistance to giving preferential access to partner countries without some reciprocal benefit to the United States. Further, there is general concern around how greater competition from African producers might affect certain U.S. domestic interest groups. The expansion of eligible agricultural goods is potentially contentious; and there will likely be debate

around “graduation” for more advanced economies (like South Africa) to more reciprocal trade arrangements.

As part of the review process, U.S. trade representative Michael Froman has requested four investigations by the U.S. International Trade Commission (ITC) on the performance and impact of AGOA on Africa’s business and investment climate and on U.S. economic interests. The ITC report is due in April 2014. These investigations will be important in providing much needed data and a dispassionate analysis that could prevent the reauthorization process from becoming bogged down in needlessly partisan or politically charged debates. It will nonetheless be important for the Office of the U.S. Trade Representative (USTR) to communicate and consult with Congress throughout the coming months to anticipate and potentially avert any controversies that may derail or delay the reauthorization process.

STRENGTHENING U.S. ACCESS TO AFRICAN MARKETS

AGOA was launched at a time when Africa’s economic prospects were considered bleak. The continent was emerging from a decade that saw multiple regional conflicts, high levels of debt, stagnation, and economic fragility. For all the talk of economic partnership, the impetus behind AGOA was largely developmental, and the focus has largely remained on helping African countries export to the United States, with very little emphasis on boosting U.S. exports to the region. The context for AGOA is much different today. More global players are entering the African commercial scene, and although the United States will want to continue to stress the development benefits of AGOA, it will also need to plan ahead if it wants to maintain a competitive edge and gain a foothold in the big export opportunities going forward.

China’s activities in Africa have attracted the lion’s share of attention in terms of competition, as Chinese trade with the continent exceeded that of the United States in 2009. But the United States is also in danger of losing significant market share to the European Union. The European Union’s preferred approach is to pursue reciprocal duty-free agreements rather than one-way preferential programs like AGOA. Such agreements may begin with the bulk of preferences going to the Africa partner, but, as happened with an agreement signed between South Africa and the European Union in 2001, these agreements may become more symmetrical over time. Today U.S. trade officials hear complaints from U.S. businesses in South Africa that they are being shut out of the market, because EU products enter South Africa duty-free. EU Economic Partnership Agreements with Mauritius, Madagascar, Seychelles, and Zimbabwe are already in operation. Persuading Congress to reauthorize AGOA will become difficult if more EPAs are signed, particularly with any of Africa’s regional economic communities, because U.S. companies will be placed at a serious disadvantage.

As Africa’s economic landscape changes, the opportunities and mutual benefits of working with African enterprises will increase. AGOA will become more relevant in the coming decade as African businesses become more capable and competitive. But the U.S.
government must also do more to strengthen access to Africa where there are long-term opportunities for expansion.

RECOMMENDATIONS: DEEPENING TWO-WAY TRADE

Congress and the administration should preserve the gains made under AGOA but at the same time must think ahead to expanding U.S. market access in Africa.

The administration and congressional champions should

- Convey to Congress the urgency of timely AGOA renewal and the costs that delays and uncertainties will impose on African partners and on U.S. standing vis-à-vis other commercial competitors.

- Explore possible enhancements to AGOA, in consultation with strong bipartisan coalition of congressional champions. If enhancements have the significant possibility of derailing timely renewal, the USTR and Congress should consider ways that they can be addressed outside the reauthorization.

- Engage diplomatically with African governments and regional bodies to ensure that the United States is on equal or equitable footing with other non-African trade partners.

Getting Strategic about Trade-Capacity Building

The great weakness of AGOA is that although it opens the door for African exports to the United States, it does not make trade happen. Few African producers have the infrastructure, capacity, or capital to produce goods that can compete in a U.S. market, with or without the preferences provided by AGOA. And some governments have been less ambitious in facilitating trade as an economic priority. The architects of AGOA overestimated the ability of African businesses to capitalize on the agreement, and trade capacity was not a big part of the initiative at its rollout. “AGOA was a policy,” said a senior Africa policy official, “but it wasn’t a coordinated strategy.”9 Only in recent years has much greater emphasis been placed on trade-capacity building and investment—targeted efforts to assist businesses and governments meet market demands, overcome logistic and efficiency constraints, and strengthen an enabling policy environment.

AGOA has the potential to deliver greater benefit in the next decade, as African countries seek to become more competitive, aided by major inflows of FDI, more capable governments, and more globally connected entrepreneurs. Already an increasing number of non-oil products, even if tiny amounts, are coming from a broader array of AGOA partners, and the promise of AGOA lies in expanding that small segment to become an ever larger

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share of the total. Trade-capacity building is a sound investment and will be critical in building longer-term opportunities for U.S. engagement.

USAID’S REGIONAL TRADE HUBS

From 2007 to 2011, the amount of funding USAID allotted to trade-capacity building in Africa tripled from $75 million to $229 million. Responsibility for trade capacity falls largely to USAID’s African trade (or “competitiveness”) hubs. Operating under the Africa Global Competitiveness Initiative, the three hubs cover West Africa, with offices in Ghana and Senegal; East Africa and Central Africa, based in Kenya; and Southern Africa, based in Botswana.

The hubs undertake a variety of activities with the common purpose of increasing the competitiveness of African exports. The East Africa hub, for example, has worked to overcome trade barriers among East African Community members, by building a software platform for customs and transit data management and creating joint border committees to speed processing time and eliminate duplication. The West African hub has conducted detailed analyses of transport bottlenecks on regional roads. In Togo, it worked with the Ministry of Civil Security to reduce the number of roadblocks on the country’s major trucking routes, a major cause of delay in shipment of goods for export. In Malawi, the Southern Africa hub helped introduce low-cost technology measures to eliminate aflatoxin among peanut processors for use in value-added peanut products intended for eventual export.

The principal focus of the hubs has been on African producers and policymakers. Much less emphasis has been placed on potential U.S. buyers and understanding their requirements and concerns. The hubs have the potential to become more important intermediaries between U.S. and African businesses, introducing new technologies and know-how, more directly linking potential buyers with potential exporters. The Corporate Council on Africa’s USAID-funded U.S.-Africa Business Center (USABC) has sought to create an information clearinghouse that facilitates partnerships between U.S. and African businesses. The USABC provides a model that could be adapted by the trade hubs and tailored to their respective regions, creating a more comprehensive two-way information resource for small- and medium-sized businesses in the United States and Africa.

10. Molly Hageboeck, From Aid to Trade: Delivering Results: A Cross-Country Evaluation of USAID Trade Capacity Building (Washington, DC: USAID, November 24, 2010), http://pdf.usaid.gov/pdf_docs/PDACR201.pdf. This assessment commissioned by USAID estimated that every dollar of USAID trade-capacity building assistance spent was associated with a $42 increase in the value of the developing country exports two years later. The return is slightly less for Africa but in the range of $30–$35 for every dollar spent.

11. Much of that increase is due to large increases in Ethiopia and the new nation of South Sudan. USAID Trade Capacity Database, “Funding Data by Country, Regions or Secretariat,” http://tcb.eads.usaidallnet.gov/query/do?_program=/eads/tcb/fundingByRegion.


OPPORTUNITIES IN THE AGRICULTURE SECTOR

Agriculture plays a critical role in most African economies, employing some 65 percent of the African workforce and generating one-third of the continent’s gross domestic product. And as urban, middle-class consumers increase, agribusiness, from production to retail, is growing rapidly as well. Strengthening African competitive capacities in this sector to trade regionally and internationally can help generate growth, employment, and food security. But it can also help build a sector that will offer U.S. businesses important investment and export opportunities going forward, from seed companies to processing plants to retail supermarkets. If African economies can overcome current constraints, according to the World Bank, agriculture and agribusiness together could grow to $1 trillion on the continent by 2030.14

Already Africa is the fastest growing market for U.S. exports of agricultural machinery,15 and retailers such as Walmart are looking to expand their presence throughout the continent with a strong focus on food retail to serve growing urban markets.16

The Obama administration has expanded U.S. efforts to boost agricultural productivity in 19 African states through the Feed the Future Initiative, and these efforts can be more fully linked with the trade-capacity efforts of the regional trade hubs. The U.S. Department of Agriculture (USDA) has an important role to play in this regard. Meeting international sanitary and phytosanitary standards (SPS) and regulations, essential for entry into the U.S. market, has been identified by would-be African exporters as an area of major limitation in need of support.17 Beyond SPS, the USDA can also provide technical assistance in strengthening national and regional food safety and inspection services, regulatory capacities, border inspection, and regional policy harmonization.

REGIONAL INTEGRATION

The fragmentation of African markets has been a major barrier to U.S. investment and to African competitiveness. Most African economies are too small to draw significant investment or develop competitive advantage on their own. Big private-sector players, with the capacity to make transformative investments, are looking for big regional markets and want to be able to draw on regional supply chains to bolster efficiency and competitiveness. The lack of hard infrastructure connecting African markets—roads, railways, air links, and power—has been a major impediment. But equally important has been the absence of

“soft” infrastructure: Barriers such as restrictive rules of origin, weak legal environments, onerous customs procedures, and conflicting regulatory frameworks account for huge losses in regional trade and economic growth.

With the announcement of the Trade Africa initiative in June 2013, the administration signaled its intention to give greater priority to regional integration and Africa’s regional economic communities. The initiative will initially focus on the East African Community (EAC), which is considered the most developed of the regional economic communities, and explore practical ways to facilitate trade between the five member states, including improving the efficiency of key ports like Dar es Salaam and Mombasa, cutting the number of checkpoints in major transport corridors, and speeding up customs procedures. In addition, talks will take place over a potential U.S.-EAC investment treaty, and an ongoing commercial dialogue will bring private investors and policymakers into regular contact.

Beyond the Trade Africa model, the administration can consider ways to embed support for integration more consistently through existing tools, by supporting MCC compacts that have a regional component, for example, or encouraging the Overseas Private Investment Corporation (OPIC) to place a premium on regional infrastructure investments.

It is important that efforts to support regional integration look beyond formal economic community arrangements. Trade across Africa’s economic communities has grown faster in the last decade than trade within communities,18 and private-sector perspectives on trade and investment opportunities are not necessarily confined within formal regional architectures.

RECOMMENDATIONS: BUILDING TRADE CAPACITY

The administration and Congress should elevate trade-capacity building as a priority within U.S. development assistance.

The administration should

• Empower the regional trade hubs to have greater strategic and catalytic impact at national and regional levels. The hubs should work with U.S. country missions, the private sector, national governments, and other U.S. agencies to develop common constraints analyses and should be empowered to coordinate a multi-agency approach on select, high-priority constraints to competitiveness.

• Increase efforts to connect with U.S. businesses: The trade hubs should place greater emphasis on connecting with U.S. businesses—both potential buyers and potential exporters—creating a more direct interface between African businesses and potential U.S. partners.

- Target agriculture and ensure that the Feed the Future initiative and regional trade hubs are working in an integrated way, with strong involvement of the USDA.
- Make regional integration a consistent priority across programs of technical assistance, trade-capacity building, and investment support and tailor these efforts around private-sector priorities.

Encouraging U.S. Businesses to Engage

FINANCE AND RISK MITIGATION

The U.S. government has an important role to play in facilitating and financing commercial activity, through the provision of credit, debt finance, political risk insurance, feasibility studies, and other technical support. It will not be able to mount the massive investment and export financing resources that other players—most notably China—can wield. It will therefore need to be more flexible, nimble, and strategic with the tools at its disposal. New sources of financing—private equity funds, sovereign wealth funds, and sovereign bonds—are expanding, and the U.S. government can offer strategic financing and risk mitigation that fills critical gaps and helps “crowd in” new sources of capital.

Several U.S. agencies provide these kinds of support, and their involvement in the African market is growing. But some tools remain underutilized, and as investors and policymakers look to these agencies to play a greater role within U.S.-Africa engagement, there is a need to update and strengthen them and ensure that they are deployed in a coordinated way to maximize impact.

OPIC, the U.S. government’s development finance institution, has become a key player in the new focus on trade and investment in Africa and has doubled the size of its portfolio in Africa since 2009. Financing for sub-Saharan African deals now totals $4 billion, more than a quarter of OPIC’s overall portfolio. OPIC offers a range of products to would-be investors from the United States, including development finance, loan guarantees, debt financing, and political risk insurance. OPIC’s new relevance and potential in Africa is increasingly recognized by development and investment experts, and there is growing agreement that the agency should be empowered—with more staff, greater flexibility, and an extended mandate—to maximize its potential impact. Given that the agency is self-financing (and in fact generates net returns for the U.S. government), strengthening the institution to meet new economic realities should not be a hard sell.

Bilateral investment treaties (BITs) are an inexpensive and underutilized tool in Africa. BITs can help mitigate perceived risks of investors who may lack confidence in a partner country’s legal system or regulatory enforcement. Such treaties provide a mechanism to arbitrate potential disputes between governments and investors through an international tribunal. BITs send a strong message to potential investors and their backers that their interests will be protected. The United States has multiple BITs in Europe, Asia, and Latin America but only five in sub-Saharan Africa (in Congo-Brazzaville, the Democratic Republic of Congo, Kenya, Tanzania, and Senegal). The United States should seek to advance BITs more vigorously in Africa. A first step could be with the six pilot partners in the new Power Africa initiative or with Millennium Challenge Account compact countries.

The U.S. Export-Import Bank, which promotes exports through support to U.S. businesses, has increased its Africa portfolio but lacks the resources and personnel to make a bigger impact. It has completed transactions in more than 30 African countries, providing financing to the government of Lagos to buy U.S.-made fire trucks; providing export insurance to a California-based company selling electricity generators to Benin; and backing bonds issued by Ethiopian Airlines to purchase Boeing Dreamliner planes. Yet the Ex-Im Bank has only two staff working full time on Africa transactions. Many see it as a potentially important tool, but to maximize its impact it will need to become more visible and accessible to small and medium enterprises.

SELLING AFRICA TO THE U.S. PRIVATE SECTOR

The U.S. government has a tall order on its hands to convince American companies that Africa is open for business. In spite of all the talk of “Africa rising,” private-sector perceptions of risk in African countries in most cases far exceed actual risks. Part of the problem is lack of knowledge of the market. Africa is commonly viewed as a monolithic entity, with little distinction made between Somalia on the one side of the spectrum and South Africa on the other. Companies, particularly small- and medium-sized firms, see Africa as a high-risk destination but are less aware of the high rewards on offer. At the same time, for all the opportunities, African markets can be difficult to navigate, and there are very real risks of corruption and political interference. U.S. business leaders need better, more accessible information on opportunities—and risks—in Africa.

The U.S. government has a role to play in educating the private sector about the opportunities in Africa, getting the message out about Africa’s investment potential. The World Bank’s Doing Business reports, the Sovereign Credit Ratings advocated by former assistant secretary of state for Africa Walter Kansteiner, and similar ratings tools can give potential investors a better sense of relative risks and opportunities. The U.S. Trade and Development Agency (USTDA) helps U.S. firms make informed investment decisions by providing financing for feasibility studies for big infrastructure projects and helps introduce

potential African customers to U.S. firms through reverse trade missions. At present, the organization’s mission is not broadly known or understood, and few U.S. firms or African business leaders appear to be familiar with its services.

U.S. and Foreign Commercial Service staff, based in partner countries, can play a key role in helping U.S. businesses understand and navigate markets opportunities abroad. The original AGOA legislation called for at least 20 full-time Foreign Commercial Service employees to be deployed to Africa in at least 10 different countries. When AGOA was passed in 2000, there were 12 such employees. Their presence has actually decreased over time, and today there are only five staff in four country offices.

The administration and congressional champions can use their voices to get the word out. A strong bipartisan coalition in both the U.S. House of Representatives and Senate has been making the case for greater U.S. exports to Africa with the Increasing American Jobs through Greater Exports to Africa Act of 2012. President Obama was accompanied by a business delegation of several hundred on his visit to Africa in the summer of 2013. Secretary of State Hilary Clinton led a trade delegation to South Africa in 2012, followed by a visit by acting commerce secretary Rebecca Blank—remarkably, the first time a U.S. commerce secretary had made an official visit to sub-Saharan Africa in more than a decade. Then assistant secretary of state for Africa Johnnie Carson led a four-country trade mission in 2012, with a particular focus on power. These trips serve an important dual purpose. Not only do they help convince African governments and businesses that the United States is an engaged and relevant economic partner; they also spread the message to Americans back home that Africa is a viable business destination.

SELLING THE U.S. PRIVATE SECTOR TO AFRICA

As competition for commercial access increases in Africa, the U.S. government can also convey, through high-profile visits and public diplomacy, the benefits that U.S. business partnerships can deliver in training and technology transfer, corporate social responsibility, brand recognition, quality, and innovation. Also important to emphasize are the standards of transparency and integrity that are enforced by U.S. domestic laws such as the Foreign Corrupt Practices Act and the Dodd-Frank Wall Street Reform and Consumer Protection Act. These are characteristics that set U.S. businesses apart from many of their international competitors and are worth publicizing in Africa as elsewhere.

RECOMMENDATIONS: ENCOURAGING U.S. PRIVATE-SECTOR INVESTMENT

Develop a more active and coordinated strategy to encourage U.S. companies to do business in Africa.

- Update and expand existing tools to capitalize on commercial and development opportunities in Africa. OPIC can be expanded and given greater flexibility at little or no cost; bilateral investment treaties can be pursued with more vigor with key
African partners; and the U.S. and Foreign Commercial Service can rapidly up its presence in fast-growing African countries.

- Expand efforts to educate U.S. businesses on relative risks and opportunities by using tools such as the World Bank’s Doing Business reports, Sovereign Credit Ratings, bilateral investment treaties, and trade missions that can help companies navigate Africa’s diverse economic landscape.

- Expand the use of reverse trade missions to connect African and U.S. businesses more directly and make greater effort within Africa to communicate the comparative advantages and longer-term benefits that U.S. companies can bring to the table.

Conclusion

Africa’s changing economic landscape calls for new forms of policy engagement from the U.S. government. A new emphasis on supporting trade and investment will ultimately serve U.S. commercial interests, but it will also ensure that the United States remains relevant and connected in an increasingly competitive economic and political marketplace.

This shift should not eclipse the ongoing need to support efforts in poverty alleviation, governance, transparency, and citizen participation. Africa’s continued rise is not inexorable, nor will it be shared equally across the sub-Saharan region’s 48 states. In many of Africa’s growing economies, the income gap may widen, and employment opportunities may not keep up with population growth, rapid urbanization, and demographic change. Economic growth will open new opportunities for broad-based, inclusive development, but it does not guarantee that benefits will be shared equitably or reach the most vulnerable. The United States should continue to work with African governments, civil societies, businesses, and regional institutions to help ensure that growth and investment ultimately improve the well-being of African citizens. But by strengthening economic engagement as part of its broad policy arsenal, the United States can have greater impact and influence within those debates.
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