MARCH 7, 2013

EMBRACING AFRICA'S ECONOMIC POTENTIAL

RECOMMENDATIONS FOR STRENGTHENING TRADE RELATIONSHIPS BETWEEN THE UNITED STATES AND SUB-SAHARAN AFRICA

U.S. SENATOR CHRIS COONS

Chair, Senate Foreign Relations Subcommittee on African Affairs

March 7, 2013

Dear Friends,

The United States faces dramatic challenges in Africa… and enormous opportunities. Although press coverage and popular conceptions of Africa in the U.S. often focus on humanitarian and security crises, equally, if not more, important is the steady revolution of economic growth that has swept across the continent over the past decade. Improvements in education, health care, governance and infrastructure in dozens of countries are giving rise to a new middle class, ready to engage with the global economy.

The United States must respond effectively to very real challenges in Africa, including terrorism, corruption and poor governance, food insecurity and health crises, while also promoting democracy, security and economic growth. By working with our African partners, we can strengthen our investments in the promising opportunities of development and trade across a continent of nearly one billion people. Now is the time to invest in economic engagement with Africa, and this report provides clear recommendations for steps the U.S. government can take that will lead to economic growth that is both sustainable and mutually beneficial.

The Senate Foreign Relations Subcommittee on African Affairs convened two hearings in the 112th Congress to explore the economic potential of sub-Saharan Africa and identify concrete, substantive steps forward to increase U.S.-Africa investment and trade. This report analyzes the findings of these hearings and provides a roadmap for developing a more cohesive, effective strategy for U.S. economic engagement with Africa in both the public and private sectors.

America is losing ground and ceding economic opportunities in Africa to competitors. China, which has made dramatic inroads across the continent in recent years, may undermine or even counter value-driven U.S. goals in the region, and should serve as a wake-up call for enhanced American trade and investment. This is truly a critical moment, as our Chinese competitors are securing long-term contracts that could lock American companies and interests out of fast-growing African markets for decades to come.

Engagement with Africa is critical to America's economic interests in the years ahead. Meeting Africa's growing demand with American goods and services will strengthen our economy, help U.S. businesses grow and create jobs here at home.

Under the leadership both of Republican and Democratic presidents, the United States has made a decade of highly successful investments in public health in Africa, saving millions of lives from HIV/AIDS, tuberculosis, and malaria. Unlike our Chinese competitors, the U.S. has invested in the people of Africa, and now we must help them build the foundation for a future that enforces mutually beneficial economic growth and lessens dependence on foreign aid. In order to be as successful in economic policy as we have been in the area of global health, the U.S. must develop an effective and mutually beneficial strategy for engaging African nations that embraces the critical link between diplomacy, development, defense, and economics.

The opportunities and mutual benefits are vast, and now is the time to ensure that America's economic engagement policy toward sub-Saharan Africa is coordinated, comprehensive and effective.

Chris Coons

U.S. Senator Chris Coons
Chair, Senate Foreign Relations Subcommittee
on African Affairs

EXECUTIVE SUMMARY

Economic growth in Africa has risen dramatically in recent years, but the continent's vast economic potential has not yet been fully realized by the U.S. government or the American private sector.

In the past decade, Africa has been home to six of the 10 fastest-growing economies in the world – a number that is only projected to grow.[1] According to the International Monetary Fund, the region is on track to grow by five percent this year,[2] and the World Bank has noted that Africa could be "on the brink of an economic takeoff, much like China was 30 years ago and India 20 years ago." [3] Trade between Africa and the rest of the world has tripled in the last 10 years, with an increase in exports of more than 200 percent and an increase in imports of 250 percent from 2001 to 2011.[4]

There is a clear and pressing need for increased U.S. economic engagement in sub-Saharan Africa. Increased trade facilitates growth for U.S. businesses as well as our African partners, simultaneously strengthening our own economy and Africa's emerging markets. In addition to creating jobs here at home, investment abroad allows U.S. companies to project American values in critical areas of the world. By modeling transparency, good governance, environmental responsibility, fair labor policies and the defense of human rights, U.S. businesses in Africa can set new standards for local companies and demonstrate the inextricable link between democratic values and economic growth.

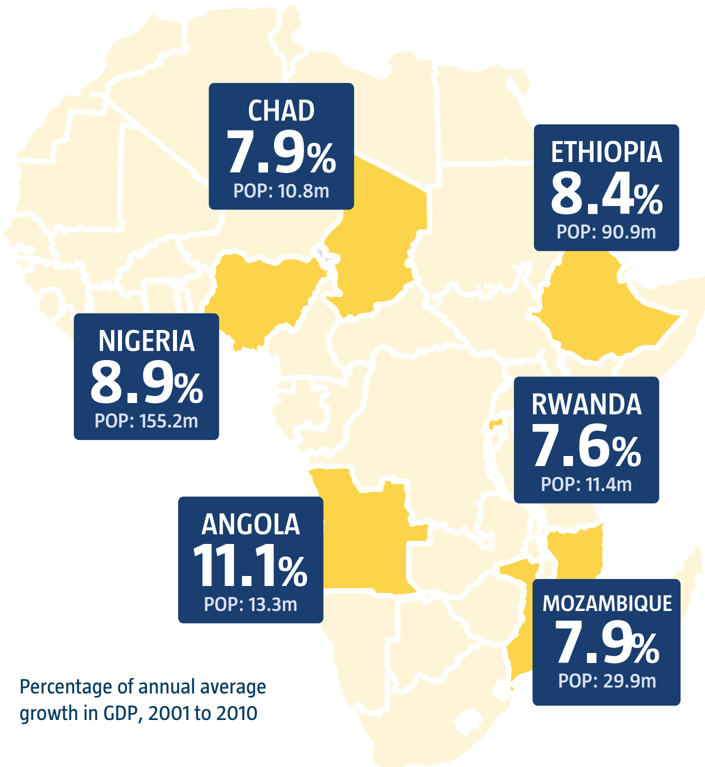
The Obama Administration has recognized the urgent need to accelerate and deepen economic engagement in sub-Saharan Africa. In a June 2012 policy document entitled, *U.S. Strategy Toward Sub-Saharan Africa*, the Administration laid out a series of policies to meet this objective, including:

- working with our African partners to promote an "enabling" environment for trade and investment;
- improving economic governance and transparency while reducing corruption; promoting regional integration;
- expanding African capacity to access global markets; and
- and encouraging U.S. companies to trade with and invest in Africa.[5]

Still, the overwhelming majority of the U.S. foreign assistance budget for Africa is focused on pressing humanitarian crises, including public health and food security. For example, the U.S. is the largest donor to the Global Fund to Fight AIDS, Tuberculosis and Malaria, and has provided more than $7 billion to date.[6] In contrast with America's investment in human capital and the African people, Chinese investment in the region is largely focused on infrastructure projects, such as roads, buildings and dams.

FASTEST-GROWING ECONOMIES IN THE WORLD

Six of the world's ten fastest-growing economies in the world over the last decade were in Africa. In this decade, it is expected to be seven.



Percentage of annual average growth in GDP, 2001 to 2010

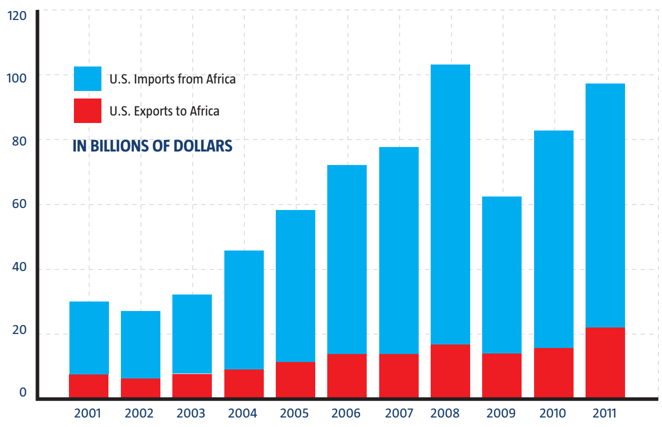
As the United States continues its vital investments in global health, there is also an opportunity for additional investment in the kind of economic statecraft that will facilitate a transition from aid to trade, guaranteeing a higher return on investment for the American taxpayer and better enabling a sustained U.S. government investment.

In addition to effective, comprehensive public sector investments, foreign direct investment (FDI) from the American private sector can play a pivotal role in opening markets and driving the trade relationship forward. Africa is currently the destination for just 1 percent of U.S. FDI, and more than half of U.S. FDI in Africa is concentrated in extractive industries.[7] This lack of diversification is also evident in trade, with 75 percent of U.S. imports from Africa in 2011 concentrated in crude oil.[8]

While the Executive Branch has a number of options for diversifying our trade and investment relationships with Africa, the top legislative priority should be the careful review and timely reauthorization of the *African Growth and Opportunity Act* (AGOA). This legislation has succeeded in opening African markets to American companies while supporting the growth of an African middle class, but should be reviewed with an eye toward diversifying product coverage and ensuring fewer of AGOA's preferences are focused on oil. It is essential that Congress reauthorize

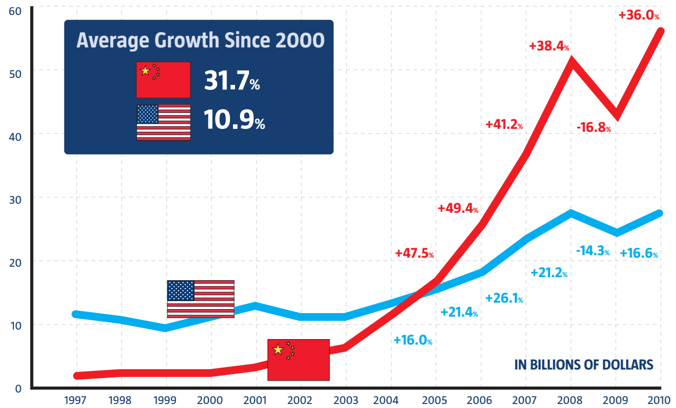
U.S.-AFRICA TRADE VOLUME AND BALANCE

America is selling more to Africans than ever before, but oil sales to the U.S. dominate the trade relationship.



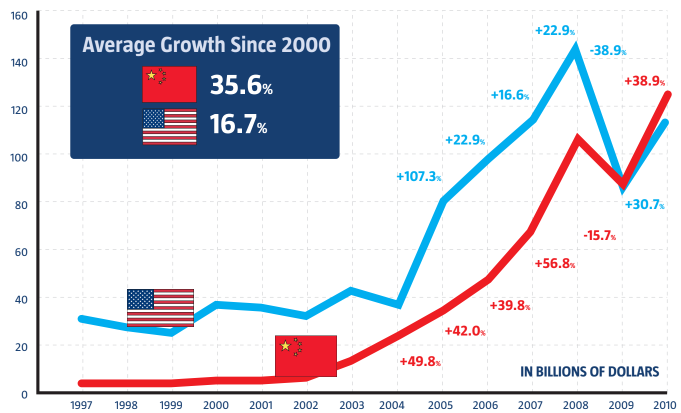
EXPORTS TO AFRICA

By nearly three to one, China is outpacing the United States in selling goods to Africa.



OVERALL TRADE WITH AFRICA

The United States and China are both tapping the rapidly growing African economies.



Sources: China Ministry of Commerce; U.S. Census Bureau
2010 China figure based on 12-month projection of 11-month data

AGOA well in advance of its expiration in September 2015.

While we depend on AGOA to increase African imports to the U.S., we must also work to increase U.S. exports to Africa. This will require partnering with African countries to strengthen governing institutions, enhance transparency, and reduce corruption. We must also continue to urge African governments to lift barriers to trade by modernizing infrastructure and transportation, as well as eliminating bans on products such as poultry. Lifting tariff and non-tariff barriers to trade will not only benefit Africa's global trading partners, but will also help to increase regional trade, which accounts for only 11 percent of total trade on the continent.[9]

RECOMMENDATIONS FOR A COHESIVE, EFFECTIVE U.S.-AFRICA ECONOMIC ENGAGEMENT STRATEGY:

1. Support African-led efforts to improve the business climate on the continent and remove barriers to trade;
2. Reauthorize and strengthen the *African Growth and Opportunity Act* well in advance of its 2015 expiration;
3. Improve coordination between U.S. government agencies and develop a comprehensive interagency strategy for increased investment in sub-Saharan Africa;
4. Increase the presence of U.S. Foreign Commercial Service Officers in sub-Saharan Africa to help U.S. companies navigate the business climate in the region;
5. Increase support for agencies that provide financing to encourage U.S. commercial engagement overseas, mitigate investment risks, and generate a profit for American taxpayers; and
6. Engage the African diaspora community in the United States to strengthen economic ties.

DETAILED EXAMINATION OF RECOMMENDATIONS

There are many steps the U.S. government can take to fully implement a cohesive strategy to increase economic engagement with Africa. The following recommendations are the result of multiple hearings of the Senate Foreign Relations Subcommittee on African Affairs and are intended to identify actionable, timely steps that can be taken to increase U.S.-Africa investment and trade. Implementing these recommendations will strengthen two-way trade relationships, open new markets to American businesses, support domestic economic growth and job creation and ensure we do not continue to cede political and economic leadership on the continent to our global competitors.

Recommendation 1:

SUPPORT AFRICAN-LED EFFORTS TO IMPROVE THE BUSINESS CLIMATE ON THE CONTINENT AND REMOVE BARRIERS TO TRADE

The U.S. government can and should implement a cohesive, integrated strategy to support African-led efforts to improve the business climate on the continent by removing barriers to trade, reducing corruption and enhancing regional economic integration. Achieving this goal will pave the way for increased investment in African markets by U.S. companies, which strengthens the American economy and creates jobs here at home while also supporting African economies and the growing regional middle class.

REMOVE BARRIERS TO TRADE

Significant tariff and non-tariff barriers to trade are preventing African nations from fully realizing their economic potential. In order to lift these barriers, regional leaders must commit to strenghtening systems of governance, improving transparency and accountability, and investing in critical infrastructure. The United States can support these efforts through programs that emphasize economic statecraft and underscore the direct correlation between good governance, transparency, economic growth, and political stability.[10]

While the lack of good infrastructure – roads, rails, ports and power – remains a significant barrier to trade, it also presents a key opportunity for U.S. investment with a high potential for return. According to a recent report by Citibank, less than 19 percent of roads in sub-Saharan Africa are paved, and it has dramatically hampered intra-regional trade.[11] Similarly, many regional ports are under-developed and rail systems fail to meet potential demand. The African Development Bank estimates that inadequate infrastructure suppresses Africa's per capita growth rate by as much as two percentage points annually.[12]

During testimony before the Senate Foreign Relations Subcommittee on African Affairs, Assistant U.S. Trade Representative for Africa Florizelle Liser stated that the requirement for infrastructure expenditure and maintenance in sub-Saharan Africa is about $93 billion annually.[13] Currently, $45 billion is being mobilized across the continent each year, leaving an annual infrastructure deficit of almost $50 billion.[14] Filling this gap will require substantial private investment, in addition to funding from donor governments and international financial institutions.

Investment in energy infrastructure is particularly needed, as sub-Saharan Africa is home to more than one-sixth of the world's population, yet generates only 4 percent of the world's electricity.[15] Private investment in the energy sector has failed to keep up with the growing demand of Africa's population, and the high price and unreliability of electricity presents a significant barrier to development and private sector growth.

The U.S. maintains a significant technological advantage over foreign competitors in energy and is undertaking important infrastructure projects in this critical sector. For example, at last year's AGOA Forum, the U.S. Agency for International Development (USAID) and the U.S. Geothermal Energy Association announced a partnership to help develop East Africa's geothermal resources, including the extensive sources found along the East Africa Rift Valley.[16] Additionally, the Administration is currently developing a USAID-led initiative to enhance U.S. private investment in African energy projects, conditioned on appropriate government-led reforms. Such public-private partnerships have the potential to provide clean energy and generate power for African countries while significantly enhancing cooperation between U.S. and African energy companies.[17]

Key investments in transportation, power, and communication networks have the potential to propel Africa's growth and economic development forward by establishing sustainable supply chain infrastructure, improving market access, and enhancing the operating environment for business.

Infrastructure spending can be a powerful driver of short- and medium-term growth and presents one of the greatest opportunities for U.S. businesses on the African continent, particularly in the construction, energy, agriculture, telecommunications and technology sectors.

EXPAND OPPORTUNITIES FOR U.S. PRIVATE SECTOR

While there are real challenges to doing business in Africa, there are many sectors where secure, sustainable and lucrative investments can be made to the benefit of both the United States and African countries. Africa has been home to recent discoveries of a number of valuable natural resources including oil, natural gas, coal and minerals, and the rest of the world has taken notice. Ghana, Uganda, Kenya, Mozambique, Liberia and Mauritania are all beginning to produce newly discovered oil and gas. Such promising discoveries provide an opportunity for growth, but must be developed in a way that is sustainable, environmentally responsible, and in a manner that contributes to long-term security and transformative growth. The United States should take this opportunity to engage with Africa in order to reinforce a values agenda that emphasizes support for democracy, good governance, transparency, and an inclusive economic system that benefits entire populations.

While much of the growth in Africa has been tied to extractive industries, there are opportunities to expand beyond those sectors. For example, Africa now has more mobile phone subscribers than the U.S. has people.[18] Mobile technology in Africa has spurred modernization and business in transformative ways, to include innovations such as mobile banking and emergency reporting services. The explosive growth in mobile phone usage offers secondary market opportunities for software companies, mobile charging stations, and a host of other businesses.

Africa is also home to vast, untapped agricultural productivity opportunities, and possesses approximately 60 percent of the world's uncultivated land. According to a recently released Citi report, agriculture may be sub-Saharan Africa's most important and competitive sector in the global economy, especially as world food prices remain at significantly higher levels.[19] The *2008 World Development Report* showed that agricultural growth is far more effective in poverty reduction compared to similar levels of growth in other sectors.[20] Expanses of underutilized, arable land provide an opportunity for a mutually beneficial partnership with the United States, including American businesses, research universities and government agencies. Africa remains one of the few places in the world where food insecurity continues to be an overarching, pressing security concern. As the world's top agriculture exporter, the United States is uniquely qualified to work with African countries in agricultural development and to reap the economic and sociopolitical benefits of a more food-secure, stable and economically developed continent.

Recent progress in this area has been achieved through vibrant public-private partnerships. USAID's innovative Feed the Future program is working with countries to transform their agricultural sectors and address chronic food insecurity by harnessing the power of private sector companies like Delaware-based DuPont, where agricultural researchers are working with seed company Pioneer to help small farmers produce crops with greater yields and less fertilizer. The 2012 G8 Summit included an "Advancing Food and Nutrition Security" symposium led by the Chicago Council on Global Affairs, which brought additional commitments to this partnership model as world leaders focused on the critical need to improve food security and nutrition, and committed to doing so by mobilizing private sector investment as a catalyst for long-term economic growth. These ongoing public-private partnerships will transform communities, save lives and foster private sector growth in fast-growing new markets.

WORK TO REDUCE CORRUPTION

Corruption stifles fair competition and competitive bidding, and prevents full investment in African nations by private companies based in the United States. While companies based in other countries, notably China, take advantage of rampant corruption in African nations to win contracts or ink favorable deals, American companies are prohibited from engaging in bribery by the *Foreign Corrupt Practices Act*.

In order to level the playing field and increase investment in sub-Saharan Africa, the U.S. must continue to work with African governments to reduce and eliminate corruption. Such efforts must be led from within to be sustain-

KENYAN AMBASSADOR TO THE U.S. ELKANAH ODEMBO:

"In the future, all roads will lead to this continent because of some things that are happening: A rising middle class, developing African governments, and heavy investment in infrastructure." (11/23/2010)

able, but ongoing U.S. support for democratic institutions, governance and principles can enhance those efforts.

ENHANCE REGIONAL ECONOMIC INTEGRATION

While individual African countries have experienced significant economic growth in recent years, the continent as a whole has struggled with regional economic integration. Improved regional integration and synchronization of infrastructure, technology and taxation will make the continent more competitive globally. Landlocked nations, in particular, will substantially benefit from increased regional trade with additional opportunities to get their goods to market and open the door to increased investment.

Africa's current business environment consists of a multitude of complex tariffs and regulations that impede successful cross-border trade. In addition, complex and unnecessary checkpoints and poor transportation infrastructure make it difficult or impossible for businesses to move their products, particularly perishable goods, across borders in a timely manner.

In some cases, it is less expensive to ship a container of goods to Nairobi from Europe than it is to ship from Nairobi to Lagos.[21] Poor customs and border control are correlated with poor governance and high rates of conflict, presenting a range of impediments to trade and stability that must be addressed simultaneously.

By expanding ongoing efforts to partner with African countries to promote regional integration, including through the three regional trade hubs funded by USAID, the United States can help to improve the business climate on the continent.

Along with the international community, the U.S. can support the African Union's goal of achieving a common market within the next six years, but achieving this goal will also require clear and decisive African leadership.

The Obama Administration is currently pursuing a new trade and investment partnership with the East African Community, one of the most cohesive regional economic organizations in sub-Saharan Africa. This type of commercial dialogue provides opportunities for the United States and African governments to improve cooperation and increase regional trade.[22]

Improved regionalization will increase efficiency, decrease cost, create larger markets and allow economies of scale, which will pave the way for U.S. companies to successfully invest in African markets.

Recommendation 2:

REAUTHORIZE AND STRENGTHEN THE AFRICAN GROWTH AND OPPORTUNITY ACT WELL IN ADVANCE OF ITS EXPIRATION IN 2015

The most important thing Congress can do to strengthen America's long-term trade and investment relationships with African nations is to reauthorize the *African Growth and Opportunity Act*. AGOA was enacted to offer trade preferences to African countries to assist them in opening their economies and building free markets. It has supported the growth of an African middle class, reduced dependence on development assistance, and further opened African markets to American companies, and it is essential that Congress reauthorize AGOA well in advance of its expiration in September 2015.

A LEGACY OF SUCCESS

The *African Growth and Opportunity Act* has served as the cornerstone of the U.S. commercial relationship with Africa since its enactment in 2000, and it has succeeded in expanding U.S. trade with Africa. As USAID Assistant Administrator Earl Gast testified before the Subcommittee in June 2012, AGOA has improved the trade environment both for U.S. and African businesses, and has spurred significant economic growth.[23]

Since 2001, African exports under AGOA have increased by more than 500 percent, from $8.15 billion in 2001 to $53.8 billion in 2011.[24] Last year, U.S. imports from sub-Saharan Africa totaled more than $44 billion, a 31 percent increase from the prior year.[25] Paul Ryberg, the president of the African Coalition on Trade, estimates that AGOA has created as many as 1.3 million jobs, benefitting 10 million people throughout Africa.[26] The benefits of our trade are not to Africa alone. In 2011, U.S. exports to sub-Saharan Africa accounted for more than 100,000 jobs in the U.S.[27] Assistant U.S. Trade Representative Liser recently testified that no other region has rates of return on investment as high as Africa's. With Africa's growing middle class, increasing youth population, and undercapitalized entrepreneurs, the USTR is focused on ensuring AGOA is mutually beneficial, increasing U.S. exports to and investment in Africa and fostering joint ventures that can benefit American businesses.[28]

EXPANDING AND IMPROVING AGOA

AGOA has been a catalyst for economic growth and development for several African countries, and the number eligible countries has grown from 34 in 2000 to 40 in 2013. AGOA, though, has not realized its full potential. With petroleum products constituting 88 percent of the total value of the United States' AGOA imports, it is clear there is a pressing need for increased diversification of product coverage.[29] In *The Africa Growth and Opportunity Act: Looking Back, Looking Forward*, the Brookings Institution's Africa Growth Initiative recommends a tax rate of zero on repatriated earnings on investments by U.S. companies in AGOA-eligible countries outside the extractive sectors.[30] Aimed at increasing American investment in Africa, Brookings' idea is estimated by the Commission on Capital Flows to Africa to increase non-petroleum U.S. investments in Africa by 20 percent with a relatively minimal loss of tax revenue.[31]

Many African countries are still not able to produce competitively, and lack the industrial base needed to truly capitalize on the opportunities made available through AGOA. In addition, some countries are simply unaware of the opportunities AGOA provides. As Congress considers this legislation's reauthorization, it must find ways to improve the bill to diversify trade, expand country and product coverage, enhance utilization by African partners, and ensure its mutual benefit for the U.S. and Africa. As Brookings notes, "the U.S. needs a comprehensive trade and investment strategy that not only ensures that AGOA achieves its full potential but also supports American companies as they pursue commercial success in Africa."[32]

South Africa, for example, demonstrates the importance of ensuring AGOA's mutual benefit. As trade between the U.S. and South Africa rose from $7.7 billion in 2003 to $16.2 billion in 2012, it helped to create more than 62,000 jobs in South Africa.[33] South Africa, though, imported 50 percent less than it sold to the U.S. during the same period,[34] demonstrating that it is not an even trading relationship as a result of an existing FTA between South Africa and the European Union, as well as other South African policies that have made it difficult for the United States to compete in specific sectors, such as poultry. We must do more to improve the mutual benefit of this important economic relationship, which will require tough conversations between U.S. and South African officials on a range of trade and access issues in the context of AGOA reauthorization, including restrictions on U.S. poultry imports.

THIRD COUNTRY FABRIC PROVISION

An important aspect of AGOA is the Third Country Fabric Provision, which Congress renewed just before its expiration at the end of September 2012. This provision, which maintains AGOA eligibility for apparel regardless of the fabric's country of origin, has helped build the African apparel industry and accounts for 95 percent of apparel imported into the U.S. under AGOA.[35] It has also helped American companies reduce costs and diversify supply chains while creating tens of thousands of jobs – mainly for women – in countries including Lesotho, Swaziland, Kenya and Mauritius.

U.S. SENATOR JOHNNY ISAKSON (R-GA.):

"AGOA continues to create more customers for American businesses by supporting the growth of Africa's middle class, and it reinforces our relationship with the people of Africa by strengthening the continent's democratic institutions and promoting economic freedom."

(1/24/13)

Renewing this important provision required a sustained bipartisan, bicameral effort, undertaken in coordination with the U.S. textile industry and African diplomatic corps, as well as with the personal involvement of then-Secretary of State Hillary Clinton and others in the administration.

Despite this effort, delays in reauthorizing the provision far enough in advance of its scheduled expiration reduced new apparel orders by 30-35 percent in 2012 compared to the same period in 2011.[36] The economic consequences of our delay should serve as lessons learned, and encourage Congress to reauthorize the full *African Growth and Opportunity Act* well in advance of its expiration in 2015.

TIMELY REAUTHORIZATION

With more than two and a half years before AGOA expires, Congress has the opportunity to work toward a prompt reauthorization that allows time to make improvements that will ensure AGOA is more effectively utilized by African partners, expands country and product coverage, leads to greater diversification of exports beyond oil, and continues to be mutually beneficial. As Brookings has concluded, the message from the delayed reauthorization of the Third Country Fabric Provision is clear – "a precondition for AGOA's effectiveness is greater predictability and certainty about its lifetime."[37] We must renew AGOA, and the time to begin the conversation on Congress is now.

Recommendation 3:

IMPROVE COORDINATION BETWEEN U.S. GOVERNMENT AGENCIES AND DEVELOP A COMPREHENSIVE INTERAGENCY STRATEGY FOR INCREASED INVESTMENT IN SUB-SAHARAN AFRICA

With as many as 10 federal agencies responsible for various elements of trade policy and international development, a cohesive, integrated, interagency strategy is essential in order for the United States to maximize investment in and trade with Africa ahead of competitors like China.

FOREIGN COMPETITORS

A comprehensive and coordinated interagency strategy across the federal government is required if American businesses are to successfully compete in African markets. China surpassed the U.S. as Africa's largest trading partner in 2009 and other countries such as India, Turkey, Russia and Brazil are also aggressively investing in Africa.

By conceding much of our economic influence in Africa to China, there is great concern that the United States may be conceding political leadership as well. During his recent nomination hearing to be Secretary of State, then-Senator John Kerry emphasized China's deep involvement in Africa and argued that now, more than ever, foreign policy is economic policy, and the U.S. must do more to engage in global markets and demonstrate a greater resolve to lead.[38]

It is time for the U.S. government – in partnership with the private sector – to implement a cohesive, effective strategy for investing politically, diplomatically and economically across Africa, and to stop ceding these economic opportunities to competitors.

COORDINATION ACROSS AGENCIES

In order to fully capitalize on explosive market potential in Africa, the United States must improve coordination between the key government agencies responsible for formulating trade strategy, including the Departments of State, Commerce, Agriculture and Treasury, as well as the United States Trade Representative, the Small Business Administration, the Export-Import Bank, the Overseas Private Investment Corporation, the U.S. Agency for International Development, the Millennium Challenge Corporation, and the U.S. Trade and Development Agency.

These government agencies are tasked with export promotion or development missions, but current coordination efforts through the Trade Promotion Coordinating Committee lack clear and consistent implementation. Reviews from the business community about current U.S. government coordination effort yield, at best, mixed results.

While in South Africa in November 2012, Acting Commerce Secretary Rebecca Blank announced the launch of the *Doing Business in Africa* campaign, which is a component of the *U.S. Strategy Toward Sub-Saharan Africa* released in June. The *Doing Business in Africa* campaign was designed to promote economic growth, trade, and investment in Africa by channeling trade promotion and financing capabilities to U.S. companies, and it is an encouraging step in the right direction. The results of the campaign to date, however, remain unclear.

The Administration must also improve and expand efforts to educate American companies about the valuable tools U.S. agencies can provide to expand the footprint of the U.S. private sector in Africa, while decreasing duplication and more effectively pooling critical resources.

LEGISLATIVE ACTION

To address these issues and expand trade and investment in Africa, last year, a bipartisan coalition led by Senators Dick Durbin (D-Ill.) and John Boozman (R-Ark.) introduced the *Increasing American Jobs Through Greater Exports to Africa Act*, which was approved by the Senate Foreign Relations Committee in September and is expected to be reintroduced in the 113th Congress.

This legislation directs the president to establish a comprehensive U.S. strategy for public and private investment, trade, and development in sub-Saharan Africa that focuses, among other things, on:

- increasing exports of U.S. goods and services to Africa by 200 percent within 10 years;
- coordinating U.S. commercial interests with development priorities in Africa;
- improving the competitiveness of U.S. businesses in Africa;
- encouraging a greater understanding among U.S. business and financial communities of the opportunities Africa holds for U.S. exports; and
- calling on the President to designate a Special Africa Export Strategy Coordinator to oversee the interagency coordination effort.

ACRONYMS AND SHORTHAND

AGOA - African Growth and Opportunity Act
BITs - Bilateral Investment Treaties
COMENSA - Common Market for East and South Africa
COMMERCE - U.S. Department of Commerce
EAC - East African Community
EX-IM - Export-Import Bank
FDI - Foreign Direct Investment
IMF - International Monetary Fund
OECD - Org. for Economic Co-operation and Development
OPIC - Overseas Private Investment Corporation
ORAM - Overseas Resource Allocation Model
SBA - U.S. Small Business Administration
TCF - AGOA's Third Country Fabric provision
TIFAs - Trade and Investment Framework Agreements
TPCC - Trade Promotion Coordinating Committee
TREASURY - U.S. Department of the Treasury
UEOMOA - West African Economic and Monetary Union
USAID - U.S. Agency for International Development
USDA - U.S. Department of Agriculture
USTDA - U.S. Trade and Development Agency
USTR - U.S. Trade Representative

U.S. ECONOMIC STRATEGY IN AFRICA

Ten federal agencies are involved in promoting U.S. trade with other countries

The *Increasing American Jobs Through Greater Exports to Africa Act* creates a comprehensive, whole-of-government approach that could double American companies' access to African markets and increase U.S. exports to the continent in the next decade. It is a worthy goal and a smart strategy that would lead to job growth here in the U.S. and a stronger middle class across Africa.

BUILD CONNECTIONS ON THE GROUND

In the past year, the State Department organized and led multiple trade missions to Africa that provide a valuable model for connecting interagency programs with U.S. businesses interested in Africa.

In February 2012, Assistant Secretary Carson led a trade mission to Mozambique, Tanzania, Nigeria and Ghana with 10 U.S. energy companies that concluded with several businesses reaching partnership agreements with African companies to jointly develop power projects.[39] This mission included high-level officials from the State Department, USTDA and Ex-Im Bank.

In September 2012, Assistant Secretary of Commerce Michael Camuñez led a trade mission with 19 U.S. companies to South Africa that focused on sustainable and efficient energy, agriculture, and educational services and skills development sectors. The State Department and the U.S. Chamber of Commerce also partnered to lead a group of 10 U.S. businesses to South Africa, along with representatives from OPIC, Ex-Im Bank and USTDA.

In November 2012, the Department of Commerce organized a trade mission to South Africa and Zambia led by Under Secretary for International Trade Francisco Sanchez to highlight opportunities in electric power and energy efficiency technologies, productivity enhancing agricultural technologies and equipment, transportation equipment and infrastructure, and mining equipment and technology.[40]

Acting Secretary of Commerce Rebecca Blank led a trip at the same time to South Africa and Kenya to officially launch the *Doing Business in Africa* campaign.

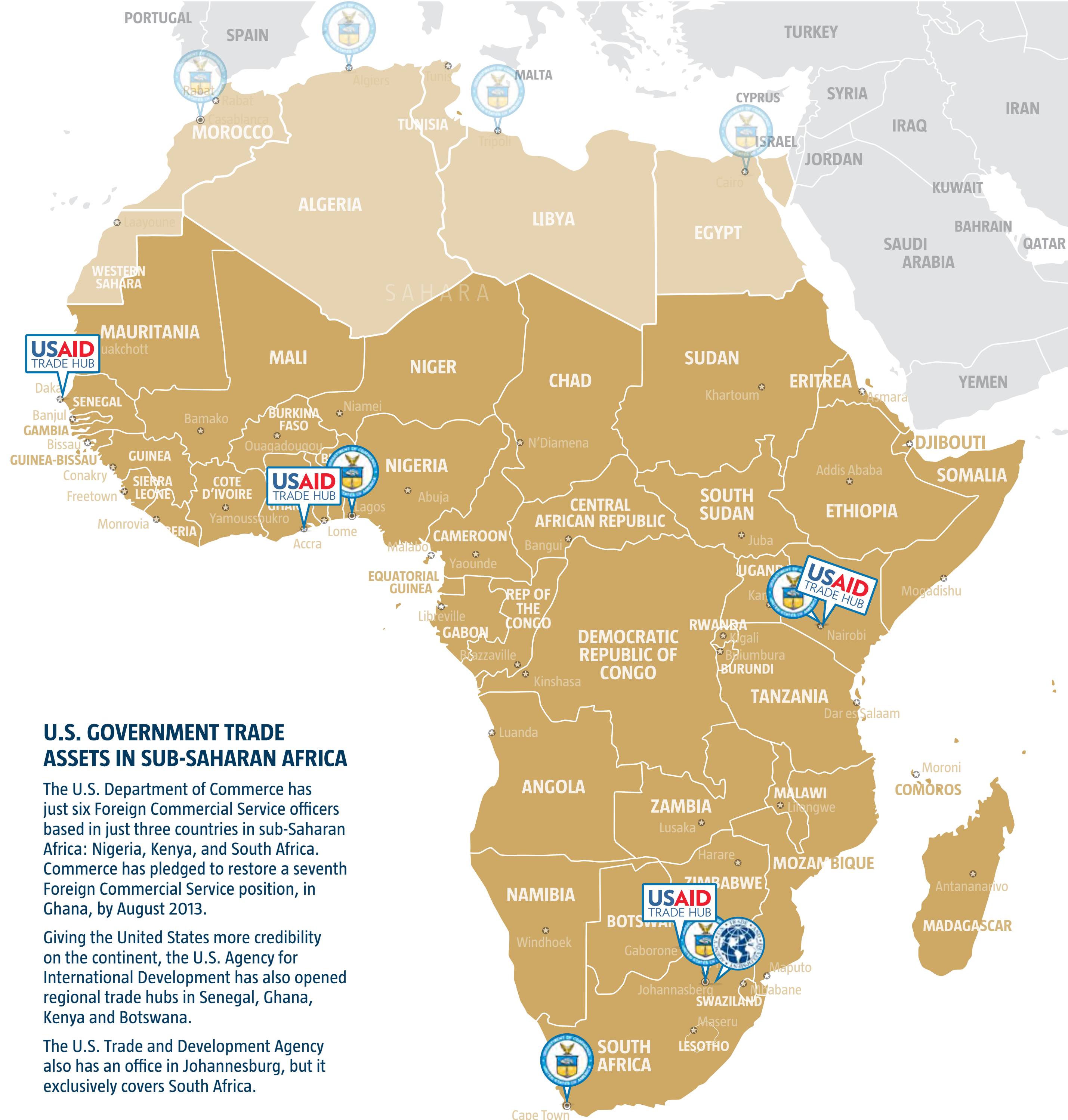
Trade missions led by senior level administration officials with the broad participation of the private sector facilitate vital partnerships between the U.S. and African governments, as well as the U.S. and the African private sectors. They are an effective tool for maximizing shared investments in African markets, and they should be expanded in the future.

CLARIFY AGENCY ROLES

U.S. Department of State. The State Department has played a leading role in driving a renewed emphasis on economic engagement with Africa, inspired in part by former Secretary Clinton's commitment to "economic statecraft." This policy aims to harness the forces of global economies to advance America's diplomatic agenda and leverages our broader diplomatic efforts to advance our economic goals.[41] In this capacity, the State Department has led several interagency trade missions to the continent in an effort to inform the U.S. private sector of the vast opportunities that exist in Africa, as well as the resources and tools that the U.S. government can provide to the private sector.

The State Department is also working closely with African partners in an effort to address the barriers to trade that hinder Africa's economic growth. Working closely with African governments, U.S. diplomats on the continent support the enactment of reforms that encourage improved business climates aimed at attracting increased U.S. investment.[42] Notably, at State, such wide-ranging efforts have been conducted with the close cooperation of both the Bureaus of African Affairs and Economic and Business Affairs.

U.S. Trade Representative (USTR). The U.S. Trade Representative is tasked with coordinating interagency cooperation on trade and investment issues in sub-Saharan Africa. An important aspect of USTR's involvement on the continent includes Trade



U.S. GOVERNMENT TRADE ASSETS IN SUB-SAHARAN AFRICA

The U.S. Department of Commerce has just six Foreign Commercial Service officers based in just three countries in sub-Saharan Africa: Nigeria, Kenya, and South Africa. Commerce has pledged to restore a seventh Foreign Commercial Service position, in Ghana, by August 2013.

Giving the United States more credibility on the continent, the U.S. Agency for International Development has also opened regional trade hubs in Senegal, Ghana, Kenya and Botswana.

The U.S. Trade and Development Agency also has an office in Johannesburg, but it exclusively covers South Africa.

ACRONYMS AND SHORTHAND

AGOA - African Growth and Opportunity Act
BITs - Bilateral Investment Treaties
COMENSA - Common Market for East and South Africa
COMMERCE - U.S. Department of Commerce
EAC - East African Community
EX-IM - Export-Import Bank
FDI - Foreign Direct Investment
IMF - International Monetary Fund
OECD - Org. for Economic Co-operation and Development
OPIC - Overseas Private Investment Corporation
ORAM - Overseas Resource Allocation Model
SBA - U.S. Small Business Administration
TCF - AGOA's Third Country Fabric provision
TIFAs - Trade and Investment Framework Agreements
TPCC - Trade Promotion Coordinating Committee
TREASURY - U.S. Department of the Treasury
UEOMOA - West African Economic and Monetary Union
USAID - U.S. Agency for International Development
USDA - U.S. Department of Agriculture
USTDA - U.S. Trade and Development Agency
USTR - U.S. Trade Representative

and Investment Framework Agreements (TIFAs), which the U.S. maintains both with specific African countries, including South Africa, Rwanda, Nigeria, Mozambique, Liberia, Mauritius, Ghana and Angola, as well as regional organizations including the East African Community, the Common Market for East and Southern Africa and the West African Economic and Monetary Union.

The USTR also oversees Bilateral Investment Treaties (BITs) with sub-Saharan African countries to help to protect economic growth by encouraging market-based economic reform and the policies that make doing business in Africa more attractive for U.S. businesses. The establishment of a BIT with an African country significantly improves that economy's investment climate and provides added protection to U.S. investments abroad.

We can work to improve the investment climate in sub-Saharan Africa by expanding BITs to include not only additional countries, but also regional economic communities, which will promote economic growth and make business prospects in Africa even more attractive to U.S. businesses.[43] Further progress on BITs and TIFAs, along with increased private sector investment and engagement, can set the stage for eventual negotiations for formal free trade agreements with nations or regional communities in sub-Saharan Africa.

United States Trade and Development Agency. The U.S. Trade and Development Agency maintains a unique trade and development mandate, which makes the agency well suited to support economic development and U.S. commercial interests abroad while simultaneously promoting job creation in the United States.

In testimony before the African Affairs Subcommittee, USTDA Regional Director for Sub-Saharan Africa Paul Martin stated that his organization works to help U.S. businesses make informed investment decisions while also better positioning U.S. companies in Africa, especially in infrastructure construction or expansion.[44] In Fiscal Year 2012, USTDA supported several reverse trade missions, business workshops and training events which introduced African procurement officials to U.S. companies. These critically important events and activities connected U.S. companies with African businesses in order to facilitate increased U.S. exports, as well as trade and investment in the region.[45]

U.S. Agency for International Development. Over the past decade, USAID programs have significantly contributed to improving the overall environment for U.S. trade with Africa. These efforts have focused on assisting small and medium-sized enterprises to increase exports to regional and global markets, facilitating economic regionalization. According to Assistant Administrator for Africa Earl Gast, a clear correlation exists between USAID trade capacity-building obligations and exports. For each additional $1 of USAID trade competitiveness assistance, he said, there is a corresponding $42 increase in the value of developing country exports within two years.[46]

Additionally, USAID maintains three trade hubs in sub-Saharan Africa that have made significant contributions to reducing bottlenecks in trade. For example, the Southern Africa Trade Hub's efforts to extend border operating hours along the Trans Kalahari Corridor, introduce a single customs declaration, and implement a corridor performance management system contributed to a twelvefold increase in usage of the corridor and a reduction in travel time from 72 to 48 hours.[47]

Millennium Challenge Corporation. The Millennium Challenge Corporation (MCC) forms partnerships with countries committed to good governance, economic freedom and investments in their citizens. MCC's unique model, which includes competitive selection for program eligibility and country-led solutions and implementation, has proven to be effective in delivering sustainable resources to support poverty reduction and development initiatives in countries which are performing well in governance and investing in their people. MCC compacts — or agreements with partner countries — are open for competitive bidding and often won by U.S. companies that create jobs here at home in order to fulfill those contracts.

For example, Tanzania's $698 million compact, which remains one of the largest in the MCC's history, was designed to address the country's growing energy infrastructure needs.[48] In Tanzania, two American companies, Symbion Power and Pike Electric, won contracts to build more than 20 power sub-stations and install approximately 1,000 power lines to provide over 330 communities with access to electricity throughout the country.[49]

MCC compacts demonstrate the effectiveness of the United States government working in partnership with African nations to strengthen development. For example, Ghana successfully completed a five-year compact with MCC in February 2012 that provided economic opportunities for over one million Ghanaians through strategic investments in infrastructure and the agricultural sector to strengthen production, help move goods to market more efficiently and improve farm communities and farmers' livelihoods.

Recommendation 4:

INCREASE THE PRESENCE OF U.S. FOREIGN COMMERCIAL SERVICE OFFICERS IN SUB-SAHARAN AFRICA TO HELP U.S. COMPANIES NAVIGATE THE BUSINESS CLIMATE IN THE REGION

As the relationship between the United States and Africa transitions from aid to trade, the direct engagement of professionals from the U.S. Department of Commerce — particularly Foreign Commercial Service Officers — are increasingly critical. Commerce-led programs provide essential support to American businesses eager to invest in African markets and help facilitate increased trade.

ELEVATE PRESENCE OF FOREIGN COMMERCIAL SERVICE OFFICERS

The Department of Commerce's Foreign Commercial Service officers seek to facilitate the development of markets for U.S. exporters. Officers assisting U.S. exporters provide evaluations of potential business partners in the country, facilitate U.S. business contacts with local firms, identify potential local distributors or agents of U.S. exports, and provide local financing options.

Currently, the Foreign Commercial Service footprint in Africa is disproportionately low compared to Asia and Europe, especially when considering the potential opportunities in Africa for U.S. business. Only six Foreign Commercial Service Officers are currently stationed in sub-Saharan Africa, with one officer in Kenya, two in Nigeria and three in South Africa. Their presence is far greater in Asia and elsewhere.

This is insufficient and indicative of a true missed opportunity, especially given that over the past year, the Department of Commerce cut and moved a handful of positions in Africa and eliminated a critical position in Accra, Ghana, which continues to serve as a hub for business in West Africa.

Ghana is one of the fastest-growing economies in the world and a country of tremendous opportunity, and each day that passes without such an officer in Accra, American businesses are missing out on potential opportunities in one of Africa's fastest growing markets. Commerce must act with urgency to immediately bring a qualified officer to this post, making good on its commitment to reinstate the position later this year.

While a tight budgetary environment compels tough choices, one of the reasons for the failure to focus on the economic opportunities in sub-Saharan Africa is that the econometric model by which Commerce determines the allocation of Foreign Commercial Service positions is backward looking. According to Commerce, the Overseas Resource Allocation Model used to assign Foreign Commercial Service Officers is based on export data from 2005-2009.

Legislative action may be needed to ensure a forward-leaning resource-allocation analysis that positions resources for future U.S. trade opportunities. America's competitiveness will continue to be undermined by our competitors in Africa unless the Foreign Commercial Service is sustained and aligned with current market demands and future business opportunities.

If American businesses are to have every tool available to them to compete with other nations in doing business with Africa, and if the Department of Commerce is to continue to lead that effort, it is essential to expand the footprint of the Foreign Commercial Service in sub-Saharan Africa.

U.S. SENATOR CHRIS COONS (D-DEL.):

"China is a problem for us, but it is not *the* problem. The bigger issue is that we have not taken a more aggressive approach to economic engagement in sub-Saharan Africa. I am concerned we have been asleep at the wheel. It is time for the U.S. government, working in partnership with our country's private sector, to implement a cohesive, effective strategy for investing politically, diplomatically and economically across Africa." (12/18/12)

ACRONYMS AND SHORTHAND

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USTDA - U.S. Trade and Development Agency
USTR - U.S. Trade Representative

Recommendation 5:

INCREASE SUPPORT FOR AGENCIES THAT PROVIDE FINANCING TO ENCOURAGE U.S. COMMERCIAL ENGAGEMENT OVERSEAS, MITIGATE INVESTMENT RISKS, AND GENERATE A PROFIT FOR AMERICAN TAXPAYERS

In order to expand trade and investment in Africa, it is essential for the U.S. government to work in close partnership with American businesses. Federal agencies that provide financing to encourage U.S. commercial engagement overseas are a key link between the public and businesses. These agencies work with companies to mitigate the risks of investing in African markets and also to generate a profit for American taxpayers.

THE EXPORT-IMPORT BANK

The Export-Import Bank of the United States is the agency of the U.S. government providing direct loans and loan guarantees aimed at expanding U.S. exports abroad. Ex-Im-supported exports have tripled since 2007, authorizations for fiscal year 2011 reached a record $1.4 billion, and authorizations for 2012 surpassed the previous year's record.[50] Ex-Im is currently operating in 43 countries in sub-Saharan Africa, providing finance and insurance options to U.S. businesses in countries where alternative commercial financing is not available.

The Export-Import Bank, which is financially self-sustaining, provides essential support to American businesses faced with foreign competition in African markets. The bank substantially increased lending to U.S. businesses focused on Africa from $400 million in 2009 to nearly $1.4 billion in 2011,[51] but China's export-credit agencies committed to $12 billion in these same markets.[52]

There is an urgent need to close this gap, as our Chinese competitors are securing long-term contracts that could lock American companies and interests out of fast-growing African markets for decades to come.

The Chinese practice of using national export banks to provide concessional financing runs contrary to the principles of the Organization of Economic Co-operation and Development related to open market rates, and ignores poor records on labor practices, human rights, democracy, good governance and environmental impact. China's flexibility in financing, compounded by the large amounts of "no strings attached" money being offered to African governments, creates a challenging environment for U.S. businesses on the continent.

In light of global competition, Ex-Im is a valuable resource for American companies interested in investing in Africa because loans and export credit insurance are backed by the U.S. government, which mitigates risk and maximizes business potential. For example, Ex-Im provided an $805.6 million direct loan to South Africa's state-owned electric power utility, Eskom, Limited.[53] This financing supported Eskom's purchase of engineering and construction management services from Kansas-based Black & Veatch, which will be used to construct the Kusile power plant. With the support of Ex-Im, Black & Veatch has created more than 300 well-paying jobs for U.S. professionals.[54] This is an example of the critical role Ex-Im played in facilitating critically needed U.S. investment in the energy sector of sub-Saharan Africa.

THE OVERSEAS PRIVATE INVESTMENT CORPORATION

The Overseas Private Investment Corporation (OPIC) serves as the development finance agency for the United States. Its mandate specifies promoting economic growth in developing and emerging economies, making it well suited to finance American investments in Africa. In alignment with its development mandate, OPIC provides political risk insurance, project financing, investment funds support and other services for U.S. businesses, in support of U.S. foreign policy goals.

In the past decade, the total volume of investment that OPIC has made in sub-Saharan Africa has increased by nearly 1,000 percent, from $110 million in 2006 to $968 million in 2011.[55] In 2011, 34 percent of OPIC's commitments were for projects in sub-Saharan Africa in areas such as renewable resources, infrastructure, health care and small- and medium-sized enterprise access to financing.

According to OPIC President and CEO Elizabeth Littlefield, each dollar that OPIC has invested in emerging markets has mobilized another $2.70 in private sector investment.[56] For example, OPIC has provided financing and political risk insurance for a power plant in Togo that has helped that country evolve from an importer of energy to an exporter – thereby helping to overcome an electricity shortage that has resulted in rolling blackouts and inhibited economic growth.[57]

OPIC's finance model is an efficient way of supporting sustainable development because it deploys private market entrepreneurship and discipline. It also turns a profit for the American taxpayer; in 2011, the organization contributed $269 million to the U.S. Treasury.[58]

Expanding OPIC's footprint in Africa will promote stable and sustainable economic growth, strengthen and expand the private sector in Africa, and facilitate general economic development with a particular focus on helping United States businesses expand into African markets.

Recommendation 6:

ENGAGE THE AFRICAN DIASPORA COMMUNITY IN THE UNITED STATES TO STRENGTHEN ECONOMIC TIES

The U.S. is home to a large and vibrant African diaspora population – a group with personal, familial, cultural and business ties to their home countries. Engaging the African diaspora community in the United States will strengthen economic ties and promote trade and development.

ENGAGE THE AFRICAN DIASPORA

The United States possesses a valuable resource in its vibrant African diaspora communities. These individuals, communities and businesses offer a bridge to the African continent that should be leveraged to its full potential to develop economic opportunities.

Last summer, Secretary Clinton hosted the second annual Global Diaspora Forum in Washington, D.C., which was initiated to recognize and further support the vast potential of the diaspora community in order to encourage development and further engagement in their home countries. Of the more than 450 participants in the global event, the vast majority were of African descent.

The forum included important discussions about the ways in which diaspora engagement is key to exploring new business markets, largely because of the expertise that exists among diaspora communities when navigating local economies, governments and culture.[59] The U.S. government must continue to support initiatives like the Global Diaspora Forum in order to more effectively leverage the rich diversity that exists in the African diaspora communities within the United States. These partnerships can help support U.S. businesses and exports, while simultaneously supporting growth and development in African countries.

An increasing number of Africans educated in the United States are choosing to return to Africa to pursue business opportunities that simply did not exist a decade ago. This trend highlights the remarkable economic growth that has taken place on the continent in the past decade and points to even greater future opportunities. American-educated African entrepreneurs can serve as a vital link between U.S. companies and regional economies and markets, and have a real impact on Africa's economic future.

CONCLUSION

Now is the time to improve coordination between U.S. government agencies to develop a comprehensive strategy for increasing America's economic engagement with Africa. If we seize this moment, we can promote strong and mutually beneficial economic engagement that strengthens the U.S. economy, creates jobs and reinforces an American values agenda.

Current efforts by the U.S. government have fallen short of meeting these goals, causing us to cede political and economic leadership to competitors such as China. The United States must redouble its efforts to engage with African nations not only to expand our own trade and investment, but also to promote democracy, good governance, transparency and inclusive economic systems in Africa that benefit entire populations.

Africa will be the home of the largest workforce in the world within 50 years. In the short term, rapid urbanization is contributing to a growing demand for consumer goods and fueling a dire need for infrastructure and other development. As American companies increase investments in Africa, they will improve their access to these dynamic markets, resulting not only in attractive rates of return on investments, but also in growth for the U.S. economy that will lead to job creation.

The Department of Commerce can and should serve as an important force multiplier for American companies abroad. Yet, the reduced footprint of the Foreign Commercial Service in Africa translates into missed opportunities for American businesses. We must do more to ensure the presence of the Commercial Service is aligned with current market demands and future business opportunities on the continent.

We must also take note of the urgent need to reauthorize and strengthen AGOA well in advance of its 2015 expiration. Expansion beyond petroleum products is necessary if AGOA is to reach its full potential, and other modifications are needed to facilitate AGOA's long-term success. Congress must consider ways to improve and reauthorize AGOA in order to increase benefits both for U.S. businesses and African partners.

While challenges remain for doing business in Africa, the future opportunities are vast. Africa has been home to recent discoveries of a number of valuable natural resources including oil, natural gas, coal, and minerals, and the rest of the world has taken note. Such promising discoveries provide an opportunity, but must be developed in a way that is sustainable, environmentally responsible, and contributes to long-term security and transformative growth. The U.S. has a unique role to play supporting African-led efforts to improve the business climate on the continent, encouraging the removal of existing barriers to trade, and encouraging good governance.

Diplomacy, development, security and economic statecraft are inextricably linked around the world, but particularly in Africa. The opportunities and mutual benefits are growing, and now is the time to ensure that America's economic engagement policy toward sub-Saharan Africa is coordinated, comprehensive and effective. Such action will yield sustainable benefits for the people of Africa and the U.S. private sector

SECRETARY OF STATE JOHN KERRY:

"What we bring to the table is a lot more attractive than what a lot of other countries bring to the table. People like to do business with American businesses. We're open. We're accountable. We have freedom of creativity. If we can organize ourselves more effectively in this sector, we can win." (1/24/13)

COMMENTS OR QUESTIONS

If you have comments or questions for Senator Coons, please don't hesitate to contact us.

www.coons.senate.gov/africa

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