US RE-ENGAGEMENT IN TRADE AND INVESTMENT IN AFRICA: A CASE FOR THE CENTRAL AFRICAN REGION

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INTRODUCTION

US relations with SSA, begun in earnest in the 1960's after colonialism. It was re-enforced during the cold war as geopolitical and strategic partners, to contain the spread of communism, and the influence of the Soviet Union. After the cold war, the relationship morphed to incorporate a socio- economic component.

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The US private sector operates in various activities, as IOC's, MNC's (Exxon Mobil, GE). US based non-governmental organizations ,benefit from US tax exemptions, to provide aid and relief in many critical sectors like healthcare, education and agriculture .(The Clinton Foundation, the Bill and Melinda Gates foundation, various Malaria and HIV projects). The Peace Corps, is a United States Federal government initiative created in 1961, during the presidency of John F. Kennedy. Its mission is for friendship, global peace, training and education, for the development and better understanding of the American people. Their continued presence for over forty years, in SSA, is a practical demonstration of the commitment of the United States, to the region. They have played a significant role, in the socio-economic development of the continent. The US, remains the most reliable and respected partner to Africa.

Recently, US interest in SSA has waned. According to the USTR Office of African Affairs, US Exports to SSA today is approximately 17.8 billion, a 30 % drop from 2014. SSA accounted for about 1.2% of US total exports. South Africa and Nigeria accounted for about 50% of these exports, followed by Ethiopia, Angola and Kenya. Exports from the region, was mainly extractives US imports from SSA meanwhile was 18.9 billion in 2015, with a marked drop of 63% from 2005. The US trade deficit with SSA was about 1.0 billion dollars in 2015. Combined two way trade with AGOA countries, has been declining steadily according to AGOA.info. In 2012, it was $66 billion, in 2013 it was $61 billion, and in 2015, $36 billion. Agricultural products have declined from 6.2 % in 2001, to 2.2 % in 2014 according to the Brookings Institute.

The United States is the world's largest economy with 23 % of economic activity, followed by China, at 17% .It is estimated by the OECD report that China by 2060 will make up 28% GDP, while the US will have reduced to 18% .This does not take into consideration per capital income and standards of living. The US, will maintain living standards above most countries. The world growth of 3 % will be maintained by emerging markets, and living standards will merge. The U.S. Secretary of Commerce Wilbur Ross delivered the keynote speech to the CCA Summit on June 14th, 2018, encouraging U.S-Africa bilateral trade agreements. "The critical question that decision makers in Africa, including many of you, must ask is this: As these upward growth trends continue, with what types of partners do you want to collaborate?"

At a time when the US is engaging in trade wars with China, Europe, Mexico and Canada, Africa is waiting and expecting. Regarding trade and investment in the continent, two narratives have emerged. The first is the re-colonization of Africa by China, through loans that have the countries beholden to China, through PPP and sovereign guarantees, in projects where Chinese companies have equity. The second narrative is the scramble for Africa by the United Kingdom, Russia and now the European Union based on various indicators on the potential in SSA. Macky Sall the President of Senegal says, "Everything we do with China is perfectly under control, including on the financial and debt side." The most discussed today, is the first narrative on China, for many reasons.

THE DRAGON CAME KNOCKING

Of the 54 member countries of the AU, China has established diplomatic relations with 53. China invited 40 heads of states and governments from Africa to the Forum on China-Africa Cooperation (FOCAC) conference. At the opening of the Forum in September, 3rd 2018 President Xi of China announced a $60 billion package, for aid, investment and loans to Africa, to enable multilateral cooperation. This is in addition to the $60 billion, offered 3 years ago in SA. The growth of the middle class in China, with an increased need for resources in the energy sector, has China partnering with resource rich African countries, for energy, infrastructure, and a consumer market for Chinese goods. China is the world's largest importer of oil, and the largest energy consumer .They are prepared to take advantage of the resources, given the potential and invest in the continent, despite concerns of political risk, uncertainty and political instability. According to the MGI report "China Africa", China is Africa's biggest economic partner; as she is no longer a threat, and has surpassed France, Germany and the United State in the continent. Trade improved from $15 billion in 2001 to $188 billion in 2015, with FDI set to increase from 1 billion in 2004 to 35 billion in 2015.

The government of China, is assisting state owned companies to invest in the region by providing loans, and security. (The Export-Import bank of China, The China Africa Development Fund, which is funded by the China Development Bank). President Xi of China is embarking on an ambitious and expensive "going out" policy known as the "Belt and Road Initiative"(BRI) .It is an investment project, which connects countries in Europe, Asia and Africa to China, through beltways and maritime roads. It aims at building a common market, which incorporates humanity for shared progress.

The US is accusing China of currency manipulation, to cheapen the prices of their goods to fuel exports resulting in US trade deficits. There are complains about China's noninterference in the region's, human right violations, noncompliance to local laws and transparency. This has little affected the appetite for African governments, to work with China. Most countries see China as more compassionate and reliable in infrastructure, development, technology transfer and ever present.

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A VIEW TO US INVOLVEMEMT

The growth of technology, impacted jobs in rural America. US manufacturers can partner in the current diversification and investments in infrastructure, industry and manufacturing in Central Africa.US initiatives like AGOA and Power Africa will associate projects to finance for US equipment's in agriculture, technology and renewables. The emerging markets will make up most of the 3% of global economic growth by 2060. Central African region has resources and is showing potential as an emerging market. In a piece by Aubrey Hubry, "Operating in an era of constrained budgetary resources and "America First" thinking, policy makers crafting commercial aspects of US-Africa policy should focus on sectors in which US companies have a distinct competitive edge and not force competition in areas that have long been ceded to other global players" (Escaping China's S Aubrey Hubry Atlantic Council-Africa Center September 2017).

The lack of quorum in the US Eximbank has hampered US equipment manufacturers and businesses to invest in Central Africa. As the official Export Credit Agency (ECA) of the US, it is time for a re-think, to forge a way forward and be competitive in the continent.

The Better Utilization of Investments Leading to Development (BUILD Act) was passed in the US House of Representatives on the 5th of October, 2018.This was to reform the Overseas Private Investment Corporation (OPIC), a self-sustaining body, to adapt to the changing dynamics of investment in the continent by China, through state controlled investments. This is an opportunity, to invest as equity partners in addition to aid and development finance. While defending the Act in front of Congress, Ray Washburne, President and CEO of OPIC said "By creating a modern U.S. development finance institution, this legislation will better equip the

United States to address the world's massive development needs and drive economic growth in emerging markets, while also advancing American foreign policy and competitiveness."

A combination of finance from the US Exim bank and the BUILD Act will serve businesses in accessing finance for AGOA, Power Africa, and African initiatives. The bank provides trade and export finance, export credit insurance, working capital guarantees to US companies .They issue performance and bid bonds for local projects in the region, and loans to local buyers to import US goods. The National Association of Manufacturers (NAM) in the US have been advocating strongly for its re-authorization. According to Stephen Ezell the director of global innovation policy at ITIF, US short –term export credit was 1/100th of China's, $375 billion, a fraction of the $110 billion of Korea while Canada and Japan exceeds the US.

Sec. Ross has stressed the importance of bilateral trade agreements over larger multilateral agreements, "I believe that, the more African nation's partner with U.S. businesses, the better off both the United States and Africa will be." It is important for US businesses to partner with Central African (CEMAC) businesses for direct and fair trade. The region has so much to offer, with the apparent lack of visibility to US businesses as compared to East, West and South Africa.

<u>US –SSA COLLABORATION</u>

Albeit the collapse in commodity prices, in Central Africa, there is reason to be optimistic, because of the actions being undertaken by important stakeholders. The African Union, in its 2063 flagship project has an initiative, the Continental Free Trade Area (CFTA) to increase intra-African trade from 12% to in 2013 to 50% by 2045, with a market of 1.2million people. The target is to have 30 member countries ratify the agreement by December 2018, to meet the 2019 dateline. Included is a plan to Boost Intra-African Trade (BIAT) and The Single African Air Transport Market (SAATM). The AU has declared the year 2018 the "African Year of Anti-Corruption". SSA is rising and diversifying, so too is Central Africa, as the potential for agriculture in Africa will reach 1 trillion dollars by 2030.There is available arable land for agriculture, and opportunities for economic transformation, in renewables, digital technology and extractives. The balance of trade in the short term weighs more on the US side, but the long term benefits of trade with the region should not be neglected, as the US will enforce geopolitical and strategic partnerships with the continent.

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THE CEMAC REGION

The Central African Economic and Monetary Community (CEMAC), is made up of Cameroon, the Central African Republic (CAR), Chad, the Republic of the Congo, Equatorial Guinea and Gabon. The region has a combined population of about 40 million people. Cameroon, the middle income country, has the largest population of 23 million people. The region presents an entry point into the region, based on competitive and comparative advantages. The pace of integration in Africa as it grows a single market; with increased integration within Central Africa is an opening for US businesses in the region. Resource rich Central Africa with Cameroon as portal, offers opportunities in sectors that are yet to be exploited .The United States Ambassador Peter Henry Barlerin, in one of his inaugural dinners, hosted by the American Cameroon Chamber of Commerce (AMCHAM) in Douala, highlighted the importance of Cameroon as an economic hub for the region. Cameroon has elaborated through their Vision 2035, projects and investment trends in various sectors. There are opportunities in agriculture, power and electricity, science and technology, infrastructure, manufacturing and industry.

AGOA is a platform, where US businesses can export products tariff free to US markets. Of the about 6000 eligible products, the CEMAC region lags behind South Africa, Kenya, Ethiopia, Senegal. Amongst the many reasons why AGOA has not been better exploited in Central Africa, are issues of scale, standards, storage and transformation. AGOA is an opportunity to expand trade given the incentives. It is an avenue for US manufacturers to create partnerships as technical partners, in manufacturing and industry, to meet US standards. US Trade Representative Robert Lighthizer in Lome Togo, cautioned on the need for improvement on reciprocity .AGOA will not last forever, and the US is looking for direct and fair trade. AGOA in the region, has been much discussed but little exploited. The AU Trade Commissioner Fatima Haram Acyl, opined that, think tanks and academia can better prepare for the next AGOA summit.

Power Africa, is a President Obama initiative to increase the efficiency of electricity in the continent, and like AGOA is little exploited in the region. The availability of funds to finance electricity projects in the region provides economic development and opportunities for US businesses in manufacturing, solar panels etc. There is need for synergy, to merge Power Africa and AGOA initiatives. Their benefits are interrelated and interactive in providing storage, transformation and productivity. Power Africa has a framework that works with private investors, DFI's and NGO's. The goal is to generate power, connect users to the grid and unlock the potential. There is off grid potential in the region for solar and wind panels to provide cold storage, and distribution to serve localities underserved and also for business. The input of both sectors will impact the CEMAC region dramatically.AGOA projects and Power Africa projects can be partnered with climate funds (i.e. Chad and North of Cameroon) with large arable land, with solar potential for large scale agriculture.

The US Exim Bank can work with DFI's (AfDB and Afreximbank) in the region on large scale projects. Afreximbank signed a MoU with the World Trade Center Miami (WTCM) for trade fairs, and workshop access to the World Trade Center Associations platform, for resources, exchanges, and knowledge transfer to build and strengthen relationships between both continents. The African Development Bank is partnering with Power Africa already. They have other initiatives like the Sustainable Energy for all SE4ALL, Sustainable energy Fund SEFA and 'Transform the desert into energy".

The CFTA provides direct diplomatic access to US businesses through relations that can be re-enforced to reciprocal trade fairs. The recently concluded IATF was an opportunity for US businesses to interact with DFI like Afreximbank and the AfDB, Islamic Finance and other institutions with their local embassies to create synergy for Market opportunity exchanges and also for investment. Rwanda 2020 will be better organized if there is a US platform for the IATF that is supported by the AU and the CFTA and US businesses.

US technology companies like EBay, Amazon, Microsoft, Google, and PayPal have the potential to promote foundational activities. This will enable the CEMAC region to develop business models through local initiatives on OTT platforms. The rise in Asia of Alibaba, Tencent and JD.com are examples of the impact of digital technology .In a report by PWC Coopers in March 2016 on prospects on retail in SSA and specifically Cameroon; “The outlook from 2015 to 2020 is more encouraging, with growth expected to accelerate at an average of 5.5% per annum.

Prior to the fall in commodity prices, trade in the region with the US was mainly in the extractive sectors. The revenues from the extractives made up 65% to 85% of the GDP of most of countries. The region remains rich in resources. The current increase revenues from oil and gas, is an opportunity to reverse the often repeated “resource curse “narrative. Countries can service their debt, and spend on development projects. Markets within the CEMAC region need to be re-enforced through technology to create uniformity. The Heads of States of member countries, met in Ndjamena in 2017 under the theme “Accelerated Integration for an Emerging CEMAC”, to improve on imports, and customs exemptions through policy regulations, to facilitate technology and innovation to spur growth and intra-regional trade.

US trade policy today is protectionist in nature, with a preference for direct trade. This requires countries in the region, to rethink prior modules on aid and development finance for investment. They should seek agreements that are reciprocal, mutually binding and rewarding. A change from the “olive branch” mentality, to equity partners for mutual benefits.

In a presentation to the US International Trade Commission Aubrey Hruby, a Senior Fellow at the Africa Center at the Atlantic Council wrote that ‘Strategic prioritization buy-in from public and private-sector entities is key to unlocking the American competitive business edge, broaden and deepen US-Africa commercial relations, and maximize the benefits to US business and the American people.”

Trade deficits are now viewed from the prism of net exports and imports. "Of course, a country can run a trade deficit or surplus. That is, it can buy more goods from foreigners than it sells or vice versa. But that imbalance must always be matched by a corresponding imbalance in the capital account” Paul Krugman explained this back in the Harvard Business Review in 1996.The investment by the US in CEMAC , and the advantage of US government supported initiatives like AGOA, Power Africa have remained timid, as the bulk of exports are in the extractive sector. “Our trade relationship is vital to the security and stability of both the U.S. and Africa. But our relationship with Africa has to continue its transition from being ‘aid-based’ to ‘trade-based,’” is the position of US Secretary Ross.

Of importance is the complexity that underlies CEMAC. The US has concentrated most of its foreign direct investment (FDI) in South Africa and North Africa especially Morocco. The reasons are many to include investment climate, ease of doing business, and also risk mitigation.

Within this context there is need for savvy and sophisticated advisory. Trade agreements should address competitiveness, protect the domestic industries, and create jobs. An understanding of the complexities that exist in the region, in parallel with challenges imposed as risks to US investors. (Shareholders, FCPA, SEC and DOJ).

RECOMMENDATIONS

For improved US- CEMAC relationships, there are some practical and actionable recommendations:

1. US-CEMAC construct with benchmarks, on existing opportunities for business, with emphasis on verification, due diligence and compliance. (FCPA).
2. Delineation of sectors where US businesses have comparative advantage.
3. Identification of ready to start projects in need of financing or turnkey projects in need of equipment and technical expertise.
4. Training and capacity building on local context solutions in technology adoption.
5. US investors creating partnership on US based initiatives (Power Africa, AGOA) directly with local communities and municipalities to produce electricity, supplement existing grids, or grow scale in the sector of agriculture.
6. The increased role of a legal platform to counsel and advise on legal regimes.

CONCLUSION

Through policies and regulations, countries are working on creating enabling business environments, to diversify and transform their economies. According to Ms. Vera Songwe head of the Economic Commission for Africa, corruption "is more powerful than any other injustice we as Africans could face".

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This is demonstrated by the heavy presence of IOC's and MNC's in the region. The region is working with the IMF through structured and monitored loans geared towards economic recovery, a stable currency, fiscal responsibility and long term sustainable economic growth and development The "New Frontier" narrative, and the US economy growing stronger (the stock market and oil prices at an all-time high since 2014) is a good start.

Chairman of Asia Partners Group, Mr. Kevin Liu regarding the China new Silk Road made the following observation, "The superpower status that the US has achieved is to a great extent grounded on the security blanket it offered to its allies Geopolitically, China decided a long time ago that security was too expensive an offer to make. Instead this new superpower may offer connectivity" In other sectors they have freed up cash for investors.

The US understands this concept, as evidenced in the BUILD Act of October 2018.The CEMAC region provides a unique opportunity for the US to up their ground game, and join the growing number of investors in the region. Florie Liser, the new president of the Corporate Council on Africa, correctly pointed out that "there are many challenges and opportunities that US policy should address because we cannot afford to ignore the second fastest growing market in the world. Africa is undergoing the most rapid urbanization of any region". The US economy remains the strongest in the world and will be well served in that regard. The region in partnering with the US will create opportunities for wealth creation and socio-economic stability.

Disclaimer, any wrong spellings or misinterpretations are not intentional and TIAC, is prepared to correct and adjust to speak to the original intent.

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