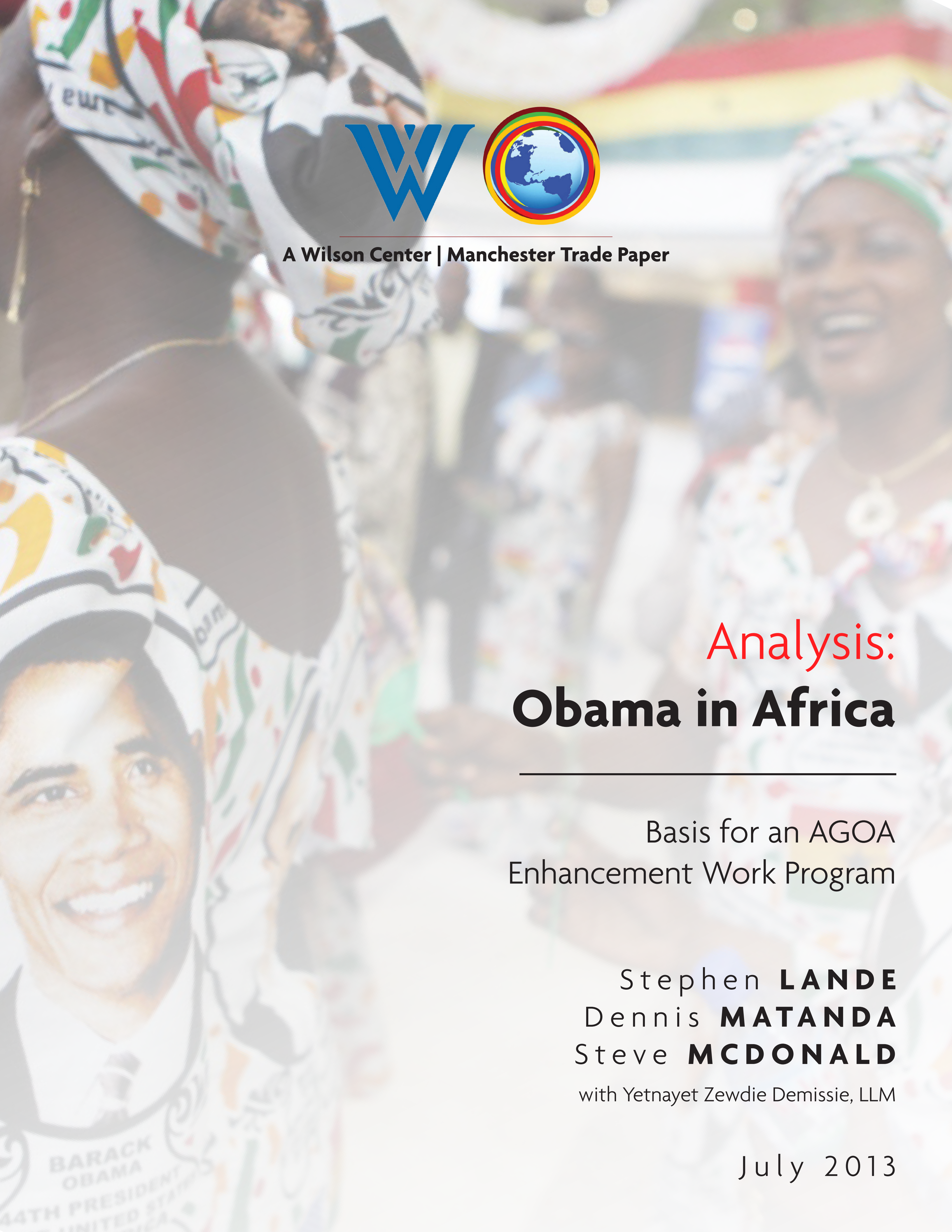

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Analysis:
Obama in Africa

Basis for an AGOA Enhancement Work Program

Stephen **LANDE**
Dennis **MATANDA**
Steve **MCDONALD**
with Yetnayet Zewdie Demissie, LLM

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Synopsis

On his 3-nation, 5-day visit to Africa, U.S. President Barack Obama, undoubtedly, re-energized the U.S. – Africa commercial relationship. Unlike past visits by American leaders, Obama neither dwelled on HIV/AIDS, political instability nor the inadequacy of governance. Instead, trade and investment were front and center; economic challenges were addressed through two initiatives: In the infrastructure field, the bipartisan **Power Africa** that will provide access to low cost energy and **Trade Africa**, an upbeat approach to regional integration that will facilitate operation of world class supply chains + distribution networks in the region.

Seminally, in what may be the Administration's clearest statement on AGOA's future, Obama affirmed, in Senegal, that he was looking for ways to not only renew but to improve AGOA so as to generate more jobs and more trade. This was reiterated July 1, at the **Business Leaders Forum** in Tanzania with Obama placing the onus on Michael Froman, his new USTR and the AGOA beneficiaries themselves to ensure appropriate enhancement before AGOA expires in 2015.

Essentially, the following emerged:

i. AGOA shouldn't just be renewed in current form, but improved to benefit all parties

ii. African countries must especially engage their American partners on aspects to improve employment and commerce on the continent and in the U.S.

iii. African and American stakeholders must, equitably, develop enhancement proposals and ensure that these are considered at the 2013 AGOA Forum this August in Addis.

Central to our analysis is the premise that although the U.S. Congress has increasingly calcified into partisan rancor, the august body has also traditionally treated Africa-centric legislation with reverence. On the recent Obama foray to the continent, mainstream media sources suggested that Africa was one of the last genuine venues for bipartisanship.

We are bullish that the Obama Administration and the 113th Congress will, through a whole-of-government approach, implement a comprehensive AGOA enhancement plan.

Fortunately, African Union + United Nations Economic Commission for Africa (UNECA) have floated AGOA visions alongside those of Corporate Council on Africa, U.S. Chamber of Commerce, Heritage Foundation, Wilson Center and the Brookings Institution.

These ideas can be collated into a comprehensive initiative that especially **'Goes Beyond AGOA'** by perfecting trade provisions, promoting U.S. investment in sub Saharan Africa, supporting regional integration, and ensuring an effective ever-widening customs union with requisite free trade areas. Simply, the U.S. could launch what we refer to as a Trans-Atlantic South Partnership (T.A.S.P.) to reflect the gravity of the U.S. - Africa relationship. T.A.S.P. would also go a long way in matching the Trans-Atlantic Trade + Investment Partnership (T-TIP) negotiated by the Northern Atlantic allies - the U.S. and the EU.

Analysis

We divide this into 3: i). *Initiatives already being implemented;* ii). *Those proposed but not yet accepted, and iii). Still being formed into proposals.*

I. Initiatives Already Being Implemented

Branding Africa: The zeitgeist of this Obama Trip was a logical next step for activities begun towards the close of 2012. Like Obama emphasized,Africa is open for business, and the U.S. - Africa relationship benefits both partners. Here, the African countries themselves must do more to make their countries attractive to the U.S. private sector through branding and other media activities. Coincidentally, President Bush's presence in Africa provided a distinct delineation between Obama and his predecessor: Although both are to be commended, Obama's insistence on Africa's commercial role over Bush's philanthropy may have resonated better with business and political leaders.

Off-Budget Activities: The Obama Administration's major tools for promoting U.S. exports and investment in the region are via the Ex-Im Bank, US Trade Development Agency (USTDA) and OPIC - which is why these 3 agencies were brought on the president's trip. Relatively, an initiative such as **Power Africa,** focusing on increasing support for specific sectors demonstrates Obama's commitment to increasing agency effectiveness. Hence, their efforts could be supplemented, for instance, by changes in Ex-IM's lending criteria to reflect the greater risks but higher profitability of African investment or specific targets to increase the overall portion of lending destined for Africa. However, once launched, the USG must tap into the awesome power of an innately strong American private sector to promote economic growth in Africa. Like we mention below, if the burden of unilateral U.S. sanctions/conditionalities are lifted, American businesses will outdistance Chinese investment even if China continues to dole out huge amounts of concessionary funds.

Support for Regional Integration: The only way that the U.S. companies can fully participate in Africa's commercial renaissance is by operating global supply chains and distribution networks. However, this will only occur if and when the 48 sub Saharan African countries are integrated enough to allow the free flow of goods and services across all borders. President Obama couldn't have been more unequivocal or enthusiastic in his support for regional integration. His **Trade Africa** initiative indicated strong support for the East African Community, and while he did not stipulate specifics on ECOWAS, the Tripartite Group (EAC, COMESA and SADC), Obama endorsed conclusion of regional agreements culminating in a continental FTA.

II. Initiatives Proposed (Not Yet Agreed Upon)

AGOA Extension: While no official position exists yet, there's strong support amongst U.S. based AGOA stakeholders for a 10-year unconditional extension of the program's duty-free benefits. In fact, an indefinite extension could serve the U.S. better as requests for reciprocity will be put on hold for the decade - an action that avoids the so-called *'approaching the cliff'* phenomenon where orders are canceled and investment frozen because of approaching program expiry deadlines plus the need for Congress to offset revenue losses from duty-free extensions.

The 10-year hiatus in reciprocity is necessary to allow Africa to complete its network of FTAs and customs unions so that the region is in a position of strength to negotiate reciprocity in exchange for the U.S. officially binding these concessions.

We discuss below the importance of the U.S. convincing the EU to delay its own negotiation with Africa to conform to the above time limit.

In the interim, the current TIFA structure should be strengthened to better address requests from U.S. exporters + investors to level the playing field against 3rd country competition in Africa.

Also, regional negotiation should lead to bilateral investment treaties (BITs) and more effective conventions on civil aviation. Additionally, AGOA, Africa's integration and other initiatives are threatened by the EU's economic partnership agreements (EPAs) that gain preferential access to Africa over U.S. exporters.

South Africa poses a special challenge as its FTA with the EU is already displacing some U.S. exports - a fact recognized by Obama. However, while there's talk of negotiating a separate FTA with South Africa or graduating that country from AGOA, either one of these steps will only serve to aggravate the dislocation already caused to SADC, and efforts to create a common external tariff and the free movement of goods across borders by the EU-South Africa FTA. A much more effective solution is for both the U.S. and South Africa to work out a compromise package under the U.S. Trade, Development and Investment Council to offset the deleterious impact of the EU-South African FTA negotiated under their Trade, Development and Cooperation Agreement.

Designation of New Products: A number of interlocutors raised the absence of new agricultural products for AGOA's duty free designation, and out of quota shipments. However, no official word emerged specifically in response to agricultural exports like ground nut/peanuts, sugar, or tobacco. Nonetheless, with the President talking of a 40% percent increase in AGOA exports from eastern African countries, such designation could ensure that these targets are met.

Tax Incentives: Sen. Chris Coons, (D-DE), Chairman of the Subcommittee on Africa in the powerful Senate Foreign Relations committee, as well as private sector figures such as *Rosa Whitaker* and *Witney Schneidman* advocate for the tax exemption of remitted profits earned from investments in 'productive' investment.

But this may be tough in an atmosphere of fiscal restrictiveness + concern over tax avoidance in tax shelters.

A compromise could rest in the investor friendly Double Taxation Treaties (DTTs). Such an approach exempts, from U.S. taxes, those profits returned stateside as a result of tax incentives offered by African governments.

This prevents a situation where African countries forego income from taxation, which is then taxed by the IRS, largely cancelling the lure of African government efforts to attract investors.

Support for Infrastructure Development:
In apparent tandem with the Obama Administration, Rep. Ed Royce (R-CA), Chairman of the House Foreign Relations Committee, introduced an energy bill to establish mechanisms that would grow funding for power projects in Africa. The same provision would replace prohibitions on OPIC assistance for fossil fuel—even clean burning gas—with a much more intelligent requirement to minimize environmental consequences of such investments. This will align perfectly with Obama initiatives - **Power Africa** and **Trade Africa** - which are, ultimately, meant to benefit U.S. investors.

III. Still Being Formulated Into Proposals
Whole-of-Congress Approach: Like he enunciated at the 2012 AGOA Forum, Ambassador Michael Froman's whole-of-government approach can be deployed in Congress as well. Each Congressional committee would continue to marshal aspects of the Africa economic approach within its jurisdiction. However, a special grouping of Chairmen and ranking members of the relevant committees could ensure that respective legislative endeavors reinforce each other and result in a coherent approach to the region.

Limiting Unilateral U.S. Actions: In a multipolar world, however sincere the moral conviction, or however important the economic or strategic goal, unilateral action, is ultimately, ineffective. Thus, one could argue that there's no greater impediment to U.S. investment in Africa than the plethora of U.S. government sanctions, conditions and penalties imposed on the American private sector. While their competitors are not limited by similar actions, Congress could, as part of AGOA enhancement legislation, consider a review aimed at making these conditionalities less burdensome and more effective through collectivity rather than unilateral U.S. action.

Given the strong commitment of the U.S. government to pursuing democratic values and good governance, a review should make U.S. sanctions and conditionalities more effective. In fact, oftentimes, the losers are U.S. exporters and/or investors who are displaced, or those innocent parties such as the Malagasy seamstresses who lost jobs when AGOA benefits were withdrawn from Madagascar after the 2010 coup.

Additional plausible ideas

For the past 8 months, *Wilson Center* and *Manchester Trade* have worked on various ideas. The following can, plausibly, be applied here:

i. The U.S. and the EU must develop a common approach to reciprocity and effectively delay the reciprocal EPAs until the next decade when an African continental FTA and possible customs union under the African Union are in place. This issue could be considered in the context of or in parallel to negotiations on Global Issues - the so-called third bucket - of the T-TIP.

ii. The U.S. could support an AU proposal to allow all sub Saharan African countries to benefit from DF/QF provisions in the WTO since such countries belong to RECs with a majority of members as LDCs, and are making progress to deeper regional integration.

iii. The U.S. could, under an enhanced AGOA, designate RECs for AGOA eligibility if all member states qualify for benefits as a way to intensify African peer pressure against aberrant behavior. This would work towards solving some of the limitations from unilateral U.S. sanctions and other conditionalities.

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