USITC PUBLIC HEARING – Aubrey Hruby

US Trade and Investment with Sub-Saharan Africa: Developments and Recommendations

Distinguished members of the committee, Ambassadors, and fellow witnesses:

I would like to begin by thanking you for the opportunity to testify before you today.

My name is Aubrey Hruby. I am a Senior Fellow with the Africa Center at the Atlantic Council, and I have spent the better part of my career advising Fortune 500 companies to design and implement successful investment and market entry strategies for over twenty African markets. I will devote my testimony to the following themes: 1) The continuing need for an investment corollary to the African Growth and Opportunity Act (AGOA), 2) Areas of US competitiveness in the region, 3) The opportunities afforded by the Better Utilization of Investments Leading to Development (BUILD) Act of 2018, and 4) Other creative commercial tools and institutions the United States can leverage.

1. Investment Corollary to AGOA

Since its enaction in 2000, AGOA has undertaken to provide preferential access to the US market for qualifying countries in Sub-Saharan Africa (SSA), forming the cornerstone of US economic policy toward the region.[1] Despite this emphasis, US trade with SSA has declined by 60 percent since 2008, plateauing to $41 billion in 2018.[2] For comparison, Chinese trade with Africa doubled over the same period, to exceed $200 billion.[3] The decline in US-African trade can be partially explained by macro trends, with recessions in Nigeria and South Africa over this span.[4] Yet, much of the divergence in US and Chinese trade trajectories can be attributed to China's strategic approach and higher prioritization of African markets. As a result, the United States is playing catch-up on the continent and must expand its commercial scope.

Trade policy is insufficient to overcome constraints in productive capacity found in the region, thus an investment corollary to AGOA has been necessitated from the beginning. Most African economies struggle to produce goods at the quality or quantity required to export to the US market, simultaneously constricting their growth and import capacities. US investment could thus induce positive spillovers to trade by addressing African industrial capacity, which lags even compared to other developing regions. SSA ranks last among regions in road and railroad density, electrical power generation, per-capita health expenditure, and education.[5] Ethiopia proves that some African countries can pursue a light manufacturing industrial development model, but there remains considerable space and need for proactive US investment.

[1] "About AGOA," AGOA, accessed July 15, 2019, https://agoa.info/about-agoa.html.
[2] "Trade in Goods with Sub Saharan Africa," United States Census Bureau, last updated June 11, 2019, https://www.census.gov/foreign-trade/balance/c0019.html.
[3] "Data: China-Africa Trade," China Africa Research Institute, accessed July 15, 2019, http://www.sais-cari.org/data-china-africa-trade.
[4] Cotteril, Joseph and David Pilling, "South Africa and Nigeria limp out of recession," Financial Times, September 5, 2017, https://www.ft.com/content/ffe6ecc4-9237-11e7-bdfa-eda243196c2c.
[5] Gill, Indermit S., and Kenan Karakülah, "Has Africa Missed the Bus? The Condescending Consensus on the Continent's Growth," *Duke Center for International Development*, accessed July 16, 2019, https://www.brookings.edu/wp-content/uploads/2018/06/Africa-Growth-Paper_Gill-and-Karakulah.pdf.

In this vein, the Trump administration's Prosper Africa platform is an important development, as it promises a coordinated approach to double US-African trade and investment. Among other things, it rightfully works to improve coordination among US government agencies engaged in commercial diplomacy and to support regulatory reform in African markets.[6] Prosper Africa, as a presidential initiative, has a clear focus on organizing the US commercial diplomacy toolbox, but emphasis must also be on *sharpening* the tools in the toolbox. The tools can then be used in concert to solidify and expand areas of US competitiveness in African markets.

2. Areas of US Competitiveness

In terms of competitiveness, the US economy is services-based, accounting for 80 percent of annual gross domestic product.[7] The United States' greater depth and tenure in the services sector are considerable advantages over players like China, for whom services have still not reached potential. Specifically, the United States has global leadership or advantage in financial and information services, agribusiness, entertainment, and niche fields of infrastructure. These must be the fields of emphasis when either expanding or enhancing the US commercial toolkit.

In financial services, US commercial institutions are primely positioned to help solve asset financing and working capital constraints across Africa. And the United States can better support investors and smaller American companies that could be interested in African markets by creating and sharing an African markets data portal and by supporting additional investor trips. In terms of the creative industries, the United States is a leader in entertainment and media and is thus well placed to capitalize on Africa's $4.2 billion in annual creatives revenue, which is rising rapidly.[8] Even within infrastructure, where the storyline often focuses on China's dominance, US firms are competitive in renewables, oil exploration and engineering, energy management services, and smart city technologies. Data centers and cybersecurity services could be related areas of focus.

3. Opportunities Afforded by the BUILD Act

The passage of the BUILD Act in October 2018 greatly expanded and empowered the Overseas Private Investment Corporation (OPIC), the US development finance agency and a key tool in the commercial diplomacy tool box.[9] The BUILD Act doubled OPIC's capitalization to $60 billion and allows it to invest equity in funds and projects abroad. The super-sized OPIC will be called the Development Finance Corporation (DFC) and will become operational this October.[10] African markets constitute the largest regional portfolio of the current OPIC, and that will likely grow under the new DFC.

The DFC's expanded mandate offers a once in a generation opportunity to innovate in development finance, but the organization must be properly funded and staffed to succeed. Prior to the BUILD Act, OPIC was already underfunded compared to its European counterparts, with its British and French peer

[6] "USAID Administrator Mark Green's Remarks on Prosper Africa at the Corporate Council on Africa Conference," USAID, June 19, 2019, https://www.usaid.gov/news-information/press-releases/jun-19-2019-mark-green-remarks-prosper-africa-corporate-council.
[7] "United States," CIA World Factbook, accessed July 17, 2019, https://www.cia.gov/library/publications/the-world-factbook/geos/us.html.
[8] Marc Lhermitte et al., "Cultural Times: The First Global Map of Cultural and Creative Industries," EY, December 2015, http://www.ey.com/Publication/vwLUAssets/ey-cultural-times-2015/$FILE/ey-cultural-times-2015.pdf.
[9] "BUILD Act of 2018," govtrack, last updated July 18, 2018, https://www.govtrack.us/congress/bills/115/hr5105.
[10] Hruby, Aubrey, *The Future of Development Finance*, Atlantic Council, November 5, 2018, https://www.atlanticcouncil.org/publications/issue-briefs/aubrey-hruby.

organizations receiving comparable resources for significantly smaller portfolios.[11] The DFC's budget is not anticipated to rise substantially, yet financially starving the DFC does not amount to fiscal responsibility. Limited staffing will necessitate larger deal sizes and larger deal sizes are mismatched to current opportunities in African markets. Although taking on riskier projects in more volatile markets implies higher variability in yields, development finance institutions frequently post double digit returns,[12] and OPIC has paid back to the US treasury for the past 41 consecutive years.[13] If properly funded, the DFC will not only advance development and growth in fast-growing markets, but more than pay for itself in returns.

4. Other Creative Tools to Leverage

Beyond Prosper Africa and the new DFC, the Unites States has existing institutions and arrangements that can be better leveraged. These are the underutilized tools that need sharpening, and the following should be considered:

Amp Up Creativity at the Millennium Challenge Corporation

The Millennium Challenge Corporation (MCC), created by the George W. Bush administration in 2004, could be better utilized to advance the stronger US-African trade and investment ties that Prosper Africa envisions. Now that the MCC has a president who can advance new initiatives, it can finally take advantage of some flexibility in the original legislation, as well as new opportunities provided by the 2018 Modernization Act.[14] The Act called for greater consideration of subnational compacts in partner countries, which have always been allowed but never pursued.[15] By identifying local governments and companies in booming cities, the MCC could work to address real issues that affect millions of people -- all while creating opportunities for American investors. A subnational or city-based approach would allow the MCC to engage with megacities such as Lagos, Nigeria -- the state alone constitutes Africa's fifth-largest economy.

Mobilize US SMEs Through the SBA and State Offices of International Trade

In 2010, the Small Business Administration (SBA) created an Office of International Trade to support export promotion among American small and medium enterprises (SMEs), but to provide targeted guidance on expanding to African markets, it must be funded at a level commensurate with this task.[16] Unfortunately, the Office's signature State Trade Expansion Program was allocated only $18 million in 2018,[17] and the SBA's series of outreach events around African opportunities spanning 2014-2016 was not renewed by the Trump administration.[18] The goal must be to resume and expand such campaigns to help ensure that American small businesses are aware of Africa's growing potential and that they can take advantage of the opportunities the region presents.

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[11] Hruby, Aubrey, "Congress must invest properly in the Development Finance Corporation," The Hill, June 3, 2019, https://thehill.com/opinion/finance/446580-congress-must-invest-properly-in-the-dfc.

[12] Anders, Molly, "Financial returns likely to 'go down' over next 5 years, says CDC chair," devex, June 15, 2018, https://www.devex.com/news/financial-returns-likely-to-go-down-over-next-5-years-says-cdc-chair-92943.

[13] "OPIC Annual Report 2018," OPIC, accessed July 15, 2019, https://www.opic.gov/sites/default/files/files/OPIC-AnnualReport2018.pdf.

[14] "Millennium Challenge Corporation Welcomes Sean Cairncross as New Chief Executive Officer," MCC, June 24, 2019, https://www.mcc.gov/news-and-events/release/release-062419-ceo-cairncross-first-day.

[15] "AGOA and MCA Modernization Act," govtrack, April 10, 2018, https://www.govtrack.us/congress/bills/115/hr3445/text.

[16] "About Office of International Trade," U.S. Small Business Administration, accessed July 16, 2019, https://www.sba.gov/offices/headquarters/oit/about-us.

[17] "SBA Announces FY 2018 STEP Awards," U.S. Small Business Administration, September 19, 2018, https://www.sba.gov/about-sba/sba-newsroom/press-releases-media-advisories/sba-announces-fy-2018-state-trade-expansion-program-step-awards.

[18] "FACT SHEET: The Doing Business in Africa Campaign," White House Archives, August 5, 2014, https://obamawhitehouse.archives.gov/the-press-office/2014/08/05/fact-sheet-doing-business-africa-campaign.

The federal government should also mobilize US Department of Commerce personnel in cities across the United States to engage state offices of international trade to help reach US small businesses. Florida is the only state with an office on the continent, in South Africa,[19] and this helped the state's trade with South Africa reach nearly $300 million in 2017.[20] The other state offices dedicated to supporting local companies are under-resourced and lack access to good data and expertise on African markets. The administration under Prosper Africa should appoint or hire African investment agents to do roadshows to key US cities, working with the Department of Commerce, the SBA, and the US Chamber of Commerce to target state offices of international trade.

Create a US Honorary Commercial Consul Network in African Markets

While countries across Africa have made significant progress in simplifying processes for potential foreign investors and businesses, the local complexities of expanding to African markets can still be significant.[21] In its effort to facilitate more investment into African markets, Prosper Africa could work with the Department of Commerce to establish an honorary commercial consul program that would give new US investors access to an invaluable network of American businessmen and women in the market. By engaging people who have established networks and have achieved business success, the United States could quickly establish an invaluable platform to which US companies could turn for commercial guidance.

In conclusion, the Trump administration has made notable steps to raise the issue of US-African economic engagement. But the administration must continue to back its statements with high-level actions and must move quickly to make institutional enhancements that can help ensure US companies do not miss out on emerging African opportunities. Doing so requires an effort to maximize existing tools and draw upon American ingenuity to create new ones.

[19] "South Africa and Florida: A Strong and Growing Economic Partnership," Enterprise Florida, accessed July 15, 2019, https://www.enterpriseflorida.com/international/international-offices/southern-africa/.

[20] "Florida Merchandise Trade with South Africa," Enterprise Florida, accessed July 15, 2019, http://www.enterpriseflorida.com/wp-content/uploads/profile-fl-top-trade-partners-south-africa.pdf.

[21] "Fact Sheet: Sub-Saharan Africa," World Bank Group, accessed July 16, 2019, https://www.doingbusiness.org/content/dam/doingBusiness/media/Fact-Sheets/DB19/FactSheet_DoingBusiness2019_SSA_Eng.pdf.