Testimony

U.S. Trade and Investment with Sub-Saharan Africa: Recent Trends and New Developments

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On behalf of the Corporate Council on Africa, I'd like to thank you for the invitation to appear before this panel today and offer some thoughts from CCA's perspective on the most important trends and developments in U.S.-African trade and investment.

Since its founding in 1993, CCA has been the leading U.S. trade association focused solely on promoting trade and investment ties between the United States and Africa, and represents a broad range of American and African companies.

This is a great time to reassess where the United States stands with regards to trade and investment with Africa. Three main points stand out. First, Africa will become increasingly important on the world's stage over the next 30 years, thanks to its large and growing young population. Second, Africa is rapidly changing, with more countries implementing policies that make them more competitive and attractive to U.S. companies. Third, trade and investment between the U.S. and African countries is well below its potential, suggesting it is an under-exploited opportunity. This, in turn, suggests that it is time for both the U.S. and African countries to consider new models of engagement.

Population and Economic Dynamics

The United Nations estimates Africa's population will double to 2.5 billion people by 2050, which brings both challenges and opportunities. Africa is urbanizing more rapidly than any other continent, which is helping drive economic growth. Eleven countries grew at or above 5.4% from 2015-18. This, in turn, is helping increase the middle class, which is estimated to triple from the current 400 million to 1.2 billion over the next 20 years, and already spends close to $2 trillion every year.

Rapid Changes

One of the most important changes in Africa over the last few years is the development of the African Continental Free Trade Agreement (AfCFTA). This agreement came into force at the end of May 2019. All but one of Africa's 55 countries have signed the document, and 27 have now completed ratification.

AfCFTA is consciously ambitious; when completed, it will be the single largest free trade area since the WTO was created. It has three main goals:

- Create a single continental market for goods and services, ultimately with free movement of business persons and investments;

- Expand intra-African trade across the 8 existing regional economic communities and the continent in general; and

- Enhance the competitiveness of African countries and support their economic transformation into more advanced economies

AfCFTA is proceeding in two main phases. The first phase set out tariff reductions, along with protocols on trade in goods and in services, and set up innovative mechanisms to resolve trade disputes. These provisions will begin to be applied in June 2020.

African countries are now moving to take up the second phase of negotiations, which will cover competition policy, intellectual property rights, and a protocol on investment.

The AU has noted the current low level of inter-African trade, 16% of total trade, as one of the factors that has suppressed job creation and economic growth. They are explicitly targeting increasing inter-African trade to at least 50%, and they would prefer to reach European and Asian averages of 65% and 59%, respectively.

To achieve these goals, African countries are implementing a number of important policy reforms. As a group, African countries made the single greatest improvement in the World Bank's Ease of Doing Business report in 2018.

African countries are also significantly increasing their investment in infrastructure. Several African countries have specifically targeted new investments to unlock regional or border trade, or to make ports and rail more efficient.

Unmet Potential

The level of U.S. and African trade and investment is well below its potential. Trade with Africa represented 1.1% of U.S. exports and imports for 2018. 27.5% of the total trade came in oil and gas imports.

America's most important sources of export revenue are not the top products U.S. firms ship to Africa, suggesting that there is potential to expand markets for capital, industrial and consumer goods, which are the sectors of greatest competitive advantage for U.S. companies.

CCA believes that one of the most effective tools African companies and governments can pursue is making better use of current access to the U.S. market under AGOA. We're delighted that more countries have now completed their AGOA utilization strategies, and we encourage them to accelerate efforts to implement these plans during the six remaining years under AGOA.

Opportunities

The good news for U.S. companies is that they have competitive advantages in a number of sectors that African countries are relying on to create jobs and economic growth. These include accelerating the development of the digital economy and ICT sector, expanding access to finance and the range of financial services, new investments across the infrastructure sector, upgrading the health sector, developing advanced manufacturing, and intensifying efforts to move up the value chain in agribusiness. U.S. firms can and should play important roles in each of these sectors.

Expanding affordable, reliable access to the internet – particularly broadband – offers huge potential to accelerate the development of a broad range of sectors, including e-commerce, energy, health and education services, tourism and finance. CCA is very pleased that the U.S. Government is increasing its focus on ICT, and we were delighted that the U.S. Trade and Development Agency announced its new program, Access Africa, at our Business Summit in Maputo this June. This program will promote creating the right policies and standards to accelerate the development of the ICT sector.

CCA also sees significant opportunity for U.S. financial institutions and companies to help provide innovative solutions to meet needs in terms of building infrastructure, housing, energy and commercial facilities. Similarly, we also see significant opportunities in the health sector, both for medical devices and services, as well as for partnerships in the pharmaceutical sector. There are also significant opportunities in manufacturing and the industrial sector; the World Bank has identified the latter as likely the biggest beneficiary of ACFTA.

American firms have made important investments in the textile and agriculture sectors that have been very fruitful for them and their African partners. CCA will highlight opportunities in both of these sectors at the AGOA Private Sector Forum August 4 in Abidjan.

What to do next?

CCA has been very active over the last year in trying to promote American companies' understanding of the AfCFTA and to increase U.S. company engagement with AU members. Particularly as negotiations take up areas like services and the knowledge economy, it will be critical for U.S. companies to provide their best advice from real-world operations on how to achieve the agreement's policy aims.

CCA has also been working to promote greater connections between U.S. and African companies. We were very encouraged by the results of the June U.S.-Africa Business Summit. More than 1800 people attended, including 8 presidents and prime ministers. The message from African leaders was very clear – they want to see more American companies, both as suppliers, partners and investors. There is a real appreciation for the value and commitment that American firms bring to a market, and there are some great examples of the outsized impact that U.S. firms have had on development in Africa. We simply need more companies to get involved.

Once U.S. companies do develop an opportunity, they still face challenges. CCA welcomes the Administration's announcement of Prosper Africa, which is intended to increase trade and investment with the Continent. CCA also welcomes the passage of the BUILD Act, and the transition of OPIC into the Development Finance Corporation. We are similarly pleased to see new initiatives and increased activity from USTDA, MCC and new Director for EXIM bank.

African countries also need to do a better job of making their companies aware of opportunities to do business with American companies. African governments can bolster their own case by making it easier to do business. One important step African countries can take is to fully implement the WTO's Trade Facilitation Agreement, including submitting Category B and C notifications for expected implementation dates and requests for capacity building assistance. Fully implementing the schedule could cut the costs of trade by 15%, which would make African companies more competitive.

Thank you again for the opportunity to testify at today's hearing. CCA and its members remain very optimistic about the future of U.S.-African trade and investment. We look forward to working closely with our partners in the U.S. and African governments to further reduce barriers and find new opportunities to promote the U.S.-Africa trade and investment relationship.