

Testimony
House Foreign Affairs Committee
May 17, 2017

Anthony Carroll
Adjunct Professor
John Hopkins University
School of Advanced International Studies*

This month marks the twentieth anniversary of the signing into law of the Africa Growth and Opportunity Act (AGOA). That historic legislation would not have been enacted without the efforts of Chairman Ed Royce and a bipartisan group of Congressmen and Congresswomen who wanted to create a new economic relationship with Africa. I specially note the contributions of Jim McDermott, Phil Crane, Charlie Rangel, Bill Thomas, Don Payne and Bill Archer. Since AGOA's passage Africa economic landscape has changed dramatically. First, from 2008-2014, Africa's GDP grew on average 5% per annum with some Africa countries achieving above 8% annual GDP growth. And the most dynamic element of this growth has been Africa's burgeoning services sector. Second, Overseas Development Assistant (ODA) has fallen behind foreign direct investment (FDI) and remittances in volume of financial flows to Africa. And last, in 2009, China became Africa's largest trading partner and last year total trade was \$172 billion, over twice that of the U.S. China's investment patterns have followed suit.

I will devote my testimony to an examination of the relationship between trade and investment and will identify ways in which both the United States and Africa can benefit from an expanding relationship. My observations are based upon nearly 40 years of advising companies, development agencies, foundations and regional and international organizations on African trade, development and investment and as a private equity investor in various sectors. In my testimony, I will look at the various tools that the U.S. can utilize to deepen that relationship and examine the role China and South Africa.

Trade

AGOA has produced a modicum of success. Total two-way trade (AGOA and non-AGOA) between Africa and the U.S. is approximately \$80 billion per year. if you disregard oil imports, which skew assessments of AGOA's impact because (1) oil imports really have not been created by or even much affected by AGOA, and (2) commodity price fluctuations can have a profound impact on trade statistics without reflecting fundamental changes.

According to USITC's Dataweb, while petroleum imports from the AGOA countries have fallen rather sharply from 2000 to 2016 (-66% by volume, -47% by value), non-petroleum imports from the AGOA countries have shown strong growth up 75% over the same period from \$6.9

billion in 2000 to \$12.2 billion in 2016. This growth has been concentrated mainly in automobiles, apparel and agricultural products. China's trade has been criticized as being unbalanced and defined by the export of raw commodities from Africa and the export of consumer goods from China to Africa. In contrast, AGOA trade includes sophisticated products such as luxury automobiles and fine wine from South Africa and fashion apparel from Lesotho, Mauritius and Kenya. Some trade such as cut flowers from Kenya and Ethiopia and gem diamonds from Botswana and Namibia are not captured by AGOA Trade data as they sent through third countries. Indeed, the US purchases over 1/3 of Africa's diamonds.

At the same time, the US trade balance with the AGOA countries has improved significantly since 2000. Focusing on non-petroleum trade, the US trade balance has improved from a \$1.3 billion trade deficit in 2000 to an \$831 billion trade surplus in 2016. (If you include petroleum (which is a mistake in my opinion), the U.S. trade balance has improved significantly but remains in deficit, improving from -\$16.0 billion in 2000 to -\$7.0 billion in 2016.) US exports to the AGOA countries have grown by a greater percentage since 2000 (up 130%) than have US imports from the same countries (up 75%). This is a winning program for U.S. jobs!

Much is made by the critics of AGOA of the supposed fact that the benefits are highly concentrated in just a few countries, but this is not correct if you disregard petroleum. 36 of the 38 eligible AGOA beneficiaries have regularly exported to the US under AGOA, although in many instances the volumes are quite small. Although job creation statistics in Africa are at best estimates, it is widely believed that AGOA has created hundreds of thousands of new direct jobs and millions of indirect jobs in Africa AND in the United States. In South Africa, it is estimated that 60,000 direct jobs have been created by AGOA and another 100,000 indirect jobs.

In short, I believe there is a very positive story to tell about AGOA, and hopefully the 10-year extension of AGOA in 2015 will provide further impetus for even more growth.

U.S. Investment

The U.S. remains a major foreign investor into Africa. "Blue Chip" US companies like GE, Cargill, Johnson & Johnson, Newmont, Exxon Mobil and Anadarko not only bring money but also global best operating practices, technology and training to Africa. According to the latest UNCTAD data, in 2015 the US was Africa's largest cumulative non-Asian foreign investor at \$66 billion followed closely by the U.K and France. In 2016, the U.S. invested just under \$4 billion in Africa. Indeed, there is a relationship with U.S. investment and trade. For example, GE invested in a locomotive manufacturing plant in SA in accordance with local content rules. However, 50% of the content is from U.S. suppliers.

China Investment

According to my SAIS colleagues at the China Africa Research Initiative, China's FDI between 2000-2014 was \$86 billion. Just between 2014-2016 China quadrupled its investment into Africa

to \$36 billion last year. The growth of Chinese investment into Africa has continued to expand, in a recent Business Daily (Kenya) article, China is reporting a 64% increase in Africa FDI during the first quarter of 2017. Unlike U.S, FDI which is largely private sector led, Chinese investment is a blend of state and non-state actors and often in the form of long term loans and is often geared toward infrastructure development such as the railroads and hydroelectric power dams. However, the recent growth of Chinese FDI into Ethiopia's manufacturing sector by private companies is perhaps evidence of changing trend. At last year's Forum on China Africa Cooperation (FOCAC), China committed \$60 billion in infrastructure investment in Africa over the next five years. This week's One Belt on Road meeting in China is evidence of China's long terms commitment to infrastructure across the globe to foster increased trade and Africa is a major target of the initiative. While the numbers are hard to quantify because of the interfirm nature of transactions, South Africa has also become a larger investor into Africa than the U.S.

Trade Capacity Development

In truth, AGOA is as much as a development as it is trade initiative. Since inception, the U.S. has spent nearly \$500 million on trade capacity assistance in Africa. But this assistance has also been coupled with country led measures that may not have been instituted without AGOA's compliance incentives. The chief vehicle for trade capacity assistance has been USAID's three regional Trade Hubs. These Hubs have been effective in improving the enabling environment for trade on the national and regional level as well as enhancing the capacity of African firms to access the U.S. and global markets. Since their inception in the early 2000s, the Trade Hubs have supported \$854 million in African exports and \$195 million in leveraged investments. Because of the interest among Africans to increase US investment into Africa, these Hubs have broadened their mandate to include new capabilities in fostering links between US investor and African opportunities at the firm, project and sectoral level. Just this month, USAID led a group of US pension fund investors to Africa and will organize a reverse mission to the US later in the year.

The Future of U.S. investment into Africa

Africa will be the population center of the planet over the next two generations. The continent's population could double by 2050 and will be the youngest and most rapidly urbanizing on the planet with 50 cities above 5 million people. The Youth Bulge is both a threat and opportunity for Africa. If properly harnessed, it can provide both a workforce and a consumer market. If not, it can be the font of desperate emigration, civic unrest and terrorism. While the US has fallen behind China and South Africa as the continent's leading investment partner, we can develop win- win strategies that provide attractive returns to US investors and economic and political stability for Africans.

Among the tools that I recommend be deployed to support increased US investment into Africa include the following:

1. Increase Market size— Many American companies are dissuaded by most Africa country's market size. Sure, Nigeria, South Africa and Kenya are appealing in their own right but Togo, Benin and Malawi may not. Fostering regional integration through bilateral and multilateral technical assistance will create scale and incentivize US firms. But regional integration should also be for investors and not just traders. US technical assistance to Africa's regional economic communities (EAS, COMESA, ECOWAS, SADC, SACU) and business associations can foster trade facilitation and enlarge market opportunities for US investors. For example, P&G manufactures consumer products for African's middle class but the scale of initial investment in manufacturing facilities necessitates regional market access. Last, as noted below, China is making investments to improve both national and regional transportation linkages. In so doing, they are expanding markets in Africa and opportunities for US trade and investment.
2. Enhance US investment in African infrastructure – As I have testified before this committee in the past, MCC is a program that has many benefits. First, it requires accountability and commitment from recipient countries. MCC has been able to improve power supply and transportation infrastructure in targeted countries and it has encouraged improvements in the business enabling environment and human skills development, especially among youth and women. However, MCC could do more leveraging and create more targeted infrastructure investment. Along with regional compacts, MCC should consider allocating a portion of its compacts for sub-national infrastructure investment. As in the US, subnational infrastructure development creates a closer link between the user and sponsor. This will lead to greater accountability and sounder decisions and Africa has financial space to incur such debt relative to other regions. In association with ratings agencies, MCC could develop a set of criteria and operating rules for towns, cities, provinces and then provide guarantees to support local currency denominated bonds that could be purchased by national, Africa or even US and European pension funds, institutional investors and family offices.
3. Strengthen Africa's business enabling and innovation environment. While Africa has been burdened by a brain drain and a collapse of educational institutions, in many countries there has been an explosion in innovation, partly enabled by the boom in the internet. Kenya has become a global Fintech capital, Nigeria's film industry trails only the US and India in production and South Africa has research universities that are working with firms to create pan Africa solutions in health, agriculture and education. However, innovation cannot be top down. A proper enabling environment must be evolved which offers financial and tax incentives along with strong IPR protection and judicial systems for dispute resolution and contract enforcement. Again, working on the regional level to inculcate innovation should be a target. There may be ways in which countries can share their innovative comparative advantages across borders. For example, Botswana may have a labor pool for certain automotive component manufacturing or 3D printing that might be prohibitively expensive in South Africa. But the latter has Original Equipment Manufacturers that will need support from national and neighboring South Africa Customs Union suppliers. This is already occurring. The

business enabling environment is also key. There is an increase in Private Equity investment into Africa and this will only increase if Africa countries continue to modernize its financial institutions and regulations. Few Americans are aware that South Africa's Johannesburg Stock Exchange is among the oldest exchanges in the world. However, the remainder of African exchanges are weak and limit the ability of PE investors to exit their investments. USAID and US Treasury can provide technical assistance and outreach to US exchanges, ratings agencies and law firms to speed the development of capital markets.

4. Foster linkages between US and Africa firms, business associations. Mark Zuckerberg recently toured Nigeria and commented that it reminded him of what Silicon Valley looked like 20 years ago. Last year I participated in the Global Entrepreneurship Summit at Stanford University and witnessed an extraordinary exchange of ideas and energy among entrepreneurs from the US and across the globe. Additionally, each year the Biological Industry Organization hosts an annual conference in which African entrepreneurs, research institutions and government agencies are invited to share their ideas with US investors. The annual AGOA Forum rotates between Africa and the US. This annual event provides an opportunity for African business and civil society organizations to offer their observations on how trade capacity development assistance and government policies can accelerate trade, investment and economic inclusion. Last, I have been a speaker and mentor to the Young Africa Leaders Initiative's Mandela Fellows since inception. 1,000 YALI fellows are chosen from tens of thousands of applicants and spend several weeks in the US interacting with research universities, companies and US Citizens. YALI along with other educational exchanges foster the types of linkages and understanding that provide benefits well into the future and represent good value for public diplomacy. I should also note the growing importance of the Africa diaspora in the US in serving as a link to innovation, trade and investment. Often these linkages are facilitated by national (CCA, IGD, BCIU and US Chamber) and regional (Africa Chamber of Commerce of the Pacific Northwest) business organizations.
5. Maintain US instruments at OPIC, EXIM and TDA. In a perfect world, such risk mitigating instruments as OPIC, EXIM and TDA would not be needed to facilitate US Trade and investment, Regrettably, we do not live in a perfect world. When I began my commercial career in Africa nearly four decades ago, the usual lament from US firms were the subsidies and non-transparent business practices of our European competitors. Today those complaints are directed at China. In 2015 alone, China extended over \$500 billion in export credits whereas EXIM extended \$10 billion. When Africans engage with the US, it is over the absence of US FDI and not for increases in development assistance. OPIC plays an important role in incentivizing US FDI without crowding out the private sector, especially into high risk countries. And OPIC provides a profit to the US Treasury and according to the Center for Global Development, only 8% of its services are used by Fortune 500 companies. TDA is a small and useful agency that can directly trace its

activities to increase US exports of goods and services and jobs and EXIM Bank a proven and effective means to support exports and jobs.

6. Maintain USFCS, FAS and domestic USEAC offices – Such Blue Chips companies as Caterpillar, GE, Merck and Boeing have long established presences in Africa. Small and medium sized US companies have much to offer Africa but are inexperienced and often reluctant to participate in Africa growing market place. For example, Africa has the largest portion of undeveloped arable land in the world and US agribusiness firms offer a suite of products and service that could actualize that potential. There is no possibility for Africa to feed itself without undergoing a technological transformation as happened in India in the Green Revolution. The Foreign Agricultural Service has traditionally been focused on supported US agricultural commodity exports. However, the bigger opportunity lies with US companies to provides good, technology and services. The US Department of Commerce also has an important role in (1) informing these small and medium sized form of the opportunities in Africa and (2) having FCS offices support US firms and business missions when they travel to Africa.

Mr. Carroll is also Vice President of Manchester Trade Ltd., and founding director of Acorus Capital, an Africa focused private equity fund.