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The US-Africa Summit: More than Just a Trade Relationship

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In 2009 China surpassed the United States as the most important trading partner of African nations. And while trade between the United States and Africa still expanded, in one important respect, it plunged. African oil exports to the United States are plummeting, largely because the U.S. is becoming more energy-independent. At the same time trade in goods and services is increasing and diversifying. The U.S.–Africa Leaders Summit and the coinciding AGOA Forum – both held in Washington in early August – are a clear indication that the growing importance of these relations has not been lost on U.S. policymakers.

Yet, the Africa agenda of the United States has never solely focused on trade. More than China or any other Asian power, the United States has had a broader strategic approach to the continent in place for years. President Bush introduced the Presidential Action Plan to Combat HIV/AIDS (known as PEPFAR), the single largest programme to combat a disease that a single country has so far been able to implement. Even critics of George W. Bush admit the major difference this programme has made. The military cooperation that Washington has forged with Africa – most notably through the establishment of Africa Command (AFRICOM) in 2007 – has facilitated closer cooperation with Africa and helped Washington to understand the security challenges many African governments are facing. And it is certainly indicative of this broader agenda that the summit in Washington was followed by a number of new security agreements signed with African leaders. But the most important aspect of the relationship can be found in the changing trade relations between the United States and Africa.

In October 2000 the United States enacted the African Growth and Opportunity Act (AGOA). Initially focused on textiles and apparels, the act opened the U.S. market for African products, provided the African governments qualified with improving working standards and good governance. The underlying rationale was that trade opportunities would enable more robust growth in African economies. After all, economic growth cycles had taken hold in Africa before, yet none has lasted long enough for Africa to break through and catch up with the global economy. The recent expansion of African economies, however, seems to be different in many aspects. With six out of ten, the relative majority of the fastest growing economies in the world are now located on the

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African continent, with unlikely candidates such as Zambia, Malawi and Sierra Leone registering record growth levels (though Sierra Leone's outlook will crater following the recent Ebola-outbreak).

FACTBOX: African Growth and Opportunity Act (AGOA)

Entered into force:
October 2000

Expires:
30 September 2015

African countries eligible under the AGOA framework:
Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Chad, Comoros, Republic of Congo, Cote d'Ivoire, Djibouti, Ethiopia, Gabon, The Gambia, Ghana, Guinea, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mozambique, Namibia, Niger, Nigeria, Rwanda, Sao Tome and Principe, Senegal, Seychelles, Sierra Leone, South Africa, Swaziland**, Tanzania, Togo, Uganda, Zambia*
(40)

Products covered:
7.000 specified products plus special rules for apparel

***Latest country to become eligible:**
Madagascar (26 June 2014)

****Country to be removed:**
Swaziland (1 January 2015)

The expansion of AGOA during the Bush presidency has allowed for up to 7.000 products to be exported to the United States and a vast majority of African nations now qualify for easier access to U.S. markets. Since AGOA has allowed African economies to export products to the United States without trade barriers, these African economies have attracted investment not only from United States and Europe. Asian companies sensed that producing in states that qualified under AGOA would allow access not only to new markets in Africa but also provide an opening to the huge American market. AGOA has thus stimulated Chinese and other Asian investments in African manufacturing. Though this is beneficial to African economies, it has also drawn criticism from globalisation sceptics. And critics of AGOA argue that the programme should not turn into a tool of promoting investment from other leading economies, handing them an edge in the global marketplace. From an African perspective, it could hardly matter less where the capital comes from that turns the possibilities AGOA provides into reality, especially as manufacturing is a key enabler of inclusive growth.

Expand the Agenda

Yet, the African Growth and Opportunity Act (AGOA) will expire in September 2015. However, renewing the legislation in Congress should not necessarily be problematic, though in Washington's current political climate, it's quite possible that even a programme this successful might end up in the gridlock that has become a hallmark of Congressional politics. The possible closure of the Export-Import Bank (ExIm) by Congress, even though it turns a profit, does not bode well for furthering the trade agenda. Whether Congress responds to President Obama's call to re-authorise ExIm remains to be seen. But given that traditional, business friendly Republicans and Democrats share a common interest in expanding free trade, a deal should be feasible when Congress reconvenes after the mid-term elections in November.

Next to securing and expanding AGOA, there are still impediments to growth in Sub-Sahara Africa that need to be addressed. The most important is infrastructure. For nearly two decades Western donors have neglected infrastructure, focusing instead on improving governance, gender equality and combatting corruption. While all important in their own regard, none of the approaches helped the continent to overcome the fractured nature of its integration into global markets. After all, Africa has always been integrated into the world economy, what lagged behind was integration within Africa's regions. This is changing – in Eastern Africa more quickly than in the Western and central parts of the continent. Again, with its African trade initiative, which aims to foster internal and regional trade within Africa's sub-regions and will begin with the East African Community (EAC), the U.S. is again betting on trade. However, the lack of infrastructure – from roads and bridges to trains, electricity as well as schools and hospitals, remains the single most significant impediment that needs to be addressed. It is in this regard that President Obama's energy initiative *Power Africa* is an important addition to the United States' already impressive Africa agenda.

The Africa Summit and AGOA are about more than just fresh opportunities for African governments and markets. They are also symbols for the continued interest in expanding globalisation. This is important, since some governments would like to exploit the openings AGOA provides without easing their own restrictions to U.S. trade. In the long-term, the trade relationship will have to mature. A case in point is South Africa. Its economy has exported so many products that it now enjoys a trade surplus with the United States. Yet, is rise and official addition to the BRICS has triggered a debate whether South Africa should still be eligible to receive trade benefits under the AGOA framework.

Growing Opportunities

With the middle class rapidly growing in many African countries, demand for Western products is on the rise. Using well-known diapers from a major global brand for one’s baby in Nairobi or enjoying a chocolate bar during an office break in Lagos; there are clear signs of wealth and expanding middle classes across the continent. In fact, the African middle class is now larger than that of India. The fast moving consumer goods sector (FMCG) excels in these fractured economies. With a saturated home market, a European market in the doldrums and China-Africa trade surpassing the 200bn USD watershed in 2013, the outlook of growing sales in yet unsaturated markets calls American corporate strategists into action. While active in those markets already, GE’s and Coca-Cola’s latest announcements to invest 2bn USD and 5bn USD respectively are just a point in case.

Upcoming Negotiations

Both, African politicians and executives alike are well aware of how attractive their market is to the U.S. And while everybody stressed the contribution AGOA made in the past and the importance of AGOA being renewed, African negotiators are far more self-confident this time around and in a good position to broker an extension that has more preferential terms. Kenya’s President Kenyatta is lobbying the U.S. government heavily to extend AGOA for another 15 years and South Africa is working to convince the U.S. government that it should remain part of the eligible country list despite the fact that the country is doing better than many other Sub Saharan countries. A complaint that was heard in Washington last week was the issue of international companies circumventing local taxes in African markets by using global tax schemes. Other topics that are likely to be negotiated in the upcoming rounds are product standards, remaining tariffs and rules concerning the apparel scheme. Whatever the details of these negotiations, the impression that the United States is playing catch-up has given African diplomats more leeway.

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Manatee Global Advisors is a consultancy providing profound strategic counsel and insight. Based on our in-depth policy and macro-economic analysis and risk assessment with a focus on fractured economies and their promising peripheries. We deliver the guidance out clients need to manage complex challenges in an increasingly globalised world.

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