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Policy Brief

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U.S. Economic Policy Toward Africa: The Path to More Collaboration

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In Brief: U.S. Africa policy has tended to shift over time and has lacked a clear overarching strategic vision. The Trump administration's approach in Africa should articulate a limited set of principles that clarifies and solidifies a more sustainable framework that is better suited to address fundamental drivers of Africa's future. These principles include prioritizing key countries and rationalizing resources, creating an "Investment-First" policy in Africa, and more clearly communicating our interests and values.

Introduction

President Trump has made it clear that he plans to put an unorthodox mark on foreign policy. While recent executive orders demonstrate that his approach will be characterized by challenging the status quo in many regions, from Mexico to China to Russia, one region remains still largely unknown: Africa. But challenging the status quo on Africa poses some problems — first and foremost will be defining what that status quo is.

U.S. interests in Africa have shifted over the past several decades, from supporting humanitarian missions and security training to human and social development. Recently, a more commercially oriented set of interests urged successive administrations to consider Africa's strategic value to U.S. investors and companies. What has emerged is an expansive foreign policy that has at different times in different places tended to focus on three issues: security, governance, and economic development. The reality is that most of the time, the United States has had the interest to commit fully to only two of those priority areas. This tendency has sent African partners conflicting signals: enforcing elections in some places, but not elsewhere; encouraging trade and investment, but imposing burdensome and inoperable regulations. Given these realities, the bar for success in Africa is quite low for the Trump administration.

Because U.S. Africa policy has tended to shift over time and has lacked a clear overarching strategic vision, a better approach for the Trump administration in Africa might be to articulate a limited set of principles that clarifies and solidifies a more sustainable framework that is better suited to address fundamental drivers of Africa's future rather than getting bogged down in contested theories of development and fraught disputes over values. These principles should include prioritizing key countries and rationalizing resources, creating an "Investment-First" policy in Africa, and more clearly communicating our interests and values. In practice, streamlining in this way would inevitably upset disparate interest groups, an established "development set" with strong views, and even stronger backers in Congress.

Prioritize and Rationalize

After fifteen years of converging economic growth in Africa, where virtually all countries saw significant economic growth, Africa has entered an era of divergence, where the development paths of each country and each region differ markedly. To be sure, Africa's countries have always had different development paths. But the end of the most recent commodity super cycle and the Ebola crisis revealed the extent to which each country had truly transformed their economies in the past decade, and which were simply riding a commodity or consumer wave.

Given this shift, the Trump administration should consider designing its foreign policy in Africa around the fact that it is dealing with a disparate group of countries each at different stages of development and each of different strategic importance for the United States. It should revisit the "One Africa" model of engagement, and re-emphasize the need for engagement with the continent that is more finely tuned to, and reflective of, individual country capacities, historical ties, and sustainable potential. This more granular approach will allow the U.S. government to more adequately align its resources and bureaucracy for the "next Africa." Prioritizing regional hegemons — such as Nigeria, Ethiopia, and Morocco — commercial corridors, and major metropoles would be a good place to start. One area that the Trump administration could revisit immediately is the Millennium Challenge Corporation's (MCC) partnering mandate. Allowing sub-national entities, like Lagos State in Nigeria — a state larger than most African countries — to apply for MCC funding will undoubtedly do more to advance U.S. strategic interests than awarding Cabo Verde, a country the size of one small Lagos neighborhood, with a third MCC compact.

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An "Investment-First" Africa Policy

The shift from aid to trade is well underway. The U.S. Agency for International Development (USAID) is already including more entrepreneurship-focused programs into its activities as a way to create a strong foundation for further development. Moreover, many donor governments are focused on finding new methods for incorporating private-sector models into their development programs, such as USAID's Global Development Lab. The Trump administration should reinforce this shift. But it would do well to shift it completely out of the Beltway. Too often making aid more private sector friendly has simply meant transferring funds into private contractors who tend to

fly in and out and often at costs that far exceed their nonprofit peers. As The Economist notes, "CEOs at private development contractors on average earn in excess of $500,000 — more than twice as much as nonprofit bosses."

Instead of bolstering a private sector development lobby with ersatz aid contracts, policymakers should focus their efforts on promoting the next great shift — the one that will take U.S.–Africa commercial relations from trade to investment. Fostering investment creates cross-border linkages that go beyond obvious, high-level government and political ties. It opens new paths for growth that are mutually beneficial to both host country and home country nationals and corporations by reinforcing existing markets and opening new ones, providing ways to create diversified portfolios to mitigate risks (and reap rewards), and creating foreign and domestic jobs, among other things.

U.S. policymakers already have tools to promote the jump from trade to investment. The most useful among them is the Overseas Private Investment Corporation (OPIC). The agency's utility and necessity have been the subject of argument among politicians, particularly at times of governmental transition. Instead of rehashing the argument, it is time to put the debate to rest: there are few other agencies that can help efficiently allocate limited resources while at the same time encouraging investment abroad. OPIC is a profit-making agency that funds its own operations at marginal cost to taxpayers, and it has consistently added money to government coffers since its creation in the 1970s while being required to have no negative effects the U.S. economy.

Other policies can help engender a shift toward investment if they are reworked slightly. The African Growth and Opportunities Act (AGOA) has enjoyed bi-partisan support as the premiere U.S.–Africa trade policy since it was enacted in 2000. But since AGOA passed, a lot has changed: in 2000, only five countries counted China as their largest trading partner; today, more than 100 countries do,[1] and many of those countries are in Africa. While AGOA helped (and continues to help) propel the shift from aid to trade with Africa by providing duty and quota-free access to the U.S. market, it offers no functional support to U.S. companies and investors adjusting to a new competitive paradigm on the continent. A post-AGOA agenda should be bilateral and investment-focused. Above all, it should be more attuned to the new commercial opportunities and partners, like China, that the continent has.

Part of reworking a post-AGOA framework, should involve taking a comprehensive view of U.S. foreign investment policy and identifying which policies influence which investors where. The Foreign Account Tax Compliance Act (FATCA) is among the least understood, but potentially most consequential for at least one class of U.S. investor — the African diaspora.

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FATCA's goals are important — ensuring that Americans with financial assets located in foreign jurisdictions pay their fair share of taxes at home — but the law results in overly onerous burdens for members of the African diaspora with U.S. citizenship wishing to do business and invest abroad. FATCA is complicated

[1] Brook Larmer, "Is China the World's New Colonial Power?" *The New York Times*, May 2, 2017.

and requires enormous amounts of resources to ensure compliance. For Americans from the African diaspora wanting to invest in their country of origin, investments and bank accounts larger than $40,000 have to be reported and audited. Because of the reporting requirements, many African banks have refused to do business with the U.S.-based diaspora, which makes investing in African start-ups and entrepreneurs harder. As a result, many of the diaspora end up operating outside of the formal investment channels, choosing instead to funnel funds through other means. Pulling back FATCA requirements for Africa-interested investors will facilitate more private flows of capital to the continent and go a long way to heading off any criticism the Trump administration may get from cuts laid out in the draft budget to other development programs.

A final way for the Trump administration to encourage the shift from trade to investment is to encourage the development of Africa's capital markets. Apart from South Africa, African capital markets are relatively undeveloped — no individual sub-Saharan countries have stock exchanges with market capitalizations over $30 billion, and, with very few exceptions, African sovereign debt ratings are not investment grade. As U.S. retirement funds see yields shrink globally,[2] creating new, diversified securities could help American pensioners get better return on their 401K investments.

In this vein, the Trump administration could explore helping develop the continent's bond market. The liquidity, depth, and scope of the bond market has evolved so much that specific sub-sectors have begun to accommodate the specific desires of investor groups — from Samurai Bonds and Dragon Bonds to Yankee Bonds. Despite the variety of bond issuers tapping the markets for all types of projects, Africa's bond markets remain on the margins of the industry. Getting more credit agencies to rate sovereigns, or having them rate specific projects — perhaps in infrastructure — would go a long way to improving the issuance of marketable bonds. Even more important is the provision of credit support or enhancements that could secure investment grade ratings of specific projects. While the U.S. government may balk at doing this directly, the multiplier benefits of it doing so could catalyze more investment than all of USAID's development programs combined. The Trump administration can also address the lack of capital market expertise in Africa by enhancing and supporting the work of the National Association for Securities Professionals (NASP) which is pioneering a knowledge-exchange program linking U.S. consultants and pension funds with African policymakers and firms. Doing so could not only help grow better capital markets in Africa — which can indirectly help to strengthen U.S.–Africa commercial ties — it could also provide ways for U.S. investors to more easily become directly involved on the continent.

Clearly Communicating Interests and Values

U.S. foreign policy can sometimes seem at conflict with itself to the casual observer. Nowhere more conspicuous is that conflict than in Africa, where accusations of hypocrisy often prevent the United States from playing a key role as intermediary and trusted partner. Mixed messages on democracy promotion or governance, particularly the former, can confuse or undermine other efforts, sometimes in completely different parts of the continent. The passing of 1502 of Dodd Frank, or the conflict minerals act, as it is known colloquially, is one such policy. Well intended by its promoters, 1502 sought to reduce violence in the DRC and "Great Lakes region" by compelling companies sourcing minerals from the region to diligence their suppliers more thoroughly so as to redirect their payments away from suppliers that may have been supporting militia. Instead, in addition to being held up in part in the DC circuit court, the act has precipitated a rapid divestment by global companies and led, according to one UNU-WIDER study, to an increase in child mortality around

[2] In 2014, 99.5 percent of bonds were positive yielding; in 2017, 25 percent were negative yielding.

the various "artisanal" mine sites because of the subsequent decline in economic activity.[3]

The tendency of the U.S. government to advocate for issues where there is no consensus within the government itself has undermined U.S. influence on the continent. The importance of increasing investment — helping U.S. companies succeed and improving African livelihoods — is an issue on which most people agree. While there may be different opinions on how best to promote and regulate investment, having an issue that is both of strategic importance to the United States and easy to rally around for foreign counterparts is key to developing relationships that will allow the United States to become a trusted partner. Similarly, as the U.S. government looks to modernize its approach to development assistance, it might more fully consider purely outcome-oriented programs — such as cash transfer programs — that do not prescribe to countries how to go about achieving certain things, but rather grant the resources with which to achieve them. For the United States to be a trusted partner, it also needs to clearly indicate to others that the United States trusts them: it is a two-way street.

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Another area where the Trump administration can immediately disentangle U.S. interests and values is in how it deals with transparency and corruption on the continent. Countries that are victims of corruption should be given the civil penalties and disgorgement proceeds associated with any corrupt activities, rather than simply having these resources withheld indefinitely, as has been the case with looted money from Nigeria. Keeping it in the U.S. Treasury achieves nothing and engenders feelings of resentment. Finding ways to return this money while strengthening commercial ties can help to send a message that the United States wants to work together to advance mutual interests. Proceeds from corruption-related prosecutions and disgorgements could be split equally and placed in an escrow account with the U.S. Trade and Development Agency (USTDA) and investment-promotion councils in each country having oversight so it is clear that money is not being returned directly to the original perpetrators.

Conclusion

Few things can be as challenging as crafting a policy that anticipates the future. This task is especially challenging when that policy is focused on a continent with 54 countries, each at different stages of development and which, taken together, are changing more quickly than any collectively in history — on any measure: from demography, urbanization, development, to political trajectory. It is why the U.S. Africa policy has been hard to classify. It remains, to this day, a mix of legacy presidential initiatives and institutions, an occasionally overt, but mostly covert, security enigma and an only infrequently interesting investment destination for multinationals. But herein lies the opportunity. This scattered history offers the Trump administration an opportunity to make its mark by promoting a focused foreign policy that doesn't tackle the entire continent, but cultivates key partner countries — like Nigeria, Morocco, and Ethiopia; that accelerates the U.S. transition out of aid and into investment; and, perhaps more than anything else, more clearly communicates our interests and values where, when, and to whom they matter most.

3 Dominic Parker, et. al, "Unintended Consequences of Sanctions for Human Rights: Conflict Minerals and Infant Mortality," *Journal of Law and Economics*, February 28, 2017.

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About the Wider Atlantic Program

The Wider Atlantic program is a research and convening partnership of GMF and Morocco's OCP Policy Center. The program explores the north-south and south-south dimensions of transatlantic relations, including the role of Africa and Latin America, and issues affecting the Atlantic Basin as a whole.

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