THE NEW DEAL FOR AFRICA

 illustrative proposals for a comprehensive US | Africa trade & investment initiative

Steve McDonald . Stephen Lande . Dennis Matanda
Washington, DC, January 2013
Sub Saharan Africa 2011

Population: 874.8 mln.

Popn Growth: 2.5%

GDP: USD $1,245.7 bn.

GDP Per Capita: USD $1,424 bn

Annual GDP Growth: 4.1%

Source: World Development Indicators
Steve McDonald

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* Uganda and South Africa; and as Desk Officer for Angola, Mozambique, Cape Verde, Guinea Bissau, Sao Tome & Principe

Stephen Lande

With a 50-year career in trade policy at State Department, at the USTR and in the private sector, Stephen was pivotal to adding bilateral and plurilateral elements to U.S. trade policy that had almost exclusively been multilateral and based on the GATT.1 He was key to initiatives such as AGOA, CBI2 and GSP3 as well as various US FTAs.4 He is President of Manchester Trade and also an adjunct professor at the Paul H. Nitze School of Advanced International Studies, Johns Hopkins University.


Dennis Matanda

A proficient government relations specialist, Dennis is a post graduate scholar of American Politics and Government from Uganda. He serves as editor of The Habari Network, an online Diaspora paper, and is currently working on his second book, Master of the Sagging Cheeks, a work of political fiction.

* Dennis headed Uganda’s Gifted by Nature campaign and was one of three founding members of the Uganda Media Center
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tr>
<td>AGOA</td>
<td>Africa Growth Opportunities Act</td>
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<td>BITS</td>
<td>Bilateral Investment Treaties</td>
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<td>COMESA</td>
<td>Common Market for Eastern and Southern Africa</td>
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<td>CCA</td>
<td>Corporate Council on Africa</td>
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<td>DBIA</td>
<td>Doing Business in Africa</td>
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<td>EAC</td>
<td>East African Community</td>
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<td>EBA</td>
<td>Everything But Arms</td>
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<td>ECOVAS</td>
<td>Economic Community of West African States</td>
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<td>EPA</td>
<td>Economic Partnership Agreement</td>
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<td>EU</td>
<td>European Union</td>
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<td>EXIM Bank</td>
<td>Export Import Bank</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>FOCAC</td>
<td>Forum on China Africa Cooperation</td>
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<td>FTA</td>
<td>Free Trade Area</td>
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<td>ICT</td>
<td>Information Communication Technology</td>
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<td>IPR</td>
<td>Intellectual Property Rights</td>
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<td>MBDA</td>
<td>Minority Business Development Agency</td>
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<td>MCC</td>
<td>Millennium Challenge Corporation</td>
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<td>MNC</td>
<td>Multinational Corporation</td>
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<td>NGO</td>
<td>Non Governmental Organization</td>
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<td>NSC</td>
<td>National Security Council</td>
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<td>NSS</td>
<td>National Security Staff</td>
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<td>OPIC</td>
<td>Overseas Private Investment Corporation</td>
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<td>RECs</td>
<td>Regional Economic Communities</td>
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<td>SADC</td>
<td>Southern Africa Development Community</td>
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<td>SBA</td>
<td>Small Business Administration</td>
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<td>SMEs</td>
<td>Small Medium Enterprises</td>
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<td>SPVs</td>
<td>Special Purpose Vehicles</td>
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<td>SSA</td>
<td>Sub-Saharan Africa</td>
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<td>TIFA</td>
<td>Trade and Investment Framework Agreement</td>
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<td>TRQs</td>
<td>Tariff Rate Quota</td>
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<td>USAID</td>
<td>United States Agency for International Development</td>
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<td>USTDA</td>
<td>United States Trade and Development Agency</td>
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<td>USTR</td>
<td>United States Trade Representative</td>
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<td>WTO</td>
<td>World Trade Organization</td>
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An Ideal Scenario
This June 2013, a series of AGOA related events in Ethiopia could present the U.S. with just the unparalleled opportunity it needs to further bolster its engagement with Africa. In Addis, America & Africa could seal a mutually beneficial trade and investment deal that could impact generations.

But the key to achieving this lofty goal may lie in the U.S. President’s physical presence at the 2013 AGOA Forum. If the U.S. Government and Addis were to coordinate invitation of key heads of state, the African Union chairperson, and also secretaries general of regional bodies, President Barack Obama would have an almost tailor-made platform from which to launch a New Deal for Africa.¹

The President’s Options
In this AGOA era bustling with vibrant new deal-esque ideas, the President could simply go to the Forum and perhaps even enhance AGOA beyond ‘tangible incentives’ and ‘preferential access.’ Or he could choose to actually reinvigorate the current relationship the U.S. has with the whole of Africa.

From various ideas, dialogue with Africa experts, trade and investment specialists and in dealing with both U.S. and various African governments officials, we strongly urge Obama to go big with a complete overhaul and a fresh program based on the following practical outlines:

1. Any new program mustn’t be misconstrued as a gift from America to Africa as may have occurred with AGOA. Instead, it must pragmatically respond to partnership synergies between the world’s largest economy and a region slated for exponential growth over this decade and also the next.

2. Whether via enhancing AGOA or through an Obama/Congress plan, any New Deal must emanate from government’s highest levels and be instituted in tandem with congressional leadership.

3. Congress must be reassured that a new initiative will not increase government spending, and that U.S. based jobs will grow alongside living standards in Africa from private sector initiative and investment.

4. An overarching plan for America and Africa must receive strong support for regional integration efforts in sub-Saharan Africa as these represent a sustainable path for the region to attain economies of scale and fully participate in the global economy.

5. Based on its elaborate outline, the U.S. Strategy Toward Sub-Saharan Africa of June 2012 should provide guidance parameters upon which a New Deal is based. This Obama Directive has capacity to affect U.S. - Africa economic relations in ways similar to the impact Franklin D. Roosevelt’s New Deal had on the U.S. and global economy for the 50 years following its enactment.

¹ Although the expression A New Deal For Africa have been used in various ways and for similar discourse, it is applied here in relation to FDR’s New Deal.
**Gestures into Real Benefits**
The impact of an Obama presentation to Africa’s leaders on *African soil* cannot be understated. It would, instantly, shift the dynamic Africa has with China and other competitors. Secondly, this gesture and leadership from *this* president would unleash a plethora of private sector activity in both the U.S. and in Africa, and perhaps, even lead to *detente* in Congress - a body whose record of bipartisan support for Africa legislation should, at least, ensure passage of a fully-fledged law to benefit all parties.

If all this were flawlessly executed, Obama will have sealed a legacy in actuating his vision for democracy, economic development and human rights in Africa.

**Putting the New Deal into Action**
The prospect of a paradigm-shifting initiative in Addis is real. Thus, the administration, Congress and stakeholders must utilize with *clinical precision* this six months before the 2013 AGOA Forum to come up with an effective strategy for the President to present. Some even suggest that momentum can start by a reference to the region in the February 2012 *State of the Union Address*. This would, obviously, be a positive development. However, much progress on a regional initiative is already being made by both public and private sectors, and just needs to be wielded into a winning strategy.

For example, the USTR is negotiating Bilateral Investment Treaties [BITs] while National Security Council coordinates efforts to deepen ties to the African Union and the East African Community as a pilot for relations with the other RECs.

On the private sector front, while policy ideas come from various sources, *Corporate Council on Africa* is undertaking a review of U.S. - Africa economic policies. The *Wilson Center* and *Manchester Trade* intend to bring together a blue ribbon panel of African diplomats, academia, and private sector to consider a *New Deal* road map.

**Smart Measures?**
Conversely, it may be politically *insensitive* to propose an initiative that *smacks* of FDR’s dramatic increase in government power at a time when some in Congress are calling for smaller government and spending cuts.

But government has changed since the ’30s and found new ways to meet objectives *sans* burdening the tax payer. In utilizing *smart measures*, the Obama Administration avoids new cash outlays through existing agencies for sub Saharan Africa activity.

When Michael Froman, Deputy Assistant to the President, launched the *Presidential Directive for Africa* at the 2012 AGOA Forum, no agency was launched. Instead, a *smart measure* following months of *whole-of-government* deliberations responded to the President’s request for a comprehensive policy for Africa.

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*Summary, cont’d*

Franklin D. Roosevelt . 32nd US President
Purveyor of the New Deal

3. Also Deputy National Security Advisor for International Economic Affairs
And these *smart measures* yielded unprecedented results for the Obama administration: Secretary of State Hillary Clinton was the first in her role to facilitate a trade mission in taking *Fortune 500* executives on her August 2012 multi African nation tour.

Acting Secretary of Commerce, Rebecca Blank via the *Doing Business in Africa* initiative closed a major loophole in U.S. economic relationships by ensuring that her department was focal agency to coordinate and promote U.S. investment in Africa.

Today, the USTR *smartly* uses Bilateral Investment Treaties [BITs] to promote intra-Africa trade and regional integration as well as protect American investments through improving economic climates of a growing list of countries.

Also, agencies like Export Import [ExIm] Bank and Overseas Private Investment Corporation [OPIC] continue to utilize their current funding levels to aggressively benefit those keen on investing in the region; and USAID is impacting the continent’s capacity through new and innovative private sector initiatives in readiness for a fast-paced global commercial environment.

Seminally, the Minority Business Development Agency [MBDA] and Small Business Administration [SBA] are constantly growing their outreach projects to the African Diaspora in what is widely recognized as their potential central role of ‘cultural brokerage’ between the U.S. and their respective home countries.

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**Sealing the New Deal**

With this much development, a master plan is required to ensure that ideas and proposals are ready for presentation to Congress and for Obama to launch at the Addis forum. *Time is of the essence.* Anything after June 2013 may run into an active Congressional calendar: Translated, Congress would not effectively consider or enact *New Deal law* or anything quite as beneficial *before* the 113th Congress adjourns end of 2014.

Penultimately, President Obama’s active and personal involvement will help avoid a scenario where Congress, in 2015, scrambles at the last minute to pass legislation to just renew or revoke AGOA on the cusp of expiry. On the other hand, the president’s leading role in the *New Deal* would increase investment in the region, insert Africa into global supply chains and distribution networks, and become the most portentous legislation for Africa since AGOA.

**Our Illustrative Proposals**

In no way etched in stone, our proposals are simple stakeholder considerations broken into 4 sections. They include ideas on U.S. and Africa summits; and also urge a comprehensive review of U.S. business conditionality.

In the end, the U.S. must adopt a plan that shakes off an uncoordinated Africa engagement strategy; assure U.S. investors that sufficient space exists for them to operate in the region, and especially show Africa as no longer driven by donor aid but the need for a partnership between equals.

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SM . SL . DM

Washington, DC | January 13, 2013
Section 1 - Post AGOA Guidelines

Synopsis

For the 13 years that AGOA has been the flagship U.S. program in Africa, four important elements emerge:

1. AGOA has had relative success at stimulating a few export sectors [apparel in a few countries and automotive pursuits in South Africa].

2. In emphasizing governance, respect for law and transparency in the sub-Saharan Africa region, AGOA tenets contributed to mainstreaming trade in Africa and promoting a welcome environment for foreign direct investment.

3. AGOA has had an effect of fostering collaboration and closer relationships between the U.S. and African leaders to deal with commercial and other matters.

4. AGOA is an appropriate springboard from which a New Deal for Africa can be launched.

Post AGOA Proposals

i. AGOA should be modified and inserted as an integral component of a new initiative. As part of a comprehensive program, AGOA should be enhanced to include the following provisions:

   a. One that deems current AGOA trade provision benefits permanent.

   b. One that does not automatically remove countries from eligibility but is instead part of a collective and targeted deterrent program for aberrant beneficiary behavior.

   c. One that seeks partnership with nations and other preference donors to provide non-reciprocal access for sub-Saharan African countries striving to complete economic integration pacts and arrangements.

   d. One that compels stakeholders and beneficiaries to alter the image that an enhanced AGOA or a New Deal program is a unilateral gift from the U.S.

ii. New Deal economic and commercial programs should be separate from any others meant for social and humanitarian sub-Saharan Africa issues

   Non-delineation has led to discord and contradictory policies – with the U.S. subsequently failing, until recently, to implement a comprehensive Africa engagement strategy

iii. All AGOA imports should be designated for duty-free treatment like is done under the European Union’s Everything But Arms [EBA] scheme.

   a. A viable option integral to a New Deal for Africa is to provide duty preferences for those agricultural products AGOA eligible countries can competitively export to the U.S. once appropriate safeguards are designated to gain acquiescence of key U.S. sectors.

   b. Special attention should go to Tariff Rate Quotas [TRQs] applied to sugar, tobacco, ground nuts and sweetened cocoa as an immediate way to double the African content of non-petroleum imports into the U.S. under an AGOA section of the New Deal.

iv. Specific origin rules that discourage AGOA exports such as canned tuna fish and textile products should be reviewed and incorporated into the AGOA section of the New Deal.
Section 2 - Cross Cutting Aspects

Synopsis:

The Obama Administration is currently implementing a series of welcome and timely Africa trade and investment initiatives reflective of the region's vitality.

Unlike state-led Chinese or Indian ones, American initiatives for Africa don’t require additional investment in people or infrastructure but the smarter use of existing resources. With progressive coordination, Obama/Congress initiatives should successfully avoid strategic errors of the past [where well meaning initiatives were wrought by uncoordinated activity].

General Proposals

i. New Deal initiatives and legislation should be based on a whole-of-government approach where specific objectives are determined at the highest level and then coordinated with relevant agencies, legislators, other stakeholders and private sector to design and implement measures to meet them.

A specific legislative component for agency operations is required for the New Deal rather than utilizing existing programs designed for application in non-African environments.

ii. Emulating the White House Business Council, Congress must institute a business forum of MNCs, financial firms plus SMEs and African Diaspora to proactively guide both American and African governments in supporting aggressive private sector New Deal activity.

iv. For even more fruitful engagement and outreach to sub-Saharan Africa, the U.S. should continue its cordial relationship with African diplomats in Washington DC and elsewhere.

v. Government must commission studies on unilateral U.S. conditionality or eligibility requirements for specific programs in Africa. Studies must not be predicated on whether conditions are justified or effective but on whether deterrents can be designed in way that achieves the desired effect without endangering trade, investment, and disproportionately impacting innocent parties.

vi. A New Deal initiative must encourage more creative financial instruments to benefit American firms in Africa and level the tilted playing field vis-à-vis competitors whose home governments provide them with creative financial tools.

vii. This initiative should urge that the Defense Department collaborates with private sector on opportunities for the Army Corps of Engineers to work on regional infrastructural projects.

Illustrative Proposals
Section 3 - Promoting US investment

Synopsis:

The European Union, China and the other countries competing against the U.S. in Africa have bodies to promote trade and investment activity in that region. On the other hand, just like Foreign Policy magazine points out, the U.S. does not have an African focal point. There is, however, movement towards this. But without a strong Presidential push for a specific mandate by Congress, efforts will not succeed.

Investment Promotion Proposals

i. Vital to a New Deal initiative must be a U.S. based component that emphasizes, guides and coordinates country re-branding strategies and campaigns with sub-Saharan African nations. The specific objective should be to collectively promote Africa as a viable investment destination. The collective impact of a sustained presence of African countries in the U.S. media would do much more to make U.S. based investors aware of opportunities in Africa.

ii. A Commerce Department agency must be charged with shepherding private sector firms and respective proposals slated for sub-Saharan Africa through an interagency process. As part of the comprehensive initiative for Africa, this agency would replace the status quo where investors have to navigate an array of government agencies involved in support of US trade and investment with the region.

iii. It is imperative that current administration efforts swiftly consolidate and designate one agency to ensure that American firms do not lose contracts in Africa from not having the kind of requisite support the European Union and China provide their nationals.

iv. To eliminate time consuming negotiation of Bilateral Investment Treaties [BITs], double taxation and trade facilitation, a comprehensive agreement model should be put in place by the Administration. In the interim, US efforts to negotiate stand-alone BITs should not be limited only to countries meeting good governance criteria but should be pursued in all countries where US investors are actively engaged.

v. In a bid to propel a new initiative forward, U.S. embassy staffing should be reviewed to determine where a stronger commercial presence in the region is required. Designating an officer to coordinate private sector requests for assistance from the USTDA, Commerce Department, ExIm Bank, OPIC and MCC would be key to this process.

vi. A new plan should continue to require that agencies with African components work closely with the SBA and MBDA to promote Diaspora investment and SME business activities and specific targets such as doubling U.S. exports over a ten-year period should be set.

vii. A U.S. information technology component should be central to a New Deal and instituted to promote U.S. - Africa coalitions and ventures.

According to The Economist, technology has a much bigger effect on Africa because it starts from such a low base. This makes any investment not only potentially lucrative but viable in the short and long run.
viii. For efficacy, the ExIm Bank should modify its mandate to ensure that at least 25% of the recent $40 bn increase in lending capacity be used to finance projects based in sub-Saharan Africa.

ix. The OPIC should have its lending ceilings and staffing levels upped to enhance the agency’s capacity to guarantee and finance more projects.

In spite of its meager resource base, the Overseas Private Investment Corporation has been incredibly successful in the projects it currently invests in.

x. A New Deal initiative should include suggestions for new MCC criteria. The agency should be afforded the latitude to support investment worthy proposals in countries that are not eligible for benefits but are making progress and satisfy World Bank financing criteria.

In addition, MCC should be able to support regional projects particularly those for infrastructure based on public-private cooperation.

xi. Given the current resistance to modifying tax exemptions on repatriated profits earned in non-primary pursuits of U.S. investments in Africa, a more politically palatable option may lie in the negotiation of investor friendly double taxation treaties where profits emanating from tax holidays granted for productive investments are not taxed when repatriated to the US

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**Section 4 - Regional Integration**

**Synopsis:**

Save for a handful of countries, most of sub-Saharan Africa’s countries are economically insignificant or unattractive to large U.S. investor on their own. But the region holds much more potential for the U.S. in amalgamation. Thus, regional integration is the sine qua non for Africa’s development. If the *New Deal for Africa* is to be even more successful, the Administration and Congress must seek even more innovative ways to work with the African Union, and RECs to propel regional integration forward.

**Section 4 Proposals**

i. *New Deal* plans should require the State Department, USAID, the USTR, the Commerce Department and other relevant agencies to work with the AU and sister regional bodies to coordinate programmatic approaches.

ii. A comprehensive initiative should stipulate that the U.S. use its current engagement with the East African Community [EAC] as a model on which to base its relationship with other RECs.

iii. Under any program or initiative, support for efforts to eliminate all border checkpoints within customs unions should be intensified. Where this is inapplicable, a *New Deal* should encourage RECs to eliminate or harmonize customs formalities to facilitate movement of goods and factors of production across internal borders.

*Central to this is the development duo system to collect import duties from products entering the region from third countries and the prompt and equitable disbursement of import revenue to REC partners.*
iv. A hierarchical element should be added to the Trade and Investment Framework Agreement (TIFA) structure to correspond to the African approach to regional integration. Here, a breakdown should be from an overall African Union TIFA then to REC TIFAs, and finally individual country TIFAs.

v. 20% of MCC country contracts should be specifically apportioned to projects primarily geared or focused on regional integration. Additionally, regional assistance components should be included in the MCC designation to specifically to promote development corridors. Another far-reaching proposal could be to designate deserving RECs for MCC status in the case of infrastructure projects.

vi. The New Deal should mandate that the Treasury Department collaborate with the Bretton Woods institutions and other entities to develop Special Purpose Vehicles (SPVs) to guarantee regional infrastructure programs extending beyond normal sovereign guarantees.

vii. Potential activities and New Deal legislation should support efforts to create an continental customs union and Free Trade Agreement (FTA) by 2020, and a Tripartite FTA plus an ECOWAS FTA | Customs Union as early as by 2015.

To incentivize sub-Saharan African countries to enter into a continental Free Trade Agreement and Customs Union by the end of the decade, the New Deal should stipulate that the U.S. take the lead in negotiating MOUs with preference-giving countries to ensure that they provide non-reciprocal duty-free treatment to SSA countries and do not enter into reciprocal negotiations with them until after 2020.

This can be done through State Department support for this initiative at the national level, and USAID’s technical assistance to sub-Saharan African countries’ negotiating efforts. Also, USTR and State Department can work with like-minded countries to ensure that global trading rules do not create impediments and actually promote regional integration.

viii. Under a New Deal, the U.S. and like minded sub-Saharan African countries coordinated by the African Union should jointly lobby the global trade community to allow sub-Saharan African countries to benefit from all unilateral programs until, at least, early in the next decade.

The World Trade Organization should, for instance, adopt the AGOA precedent to allow designation of all sub-Saharan Africa countries under a Duty Free Quota program.

An existing Africa Union proposal would provide the WTO with cover for duty-free treatment for countries especially if their RECs are progressing toward free trade.

ix. Initiatives should expend considerable effort to lobby like-minded African countries and other WTO contracting parties to ensure that the EU efforts at foisting Economic Partnership Agreements (EPAs) on individual countries in the region are delayed till after 2020 when most can benefit from regional FTAs.