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Africa: Trade and Development Initiatives by the Clinton Administration and Congress

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Summary

In February 1997, the Clinton Administration submitted the second of five annual reports on the Administration's Comprehensive Trade and Development Policy for Africa as required by section 134 of the Uruguay Round Agreements Act (House Document 103-3415, Vol. 1.). On April 24, 1997, members of the African Trade and Investment Caucus introduced a bill, H.R. 1432, on U.S.-Africa trade and investment issues. In his State of the Union address in January 1998, President Clinton called on Congress to pass the trade legislation.

Introduction [1]

Beginning in 1994, interest in trade and investment issues related to Africa began to increase, reflecting concerns over the impact of the Uruguay Round Agreements Act on Africa. In 1994, Congress called on the President to submit an annual report on trade and development policy toward Africa. The first report was submitted by the President in February 1996. The President's second report gives an overview of progress made by some African countries and provides a critical assessment of where reforms are needed. Reaction to the President's two reports has been mixed. Some critics of the first report, however, say they were encouraged by the Administration's efforts reflected in the second report. Shortly after the first report was issued, several Members of Congress formed a bipartisan congressional African Trade and Investment Caucus to "review the President's policy document and to initiate a broader discussion." In September 1996, several members of the Caucus introduced legislation, entitled African Growth and Opportunity: End of Dependency Act of 1996, to establish a new trade and investment policy toward Africa. The bill died in committee in the 104th Congress. A revised version of last year's bill (H.R. 1432) was introduced on April 24, 1997, by several members of the African Trade Caucus. **In December 1997, Congressman Charles Rangel (D-NY) led a presidential delegation to several African countries to discuss the Africa trade bill.**

[1] For background on the President 's first report, see CRS Report 96-639 by Theodros Dagne.

The President's Second Report[2]

Africa's economic success and stability contribute directly to "the national and economic security of the United States", according to the President's report. The Administration makes the case that Africa is economically important, with 10 percent of the world's population and untapped natural resources. This view, according to some observers, counters the widely held opinion that Africa is a "basket case" and has no strategic significance to the United States. The report notes significant increases in U.S. exports to sub-Saharan Africa, with an estimated $5.4 billion in 1995. But the report acknowledges that U.S. market share is still negligible compared to the European Union, which has an estimated 30 percent of the market, while the U.S. share is estimated at 6-7 percent--equal to that of Japan.

Africa's significance as a trade partner is highlighted in the report as compared to other regions. The report states that U.S. exports to sub-Saharan Africa exceed exports to all countries of the former Soviet Union combined, while exports to South Africa alone surpass exports to Eastern Europe. While the U.S. trade deficit with sub-Saharan Africa ($6.6 billion in 1995) is high due to oil imports, the report reflects optimism that the deficit may be reduced once American businesses learn more about the profitability of trade with Africa. The report states that with the end of conflicts in parts of Africa and progress in democratization, as well as economic reforms and trade liberalization, prospects for increased investment look good.

The report provides data on the economic performances of sub-Saharan countries. An estimated 30 countries have carried out economic reforms with the support of the IMF and the World Bank. Moreover, "multilateral trade liberalization and preferential programs have greatly reduced, though not eliminated, the trade barriers faced by sub-Saharan merchandise goods and service exports to the United States and other countries." The report suggests increased investment in the "30 fast-growing" countries in sub-Saharan Africa with half of them experiencing an estimated real growth rate of 11-12 percent. While non-reform oriented countries, such as Nigeria and Angola, showed positive growth in Gross Domestic Product (GDP) in large part due to their oil wealth, crisis-prone countries such as Zaire, Liberia, and Burundi had declining or negative growth.

The report acknowledges that privatization in many African countries has been slow in part because of fear of higher unemployment and lack of capital. African governments are concerned that privatization would deny them resources necessary to fulfil social obligations to the vast poverty-stricken populations. One approach being pursued by African governments, according to the President's report, is to maintain a minority share in privatized companies. African countries have made important strides in regional economic integration. The report cites recent trade protocols signed by member countries of the Southern African Development Community (SADC) and refers to the efforts of the West African Economic and Monetary Union (WAEMU). The report states the Administration's intent to support regional integration but does not give specifics. Although the President's first report sought to put heavy emphasis on regional integration

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[2] A Comprehensive Trade and Development Policy for the Countries of Africa. A report submitted by the President of the United States to the Congress, February 18, 1997.

as a tool for increased trade and investment, the second report de-emphasizes this approach, reflecting a lack of progress among African states in this area.

The President's report outlines U.S. trade and development policy toward Africa and identifies four strategic objectives: "1) increasing trade flows between the United States and sub-Saharan Africa; 2) promoting economic reform as well as the development of the private sector and infrastructure; 3) improving the investment climate; and 4) strengthening moves toward democratic governance." The Administration intends to further these strategic objectives by employing current initiatives and by introducing new ones. Despite clarity in strategic objectives, the Administration's implementation approaches appear vague and lack substantial resources. Tools cited by the Administration include: "bilateral technical and development assistance, increased government-to-government dialogue, export promotion, and trade facilitation programs."

Despite progress and important gains in many African countries, the report stresses, additional reforms are necessary in order to maintain sustainable growth. Macroeconomic stabilization, sustained structural reforms, increased private savings, removal of restrictive investment policies, developing the private sector, and improving infrastructure are key to sustainable development in Africa.

Analysis

The President's second trade report offers 63 initiatives on trade and investment related issues--but many of these, critics claim, represent only incremental changes from previous proposals. The second report is limited in scope in part because of disagreements within the Administration and pressure to meet congressional deadlines to submit the report, observers believe. Nonetheless, Administration officials point to some accomplishments in efforts to promote trade and investment, in part through USAID's Greater Horn of Africa Initiative, development programs, and the Southern Africa Initiative (SAI). While observers credit the Administration for assisting Horn of Africa leaders in their efforts to restructure and revitalize the Inter-Governmental Authority for Development (IGAD), a regional organization in East Africa, critics note that the program was minimally funded and had limited impact on the private sector or increased trade.

The President's report states that the recently authorized $120 million private investment fund by Overseas Private Investment Corporation (OPIC) for projects in sub-Saharan Africa is an important initiative. Concerning debt relief, the report states that the Administration will continue to back the IMF, World Bank, and the Paris Club on a debt reduction initiative adopted at the 1995 G-7 Halifax Summit to assist heavily indebted poor countries (HIPCs). Many observers regard the Halifax initiative as an important effort on the part of donor countries, since it seeks to assist HIPCs to reduce debt and not just refinance. A recent statement by non-governmental organizations (NGO) groups states that "the HIPC initiative for debt relief, although limited in scope, the HIPC framework constitutes a breakthrough."[3] Among other things the program coordinates the initiatives of all creditors. Despite this praise, however, critics argue that the second report places heavy emphasis on traditional development strategies and repackages ongoing programs

[3] American NGO Policy Statement for the Denver G-7 Summit, March 26, 1997.

as new ones. There is no infusion of "new money" to some of the proposed new initiatives; instead the report relies on existing funds or policy statements.

Overview of H.R. 1432, African Growth and Opportunity Act

Disappointed by the President's first report, members of the African Trade Caucus began to develop their own initiative in mid-1996. On April 24, 1997, several members of the African Trade Caucus introduced legislation. The bill (H.R. 1432) calls for major change in U.S.-Africa trade relations. The bill emphasizes economic self-reliance through expanded private sector activities, increased trade and investment, elimination of trade barriers, and by focusing on countries committed to economic reform. The bill provides additional flexibility to the President under the Development Fund for Africa (DFA) through waiver authority of congressional set asides. However, the bill excludes from waiver authority set aside programs such as child survival activities, immunization programs, health and nutrition programs, HIV/AIDS, and basic education. While this bill retained provisions introduced in the last Congress, several additions are included and some aspects of the current bill seem accommodating to concerns raised by private groups and the Administration.

One change is the source and amount of the proposed equity and infrastructure funds. These funds would be used to "achieve long-term capital appreciation" and to encourage investments in infrastructure projects. Previously, the bill authorized $30 million each for the two funds, while the $650 million proposal for the two funds in the current bill calls on OPIC to "exercise the authorities it has" to establish these funds. The proposed $150 million equity fund and the $500 million infrastructure fund would be managed by professional "private fund managers" but be monitored by OPIC. Capital for the funds is expected to come from a combination of sources, including private equity capital and OPIC guaranteed debt.

The bill places considerable emphasis on women entrepreneurs, debt relief, sustainable development and approaches championed by advocates of grassroots development. The absence of such emphasis was a contentious aspect of the previous bill.

Some provisions, such as the creation of a United States-Sub-Saharan Africa Trade and Economic Cooperation Forum, have been strengthened in the current bill. The bill would establish a Forum with the objective of convening annual high- level meetings between senior U.S. and African officials to discuss wide-ranging issues in the economic sphere. Specifically, the bill directs the President to instruct the Secretaries of Treasury, State, Commerce, and the United States Trade Representative (USTR) to meet annually with their counterparts in Africa, who are committed to reforms. Participation of the NGO community and private groups is also encouraged. In addition, the bill calls on the President to meet once every two years with African heads of state who are committed to economic reform.

The bill calls for the establishment of a Free Trade Area between the United States and sub-Saharan countries and directs the Administration to prepare a detailed plan for this and report to Congress not later than one year after enactment. The bill would add board members with private sector background in sub-Sahara Africa to OPIC and the Export-

Import Bank (EXIM). The bill would also create a position for an Assistant United States Trade Representative (USTR) for Africa in the office of the USTR.

Current Developments

In mid-April 1997, the Clinton Administration circulated a draft proposal to congressional staff. In mid-June 1997, the Clinton Administration formally embraced the congressional trade initiative at a White House ceremony and launched its Partnership for Economic Growth and Opportunity.

The Administration adopted most of the provisions in the trade bill. For example, the Administration initiative proposes to fund equity and infrastructure funds under OPIC direction with an estimated capital of $650 million. It also proposes to appoint an Assistant United States Trade Representative (USTR) for Africa and a senior official of EXIM Bank to advise the Board of Directors; and it supports the establishment of a Cabinet-level U.S.-Africa Economic Forum, consistent with the trade bill.

The Administration's strategy calls for three levels of participation. At Level One the Administration plans to assist sub-Saharan countries by providing enhanced market access, investment support through OPIC, and by assisting regional organizations. Level Two participants could qualify to receive additional assistance in technical training and debt relief if they are "pursing aggressive growth oriented policies." In what the Administration refers to as Level Three Participation, negotiations on free trade agreements with high-performing, growth oriented countries would be pursued.

There are areas of disagreement between the Administration and congressional negotiators over this strategy, however, and the Administration is concerned about aspects of the recently introduced African Growth bill. Of particular concern is the textile provision in H.R. 1432. Section 8 of the bill, which states that "pursuant to the Agreement on Textiles and Clothing, the United States shall eliminate the existing quotas on textile and apparel exports to the United States" from Kenya and Mauritius. In May 1997, the Deputy United States Trade Representative, Ambassador Jeffrey Lang, stated that "the Administration recognizes the importance of the textile and apparel industry to developing countries. We are looking forward to working with Congress on an initiative. We support a program that will be consistent with our overall commitments under the WTO, while at the same time taking into account the interests of the U.S. industry and Africa."[4]

In an effort to address the Administration's concerns about the textile provision, the Committee on Ways and Means requested the International Trade Commission (ITC) to do a study on the "likely impact of granting quota-free and duty-free entry to textiles and apparel" from sub-Saharan Africa. In September, the ITC concluded in a report that "allowing duty-free and quota-free entry for textiles and apparel from sub-Sahara Africa

[4] Testimony of Ambassador Jeffrey Lang, Deputy United States Trade Representative, before the Subcommittees on Africa and on International Economic Policy and Trade. May 21, 1997.

would result in a 0.1 percent decrease in domestic producers' apparel shipments and a negligible effect on shipments of the domestic textile industry."[5]

The Administration's initiative represents a shift in policy. The Clinton Administration had earlier opposed most of the trade bill provisions, including the Economic Forum. Some critics remain skeptical about the Administration's resolve to follow through on the proposed measures. Although the only area of major disagreement is the textile provision, supporters of the trade bill say that the Administration would prefer a non-binding resolution to a law.

Many Africa watchers appear encouraged by the increased level of interest in Congress in expanding trade and investment with Africa. Dozens of African Ambassadors in Washington and senior officials of African governments formally endorsed the trade bill. In April 1997, several African ambassadors testified before the House Ways and Means Committee in support of the trade bill. However, a few African critics argue that the bill does not adequately address Africa's debt problem, poverty, and overall economic crisis. Moreover, they contend, the bill relegates sub-Sahara Africa "as a market for U.S. (and other industrialized countries') manufactures and services and a source of cheap raw materials and labor."[6]

Legislation

The African Growth and Opportunity Act was first introduced in the 104th Congress, but died in committee. On April 24, 1997 several members of the African Trade and Investment Caucus introduced H.R. 1432. The bill was referred to several committees with jurisdiction, including the Committee on International Relations and the Banking and Financial Services. On June 25, the Committee on International Relations held a mark-up session and passed the bill by voice vote. The Ways and Means Committee passed H.R. 1432 by voice vote on February 25. Supporters of the bill hope to take it to the floor in early March.

Meanwhile, Senator Lugar introduced S.778, identical to H.R. 1432, on May 21, 1997, but the bill has not attracted the same level of interest as in the House of Representatives. Senator Lugar, however, pledged to supporters of the bill at a recent reception that he intends to seek Senate passage before the end of the year.

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[5]Likely Impact of providing Quota-Free and Duty-Free Entry to Textiles and Apparel from Sub-Saharan Africa. ITC, September 1997.

[6] Ong'wen, Oduor. Why U.S.-Africa Growth and Opportunity Bill Fails the Test. EcoNews Africa. Distributed by Africa Policy Information Center (APIC).