

Hunger Working Group

THE WHITE HOUSE
WASHINGTON

*Handy Sample
of the
for NAD/AR*

October 23, 1986

The enclosed Report of Working Group 4 (Trade and Investment) is for your consideration before our meeting at 1:00 p.m., Friday, October 24, in Room 476 of the Old Executive Office Building.

We will also be looking at the report by Working Group 6 (Budget) which was sent to you last week.

REPORT OF WORKING GROUP 4 (TRADE AND INVESTMENT)
WHITE HOUSE TASK FORCE ON ENDING HUNGER IN AFRICA

SUMMARY:

The Working Group found that there are a number of substantial and varied USG programs directed at trade and investment in Sub-Saharan Africa (SSA). They involve policy reform measures, investment financing and guarantees, and training and technical assistance. There is insufficient understanding of private sector U.S. assistance efforts, both in SSA itself, and in the U.S. Themes which should be an integral part of any commitment to end hunger in Africa through broad based private sector activity must include: (1) deepening that understanding through heightened public awareness and participation; (2) providing support and encouragement for human resource development responsive to private sector needs; (3) creating special and innovative financing schemes to attract investors; (4) assuring that general and specific policy reform efforts take into account basic private sector needs; and (5) coordinating USG agency activities targeted to the private sector.

Background

U.S. trade, investment, and private sector involvement with Sub-Saharan Africa (SSA) is modest, at best. In 1985 total U.S. imports from the 50 SSA states and territories amounted to \$7.4 billion, of which petroleum and natural gas constituted \$5.7 billion. If five other product groups are added (cocoa, coffee, bauxite, copper and cobalt), about 90% of total imports are covered. Cobalt, coffee, and bauxite enter the U.S. duty free, as do most cocoa products, and some petroleum and natural gas products. (In 1985 the U.S imported \$593 million in all other categories.)

With respect to U.S. market access: a) almost all SSA states are eligible for GSP, which includes 3,000 TSUS items, no LLDC has had to meet "competitive need" requirements, and only one country -- Zambia -- has ever been determined ineligible for GSP benefits (copper); b) in textiles, other than Mauritius, no SSA country faces any textile quota -- their export levels have never been sufficient to trigger textile consultations; c) in agriculture, the U.S. tariffs are generally low, averaging 3.1%. There are quotas imposed on specific products when a U.S. price support program is threatened such as for certain cotton and cotton products, certain dairy products (cheese), peanuts and tobacco. There are also quotas determined by international agreement (coffee), and sugar is specially treated.

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U.S. investment levels are low, and tend to track the more active trade sectors. (Computed book value of U.S. investment in SSA, excluding South Africa, as of the end of 1985 was \$2.3 billion.) For example, most of the U.S. investment in Nigeria is in the petroleum and petroleum related sector, with the second largest category of investment in flour mills, reflecting past U.S. wheat export activity. Investment, whether foreign or domestic, has not been growing in Sub-Saharan Africa generally because the investment climate, policies and dependability levels of many SSA countries have not been competitive with other countries or regions. Most SSA governments now claim to recognize the virtues of a stable, supportive investment environment but their performance has lagged or improvements only have been made recently.

Sub-Saharan Africa must compete with the "world" both for U.S. consumer preference and U.S. capital available for foreign investment. To compete successfully means a long term effort on their part, requiring a complementary mix of public support, policy improvements, streamlining of investment procedures, and human resource development.

INTRODUCTION TO THE REPORT:

Working Group 4's assigned goal was to identify optimal contributions for growth by the private sector. Consistent with the guidance provided, we solicited suggestions from representatives of interested agencies participating as individuals. There was considerable interest in the subject with some agencies engaging several representatives in the effort. Several were particularly familiar with the problems faced due to active participation over the past 2-3 years on the Interagency Working Group on Private Sector Development in Africa. The AID Africa Bureau was in the final stages of drafting its comprehensive private sector policy and strategy statement for Africa. As a result, we were provided with numerous proposals, ranging from broad policy approaches to micro-project design.

There was limited time to review existing agency programs, to consider the ideas put forward in any detail, or to seek consensus on highest priority options. Since the public announcement of this exercise was delayed there was no time to consult with the private sector or U.S. missions in Africa. Should the Task Force process be continued these may be appropriate "next steps". There was, however, general agreement that a focused, sustained, and multifaceted campaign to encourage private sector growth will be needed if we intend to dramatically change the pace of U.S. trade and investment in SSA.

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We have sought to synthesize the suggestions received, capsulizing ideas. We have sought to characterize Working Group participant views on the various proposals, i.e. general support(A), significant differences of views(B), and little or no discussion(C). If the Task Force decides that any particular proposal or concept warrants further details or development, these can be provided upon request.

TRADE RELATED PROPOSALS

Congressional Action Items:

1 -As part of the development of U.S. positions for the new GATT round, study with Congress U.S.legislative barriers to SSA products to determine if there are ways to provide exemptions for them or if there are means to provide more comprehensive duty free entry for a defined category of countries which would primarily benefit SSA. (B)

Policy Adjustment Items:

1 -Open SSA markets through privatization and deregulation. We should more vigorously pursue efforts to introduce or expand private sector competition in the export or import of economically important commodities and encourage the privatization of trade parastatal monopolies and dismantling of marketing boards.(A)

2 -Develop a regional program to focus on enhancing trade administration/management, documentation, import operations, techniques of customs valuation, export packaging, export financing, transport arrangements, and legal aspects of foreign trade.(B)

3 -Encourage the adoption of SSA preferential trade arrangements to encourage specialization in production and to facilitate trade among neighboring countries and/or regional groupings as a means to improve production incentives and facilitate trade in food commodities from surplus to deficit areas.(A)

4 -Encourage SSA rationalization and liberalization of tariffs and other trade inhibiting taxes, fees and non-tariff measures.(A)

Technical Assistance Items:

1 -Offer technical assistance to regional African trade organizations on trade enhancement, on staff development and management.(A)

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2 -Organize executive and specialist level trade missions to Africa to conduct training seminars in selected fields such as agribusiness, telecommunications, water resources and transportation.(C)

3 -Provide increased technical assistance to SSA governments on better utilization of GSP opportunities and other market access advantages.(A)

4 -Develop means to elicit and optimally direct corporate donations of goods and services to SSA countries.(C)

5 -Study the use of USDA Market Development Cooperators to support expansion of trade and production in Africa.(A)

6 -Create an SSA Major Projects interagency task force to generate greater U.S. business interest in major infrastructure development projects in Africa.(B)

INVESTMENT AND FINANCE RELATED PROPOSALS

Congressional Action Items:

1 -As lack of USG tax sparing is a particular obstacle in negotiations with developing countries, study with Congress the possibility of offering limited recognition in U.S. tax law of new investment tax holidays in Least Developed or other narrowly defined groups of countries.(B)

2 -Eliminate restrictions on USG support for private sector activity in Africa when the resulting project would result in products in competition with U.S. agriculture.(B)

3 -Expand existing and initiate new USG programs of private sector pre-feasibility and feasibility study support in SSA for trade and investment.(A)

4 -Support the development of new and innovative financial mechanisms, such as an "Africa Growth Fund" to mobilize U.S. equity capital (with USG support) to implement, expand, rehabilitate or privatize productive enterprise. The funds could be managed and invested by private U.S. banks whose compensation would be tied to the performance of their investments.(A)

5 -The concept of foreign investment in an agricultural processing/marketing operation drawing from small-scale local producers holds great promise. Develop effective means, including any necessary enabling legislation to permit non-equity USG participation in these private projects such as credit to the investor, credit to participating farmers or parallel extension or input projects.(A)

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6 -As credit financing is often available in Africa if equity participation is sufficient, study means to permit USG agencies to establish mechanisms to facilitate private equity participation, including innovative new quasi-equity financial instruments which might meet both the needs of U.S. policy and SSA investment.(A)

Policy Adjustment Items:

1 -Expand efforts to induce policy reform and restructuring by African governments to improve the climate for domestic and foreign private investment.(A)

2 -Enhance direct U.S. support for indigenous African institutions designed to mobilize domestic resources for private enterprise credit or equity participation.(A)

3 -Study SSA government management of foreign exchange and domestic credit systems to increase private sector access to foreign exchange and credit and to insure that the private sector is not disadvantaged relative to the public sector.(C)

4 -Encourage modernization of trade and business laws, particularly in those countries in which business law development has stagnated. This could include the offer of technical assistance where appropriate from U.S. government and private sources.(A)

5 -SSA governments should be encouraged to adopt policies that promote US-SSA private sector joint ventures.(C)

6 -Support feasibility studies on privately operated free trade zones as a means to quickly overcome inappropriate African laws and practices; to demonstrate the value to private development; and to stimulate supportive growth.(A)

7 -Promote Bilateral Investment Treaties with SSA countries.(A)

Technical Assistance Items:

1 -Rich offshore fisheries provide a particularly attractive opportunity in several SSA countries. A team from the U.S. private fisheries industry with USG support should visit these countries to determine how indigenous utilization of these resources could be increased.(C)

2 -Investigate creating industry or problem specific U.S. business missions to Africa which would provide recommendations on policy issues and business practices.(A)

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3 -Enhance efforts to make the American private sector aware of African opportunities and obstacles through more frequent and better targeted African investment seminars, including presentations at selected annual trade and professional association shows and conventions.(A)

4 -Work with donors and host governments to establish effective privately-operated one-stop investment centers in selected SSA countries.(B)

PUBLIC AWARENESS AND OTHER PROPOSALS

Policy Adjustment Items:

1 -Substantially increase the U.S. country team's knowledge of the SSA private sector and instruct them to find ways to establish private enterprise advisory groups from indigenous and expatriate businessmen and farmers.(A)

2 -Create a centrally-funded SSA visitors program to enhance African leadership familiarity with private trade and investment goals and opportunities.(A)

3 -Study the use in Africa of tax or other incentives to the African private sector to support appropriate training, including possible U.S. replacement of lost tax revenues from local currency generations.(C)

4 -Establish a Private Enterprise Institute for SSA which would involve indigenous and foreign private sectors, USG, African and other donor governments to provide information on relevant new private enterprise development techniques, training and investment climates.(B)

Technical Assistance Items:

1 -Establish African internship programs in American business firms for short-term practical training with the USG and receiving firms sharing costs.(A)

2 -Develop partnership programs to link U.S. and African firms or business associations for training, technical assistance and business development.(A)

3 -Establish ties with U.S. business schools to develop appropriate training for the SSA private sector to include efforts to induce U.S. corporate scholarships with USG payment of travel and selection costs.(A)

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4 -To expand the impact, appropriateness and breadth of technical training, investigate community supported short term visitation in America through industry specific visits of African technicians including factory or site sessions, seminars and home hospitality. American communities or firms might support local costs and planning with the USG covering selection and travel.(C)1

5 -Substantially increase the emphasis on private sector trade and investment speaking tours in SSA.(C)

6 -Institute a computer talent bank of Americans with African experience for use by government and private sector.(C)

7 -To determine the cost and extent of the major transportation and ports obstacle to both trade and investment, offer a team of American private sector, regional port/river authority experts and others to study port and transportation problems on a regional basis in Africa and to prepare pre-feasibility regional planning studies. Multilateral and bilateral donor support and participation would facilitate this project.(A)

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