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Revamping African and the United States economic ties: A quest for more trade and investment

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Revamping African and the United States Economic Ties: A Quest for More Trade and Investment

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This paper examines United States-African economic relations, focusing on trade and investment. It reviews historical and contemporary interactions, arguing that the engagement of the United States in Africa has largely been constrained by geopolitical factors, resulting in trade and investment levels that fall short of expectations. To enhance these connections, American and African policymakers need to reevaluate strategies, including developing policy frameworks to make Africa more attractive for investment and trade, leveraging the African Continental Free Trade Area (AfCFTA), aligning with existing initiatives, and mobilizing resources from the African diaspora in the United States.

Keywords: Trade, Investment, United States, Africa.

► Introduction

The engagement of the United States in Africa relies more on ideological and geopolitical than economic considerations. Geopolitical rivals, particularly Russia and China, are increasingly strengthening their links with Africa. For instance, China has positioned itself as Africa's largest trading partner and a significant player in infrastructure investment, mainly through its Belt and Road Initiative. In several African countries, Russia has positioned itself as the leading security partner under the Africa Corps organization, the rebranding of the Wagner Group. This contest for influence has significantly shaped United States policies towards Africa and is pivotal in molding the continent's economic and governance dynamics.

The transformation of Africa's socio-economic landscape presents a striking contrast to its untapped economic potential. Africa is on the cusp of becoming a significant economic powerhouse, supported by a population of roughly 1.5 billion and a GDP estimated at approximately \$3.1 trillion. This output is set to grow annually at 4 to 5 percent over the next five years. The demographic composition of the continent is also advantageous, characterized by a youthful and growing population, which not only constitutes a robust consumer base but also has the potential for a dynamic labor market.

Covering an area of approximately 30 million square kilometers, Africa is the second-largest continent and is rich in untapped natural resources. It contains 90 percent of the world's cobalt deposits, 64 percent of its manganese, and 60 percent of its diamond reserves. Additionally, Africa holds 50 percent of global gold and phosphate reserves, 75 percent of the world's cocoa, and 60 percent of its coffee production (Oramah, 2018). Regarding mineral wealth, Africa comprises 30 percent of the world's mineral reserves, 8 percent of natural gas reserves, and

12 percent of oil reserves. Furthermore, it possesses 40 percent of global platinum and uranium reserves. The continent is also notable for its agricultural potential, as it harbors 65 percent of the world's arable land and is home to 10 percent of the renewable freshwater sources (United Nations Environment Programme, 2024).

This paper assesses the United States and African economic relations, focusing specifically on trade and investment. Research on these dimensions has been limited, with much of the literature concentrating on ties with Europe dictated by colonial legacies or on BRICS nations because of their increasing roles in the global economy. We critically analyze historical and contemporary economic interactions between the United States and African countries, providing a forward-looking perspective on potential future engagements.

We argue that the United States-Africa economic engagement has been predominantly constrained by geopolitical factors, resulting in trade and investment levels that fall short of their expected benchmarks. This gap highlights the necessity for American and African policymakers to reevaluate and enhance strategies to strengthen trade and investment connections. Potential strategies may involve the formulation of policy frameworks to enhance the continent's attractiveness for investment and trade through comprehensive structural reforms. Leveraging the African Continental Free Trade Area (AfCFTA), ensuring alignment with existing cooperation initiatives, and mobilizing the resources of the African diaspora in the United States could provide substantial avenues for deepening trade and investment ties between the two blocs.

The remainder of this paper is structured as follows: Section II offers a concise overview of the economic relationships between the United States and African nations. Section III examines

the latest trends and advancements in trade and investment dynamics between these two regions. Section IV presents strategic policy recommendations to enhance economic collaboration through expanded trade and investment activities. The final section provides a summary of our findings and conclusions.

▶ Looking Back: A Brief Historical Recap

The economic relationship between the United States and Africa has its roots in historical contexts dating back centuries. Predominantly characterized by rent extraction and influenced by geopolitical interests, this relationship has been marked by a lack of continued engagement. As a result, trade and investment flows between the two regions have declined far below expectations over recent years.

The historical link between Africa and the United States stems from the transatlantic slave trade, driven by labor demands for southern plantations and cotton farms. The shortage of labor from white settlers and Native Americans led Euro-American slave traders to forcibly transport enslaved Africans to support the southern plantation economy (Falola & Njoku, 2020). Key regions involved included the “slave coast” (Bight of Benin), Senegambia, the “Gold Coast,” and the Bight of Biafra, with trading posts such as Gorée, Cape Coast, and Lagos (Oyebade, 2018). From slavery to the early 20th century, United States economic policy focused on the Americas, Europe, and Asia, mainly neglecting Africa, primarily managed by European colonial interests (Oyebade, 2018; Falola & Njoku, 2020).

The Second World War (WWII) shifted the American economic approach towards Africa due to its strategic importance. The loss of Southeast Asia to Japanese forces compelled the United States to look to Africa for essential raw materials, including iron ore from Liberia,

tin from Nigeria, manganese from Ghana, diamonds from Sierra Leone, and various minerals from South Africa and the Belgian Congo. Africa also became a key supplier of vital agricultural commodities such as palm oil, cocoa, and rubber, mainly from Nigeria, Ghana, Sierra Leone, and Liberia (Oyebade, 2018).

The end of WWII triggered the Cold War, reshaping the American economic policy in Africa. The primary goal was to prevent the spread of communism (Tieku, 2012). American initiatives focused on economic development and modernization, which were seen as vital strategies for alleviating poverty—an issue officials viewed as a breeding ground for spreading communist ideologies in Africa (Woronoff, 2009; Kalu, 2018). President Kennedy’s administration (1961–63) actively supported African decolonization and established the Agency for International Development (AID). President Nixon’s presidency from 1969 to 1974 focused on reducing intervention and prioritizing United States interests, engaging strategically with South Africa and Nigeria to strengthen economic relations in Africa. President Carter’s administration (1977–81) marked a renewed engagement with Africa, emphasizing development and human rights.

Economic issues were left out for some period after the end of the Cold War. After the Cold War, the United States prioritized security through UN peacekeeping and military operations. Economic initiatives began in the early 2000s with President Clinton’s African Growth and Opportunity Act (AGOA) to enhance trade with Africa. President Bush focused on debt relief and trade, while President Obama emphasized good governance and development aid. In contrast, President Trump’s presidency (2017–21) implemented “America First” policies, leading to cuts in foreign aid and protectionist measures affecting nations like Egypt and South Africa. President Biden’s administration has revitalized United States-Africa relations, supporting the African

Union's G20 membership and aiming to boost trade, investment, and security cooperation.

An analysis of the historical and contemporary economic relations between the United States and Africa indicates that geopolitical considerations have mainly shaped and limited the United States' economic involvement.

▶ United States-Africa Economic Ties

This section reviews the latest trends and advancements in trade and investment dynamics between these two regions.

Trade

Trade between the United States and Africa, particularly Sub-Saharan Africa, operates under the AGOA, which was enacted in 2000. The AGOA legislative framework enables the duty-free export of about 6,900 products from eligible Sub-Saharan African countries to the United States, significantly impacting regional trade and investment. Since its launch, AGOA has attracted Foreign Direct Investment (FDI), boosted trade growth, and created jobs. It offers African companies and entrepreneurs a strategic advantage in entering American markets. To benefit from AGOA, eligible African countries must develop national strategies that empower local firms to utilize their provisions effectively. As for most programs offered by the United States, eligibility is contingent upon adopting reforms that appear to be ideologically motivated. In the case of AGOA, eligibility criteria include adhering to a market-driven economy, establishing legal frameworks, promoting political pluralism, reducing trade barriers, alleviating poverty, combating corruption, and protecting human rights. As of October 2024, 32 Sub-Saharan African nations will meet these criteria, while 17 will not. AGOA has strengthened the United States-Africa trade, mainly in automobiles and textiles.

In recent years, trade relations between the United States and Africa have not met expectations, particularly in countering the influence of emerging global powers. Since the early 2000s, the United States-Africa trade has undergone three phases (see **Figure 1, Panel A**). From 2002 to 2008, trade surged from \$34 billion to \$146 billion. However, the global financial crisis (GFC) caused a decline, with trade dropping to \$52.2 billion by 2015 and stagnating until the COVID-19 pandemic further disrupted activity. By 2023, trade reached \$67.5 billion, a 48 percent increase from \$45.7 billion in 2020. American exports to Africa climbed to \$28.7 billion, a 30 percent increase, primarily driven by the sales of aircraft and refined petroleum products. Imports rose to \$38.8 billion, up 63 percent from 2020, mainly from crude oil.

Trade dynamics between the United States and the African bloc show a significant concentration in a few countries and products, mainly on fuels, oil, and minerals (see **Figure 1, Panels C to F**). From the African side, South Africa leads in trade with \$21 billion in 2023, consisting of \$7 billion in exports and \$13 billion in imports. Significant partners include West Africa (Côte d'Ivoire, Ghana, and Nigeria) with \$12.3 billion, North Africa (Algeria, Morocco, and Tunisia) contributing around \$11 billion, and East Africa (Ethiopia, Kenya, and Tanzania) with \$3.5 billion. Angola and Madagascar are also key players in the transatlantic trade. Furthermore, in 2023, fuels and oils make up 30 percent of African imports from the United States, while Africa exports 32 percent of its crude oil to the United States. Precious metals represent 23 percent of African exports to the United States, with limited trade in processed goods and machinery. Enlarging the participant country and enhancing product diversification in trade between the two regions are essential for maximizing value chain benefits.

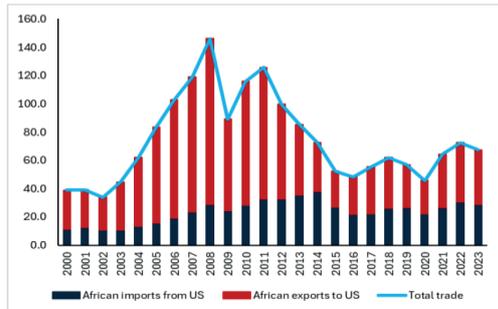
The main competitors on the continent significantly outpace the United States' trade engagement with Africa. The trajectory of trade

between the United States and Africa has exhibited some growth; however, the American share in African total trade has significantly declined from 16.2 percent in 2006 to just 5.2 percent in 2023. This decline underscores the United States' diminishing role within Africa's evolving economic landscape. In stark contrast, bilateral trade between China and Africa surged to \$293.5 billion in 2023, surpassing United States-Africa trade by more than a factor of four, according to the International Monetary Fund Direction of

Trade Statistics as of September 2024. This data also reveals that the European Union holds a 26 percent stake in this trade, while China represents 16 percent. This marked reduction in the American share in Africa's trade may compel American policymakers to reassess and potentially bolster relations with African nations, mainly as China and Russia increasingly receive favorable perceptions and more robust engagements from African political leaders, academics, and the general population.

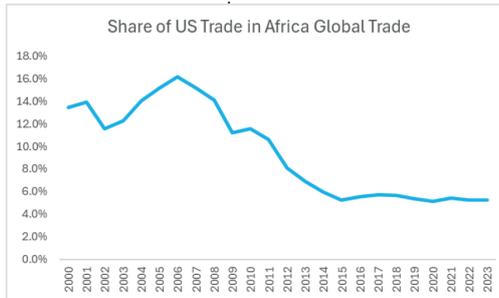
Figure 1. Trade Dynamics between the United States and African Countries, 2000-2023

Panel A. Trade between the United States and Africa, In Billions of United States \$



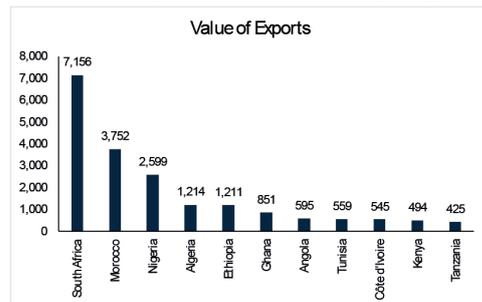
Source: IMF Direction of Trade Statistics, Sep. 2024

Panel B. Share of United States in African Global Trade (percent)



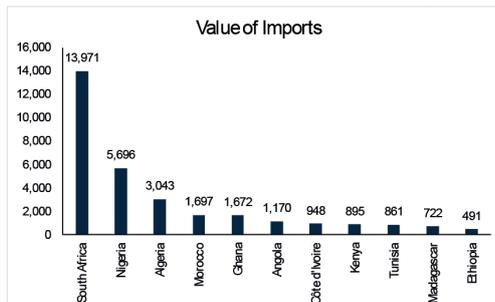
Source: IMF Direction of Trade Statistics, Sep. 2024

Panel C. Top 10 exporting countries to the United States, United States \$ mn, 2023



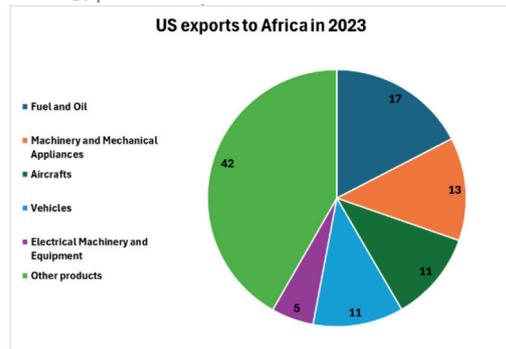
Source: IMF Direction of Trade Statistics, Sep. 2024

Panel D. Top 10 importing countries to the United States, United States \$ mn, 2023



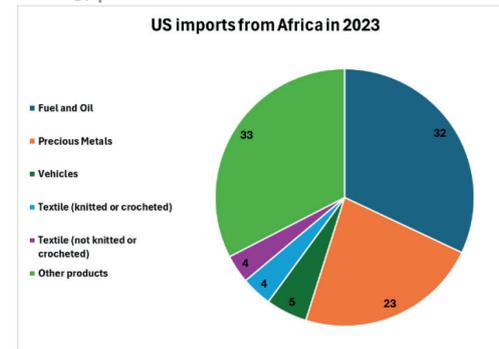
Source: IMF Direction of Trade Statistics, Sep. 2024

Panel E. Key United States exports to Africa in 2023, percent share.



Source: TradeMap.

Panel F. Key United States imports to Africa in 2023, percent share.



Source: TradeMap.

Investments

United States direct investment in Africa has significantly declined, reflecting a diminished ambition for the continent. By the end of 2022, Foreign Direct Investment from the United States to Africa totaled approximately \$46 billion (see **Figure 2**), constituting less than 1 percent of the global Foreign Direct Investment pool from the United States that reached \$6.31 trillion. This figure represents a notable decrease from \$52 billion in 2015. In contrast, China's FDI in Africa for the same year came higher at \$50.5 billion, highlighting a disparity in investment levels.

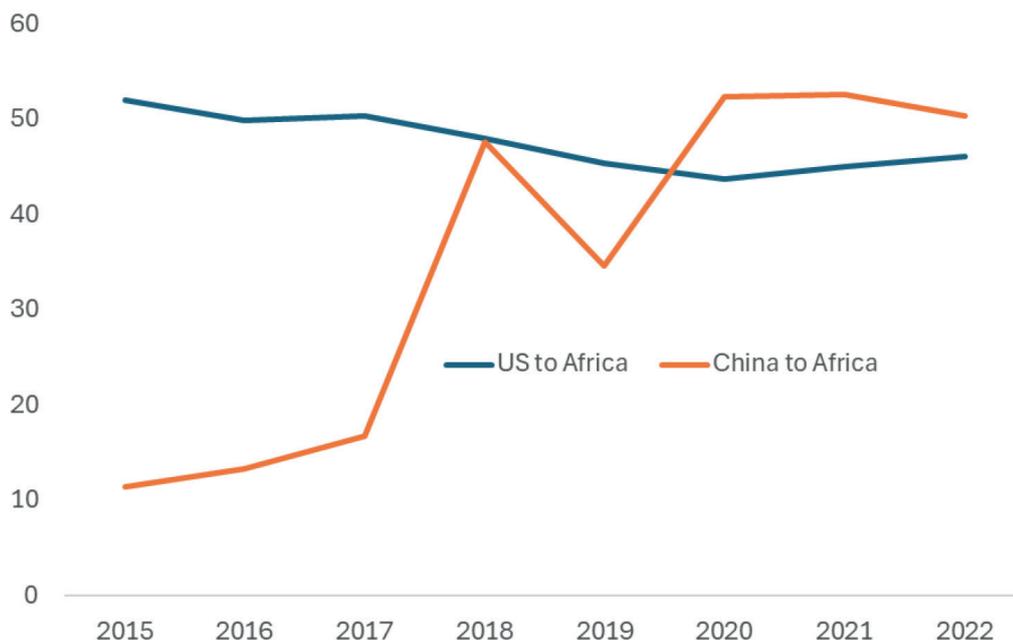
Despite overall declines, there is a discernible improvement in the quality of United States FDI in Africa, driven by increasing diversification within investment portfolios. Traditionally, United States investments were heavily concentrated in the mining sector; however, recent trends indicate a notable shift towards non-mining sectors. This transition is evident

in greenfield investment announcements that reveal a growing capital allocation to manufacturing and services (Qiang et al., 2021). American direct investments in Africa's mining dropped from over 50 percent (2000-2014) to 32 percent by 2020. This pronounced decline in mining investment has been a critical factor contributing to the overall reduction in United States direct investment across the continent between 2014 and 2020.

The diminishing attractiveness of African mining ventures for United States investors is primarily attributed to a strategic pivot towards domestic energy sources (United States International Trade Commission, 2020). The latest survey shows that United States direct investments are primarily directed at key sectors, including information technology, telecommunications, business services, financial services, clean energy, and transportation. The principal recipients of this capital infusion are South Africa, Mauri-

Figure 2. Direct Investment to Africa

China and the United States, 2015-2022, Billions of United States \$



Source: IMF Coordinated Direct Investment Survey.

tius, and Nigeria, which have emerged as favorable destinations for United States investors.

► Looking Forward: A Policy Review

This section delves into the implications of United States trade and investment policies towards Africa amid a politically divided America. Given the United States' status as the world's largest economy, the political platform of the presidential administration significantly affects the global economic landscape, particularly for developing economies like those in Africa. Despite significant ideological divides between Republican and Democratic administrations regarding key policy matters, the overarching United States stance toward Africa has exhibited continuity. A detailed analysis of United States policies directed at the African continent unveils a consistent pattern of limited economic engagement, regardless of the differing ideological frameworks guiding each administration. Regardless of political platforms or administrations, initiatives have primarily focused on limited interventions guided by incentive-based strategies. In the discussion below, we look at the policy perspectives of both camps on trade and investment policies in Africa.

Policies Influencing Trade

The divergent trade policies of Republicans and Democrats illustrate fundamentally contrasting ideological frameworks that underpin their respective platforms. Republicans often advocate for free-market principles, prioritizing deregulation and tax incentives to stimulate economic growth. Republicans favor deregulation and free trade. For instance, during President Trump's first term, the "American First" trade policies tinted with trade wars led to mixed results, benefiting some industries while harming agriculture due to Chinese tariffs. Constant trade wars resulted in heightened uncertainty, a deterrent

to Trade (Nana et al., 2024). In a potential Trump 2.0 phase, increased protectionism will likely include a proposed hike in import tax and higher tariffs on Chinese goods, risking a trade war and elevated trade uncertainty. In contrast, Democrats emphasize protectionist measures and equitable trade practices to safeguard domestic industries and labor. These foundational beliefs significantly influence legislative priorities and each party's strategic approaches in trade negotiations and policy formulations. Democratic policies prioritize equitable trade and sustainability, impacting African nations reliant on United States trade preferences. For example, the Biden Administration's "derisking" approach to China aims to build resilience through diversified supply chains while maintaining some tariffs. Vice President Harris will likely emphasize multilateral cooperation, domestic production, and key initiatives like the United States-Taiwan Initiative on digital trade and the Indo-Pacific Economic Framework to boost United States manufacturing and renewable energy.

From an African perspective, trade relations with the United States are crucial to the broader relationship between the African continent and the United States. Although the Republican and Democratic parties adopt different approaches, both acknowledge the need to enhance and expand trade connections with Africa. This enduring focus underscores the strategic significance of economic partnerships in fostering diplomatic relations and creating mutually advantageous growth opportunities. Key initiatives such as the AGOA are poised to persist regardless of which party is in power. However, there are also important nuances between the two parties. Republicans favor free trade, while Democrats prioritize labor rights and environmental protection. This divergence could have profound implications for African economies that depend on United States trade preferences. A shift towards protectionism in United States trade policy under a Republican administration could adversely affect

African exports. At the same time, an increased emphasis on sustainability trade under a Democrat administration could open new avenues for economic engagement and development in the region.

In summary, irrespective of political affiliations, Republican and Democrat administrations have consistently recognized trade as a vital catalyst for economic growth and prosperity. Both major parties, Republican and Democratic, acknowledge the critical importance of trade policies. Notably, they have continued the African Growth and Opportunity Act (AGOA) initiative and are poised to enhance its provisions further.

Policies Influencing Direct Investment

The two political platforms are mostly divergent on policies around outbound investments except for considerations around national security.

The Republican political platform promotes reshoring manufacturing and reducing reliance on foreign goods, impacting outward investments by American companies. Strategies like friend-shoring and protectionist measures have shifted foreign direct investment (FDI) dynamics. The Tax Cuts and Jobs Act lowered the corporate tax rate, encouraging profit repatriation and making foreign investments less appealing, as companies often opt for stock buybacks. Trade conflicts, especially with China and the USMCA renegotiation, have created uncertainty, prompting companies to relocate manufacturing to Mexico or diversify their operations in Asia. Proposed tariffs may further raise costs and diminish the appeal of overseas production in sectors such as automotive and technology.

Surprisingly, The Republican strategy regarding outward direct investments to Africa is notably different and more favorable. For instance, during the Trump administration, which introduced the Prosper Africa initiative in 2019, this initiative was designed to augment FDI from

the United States across pivotal sectors, including technology, energy, and agriculture (Cook & Williams, 2020). The program aimed to enhance private sector engagement and bilateral trade, culminating in 547 new deals valued at \$14.2 billion in 2023—representing a 60 percent year-over-year growth. Should a potential Trump 2.0 administration arise, it may seek to bolster the Prosper Africa initiative, focusing on better intra-agency coordination and cultivating partnerships with strategically aligned African nations in critical areas like energy and infrastructure. However, implementing onshoring policies could constrain these investments' efficacy and potential gains.

For the Democrats, FDI policies balance economic competitiveness and national security. The party supports progressive tax reforms to increase tax obligations for high-income earners and corporations, close tax loopholes, and adjust capital gains tax rates. This could deter the offshoring of some industries, enhancing the United States' outward investments. On trade, Democrats favor multilateral cooperation and comprehensive trade accords while prioritizing labor rights and equitable practices, which can reduce uncertainties and promote cross-border direct investments.

In Africa, Democrats' foreign policy has focused on strengthening economic engagement and sustainable development. President Biden doubled the annual budget for the Prosper Africa initiative to \$160 million compared to the Trump administration. The December 2022 United States-Africa summit brought together 49 African leaders and introduced a \$55 billion investment package for health and clean energy sectors over three years. The Biden administration also aims to mobilize \$600 billion in global infrastructure investment, with over \$1.5 billion already allocated to the Lobito Corridor, which connects Angola, the Democratic Republic of Congo, and Zambia. A potential Harris Admin-

istration is expected to continue this approach, promoting United States direct investment to support global economic development.

Regardless of political affiliations, Republican and Democratic administrations have historically favored investment-friendly policies toward the African continent. However, the initiatives undertaken thus far have been characterized by sporadic and underfunded interventions. Both parties have endorsed the Prosper Africa Initiative, which, despite its potential, remains largely under-resourced for effectively expanding American FDI in the region.

Proposal for Deepening Trade and Investment

Considering the argument of the below expectations for trade and investment ties between the United States and Africa, examining options to strengthen transatlantic commerce is essential. This section discusses a few options for consideration.

First, there is a need for robust policy frameworks that reflect the dynamic geopolitical landscape, and the intensifying competition among major economies for influence in Africa cannot be overstated. Africa is a nexus of critical development, climate, and security challenges, rendering it a focal point for global strategic interests. As competition escalates over resources, technological advantages, and geopolitical leverage, it has become increasingly imperative for the United States to establish a transformative partnership with African nations. These policy frameworks should transcend partisan divides and be grounded in fundamental principles to enhance trade and investment opportunities across the continent.

Moreover, African nations could and should develop strategic policy frameworks to strengthen economic ties with the United States. A primary focus should be enhancing the structural funda-

mentals that improve the continent's attractiveness for trade and investment. This necessitates the implementation of substantial structural reforms aimed at market liberalization, the enhancement of domestic infrastructure, and the augmentation of production capacities. The United States can be pivotal in guiding African countries towards a market-oriented trajectory by providing targeted foreign aid and investment initiatives that align with these objectives.

In addition, leveraging the AfCFTA is also crucial for African nations. As of February 2023, 46 of 54 signatories had ratified the agreement to enhance trade and investment by reducing tariff and non-tariff barriers, giving investors broader access to the continental market. The AfCFTA opens new pathways for United States businesses to invest in Africa and fosters collaborative trade relationships with African enterprises. It is projected to significantly boost job creation, economic growth, and poverty alleviation, positioning it as a transformative force in Africa's economy.

Furthermore, initiatives such as the AGOA and Prosper Africa should strategically harness the AfCFTA agreement to maximize their impact. AGOA serves as a crucial mechanism for fostering export-oriented industries across African nations, while Prosper Africa provides essential support for African enterprises in accessing the United States market. By leveraging the synergies between the two policies, African industries can capitalize on the expanded market capacity of AfCFTA to enhance supply chain dynamics, improve operational efficiencies, and scale production in preparation for global market entry. The ongoing renewal of AGOA is pivotal for reinforcing the United States' economic partnership with Africa. AGOA has successfully reduced trade barriers and attracted investment, with new bipartisan legislation proposed to extend its provisions through 2041. Although initiatives like Prosper Africa offer a sound framework,

they currently face significant funding limitations that hinder substantial scaling efforts. A Marshall Plan tailored for Africa's private sector is essential to address this gap. Such a strategy would build on collaborations with major United States corporations and establish mechanisms to mitigate investment risks in African markets.

Finally, African nations have unique opportunities to tap into the potential of the Global African community and the African diaspora residing in the United States to boost trade and investment across the continent. African-owned enterprises are thriving across various sectors, such as technology, finance, fashion, and entertainment, and have the capacity to enhance trade and investment between the United States and Africa. The diaspora can play a vital role in facilitating intra-community trade, promoting capital mobility, and increasing investment flows for economic advancement both within Africa and beyond. African governments must recognize the African diaspora's significant economic influence, especially those living in the United States when developing strategies to attract investment. Implementing targeted initiatives aimed at engaging African American businesses is crucial. Additionally, leveraging lobbyists to advocate for African interests within American political circles will be important for garnering support for development initiatives across the continent.

► Conclusion

This article explores the economic interactions between the United States and Africa, focusing on the complexities of trade and investment. The historical ties between the United States and Africa relationship involve elements of rent extraction and geopolitical influences. Despite ideological differences between Republican and Democratic administrations, the United States' approach to Africa has remained

consistent, characterized by limited economic engagement and incentive-driven strategies regardless of the ruling party.

Trade and investment between the United States and African nations have significantly decreased recently. Despite Africa's potential growth engine in the global economy, interactions with the United States have trended downward for two decades, underperforming compared to other emerging markets like China and the European Union.

A bipartisan consensus exists in the United States regarding the importance of trade for economic growth in Africa, though Republican and Democratic administrations approach this differently. Both parties generally support investment-friendly frameworks. However, their initiatives, like the Prosper Africa Initiative, have often been sporadic and underfunded, limiting their potential to boost American foreign direct investment in the region.

Given the current challenges in trade and investment between the United States and Africa, policymakers must reassess their strategies. Fundamental approaches could include developing robust policy frameworks to enhance Africa's appeal for investment, implementing structural reforms, leveraging the African Continental Free Trade Area (AfCFTA), aligning with existing initiatives, and mobilizing resources from the African diaspora in the United States. These steps could significantly strengthen economic ties between the two regions.

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