Keeping an eye on Biden's plans for Africa

President Joe Biden has been sworn into office, ushering in a new administration, new foreign policy and a new approach to US trade and investment in Africa.

President Joe Biden

Advocating for natural gas abroad

The African natural gas value chain represents a critical avenue for foreign investment and export opportunities, including the creation of onshore US manufacturing jobs. The Total-operated Mozambique liquified natural gas (LNG) project, for example, secured its largest share of senior debt financing from the US Export-Import Bank, which aims to support the country's exports for the development and construction of the LNG plant and create an estimated 16,700 American jobs over its five-year construction period. In terms of US LNG exports, the relative proximity of certain sub-Saharan markets to North America renders the cost of transporting US LNG to the continent as 20-40% less than transporting it to North Asia. As a result, the export market potential for US companies looking to sell excess LNG supply to Africa – as a result of the country's recent major investments in new liquefaction capacity – is substantial, coupled with Africa's own large-scale energy needs.

As part of the Democratic Party platform, Biden has targetted the elimination of billion-dollar oil and gas subsidies in the US and called on other developed countries to do the same. While the proposition is unlikely to pass US Congress, it suggests that the Biden administration may follow the likes of Europe, in terms of restricting fossil fuel investment and signalling its commitment to climate change action. To date, US oil majors (ExxonMobil, Chevron) have been less radical in their commitment to reducing carbon emissions and retooling investment strategies than their European counterparts (Total, Shell). If the US can continue to lend support to gas development abroad – particularly in Africa, in which gas is positioned as a relatively clean burning fossil fuel able to deliver energy to scale – then it can cement its role as a leading provider of finance, infrastructure and technology to Africa's energy transition.

Facilitating a mutual energy transition

Biden has been expectedly liberal in his stance toward a US energy transition: in addition to once again committing the country to the Paris Agreement, he has pledged to transition the national economy to net-zero emissions by 2050, utilising the revenues retained from subsidy cuts to fund a $2trn climate action plan. That said, US support of renewables should not be limited to the domestic market, and if the country plans to increase its fund allocation toward stimulating green business, then Africa represents a worthwhile recipient. The energy sector is already considered an investment priority by the International Development Finance Corporation (DFC), attracting $10bn in commitments to date.

In sub-Saharan Africa, total investment in power project development available to US companies is estimated by Power Africa at $175m. Meanwhile, universal electricity access by 2030 will require the construction of more than 210,000 mini-grids, mostly solar hybrids, connecting 490-million people at an investment cost of almost $22bn, according to the World Bank's Energy Sector Management Assistance Programme. US renewable-focused firms are well-equipped to meet African demand for renewable investment, offering an influx of technology, flexible capital and technical expertise, coupled with a free-market competition approach and reduced barriers to entry.

In addition to attracting external investment to reach continent-wide clean electrification goals, Africa is rich in minerals needed to fast-track the US along its own energy transition. The Democratic Republic of the Congo, for example, is estimated to contain one million tons of lithium resources and is a global leader in the production of cobalt, copper, tantalum and tin. Such minerals are required to meet growing market demand for 'green' batteries that have the capacity to fuel US clean energy by powering carbon-free grids, electric vehicles and green technologies.

Countering Chinese influence

In terms of foreign policy, enhanced US presence in Africa represents a strategic counter to Chinese influence, in the midst of an ongoing trade war between the two economic superpowers. The DFC offers a dynamic alternative to China's Belt and Road Initiative, which has faced criticism due to its debt-heavy approach targeting government-to-government financing, along with its procurement to Chinese – and not African – firms and state-owned enterprises for the development of large-scale infrastructure projects. Criticism aside, China has been able to successfully extend its influence across the Global South because of the financial backing it receives from its government. Public sector support serves to alleviate perceived risk by providing a governmental vote of confidence – which the DFC has sought to do through reinsurance models that boost underwriting capacities and guarantees on behalf of American exports and contractors. Political risk insurance also seeks to protect US investments against risk associated with currency exchange, expropriation, foreign government interference and breach of contract.

As it stands, bilateral trade between the US and Africa is – for lack of a better word – underwhelming, decreasing from $31.3bn in the first six months of 2019 to a paltry $12.7bn over the same period in 2020. Last July, the US began negotiations with Kenya over a free trade agreement targetting duty-free access for Kenyan goods to the US market. If an agreement is reached – and it appears unlikely, given Biden's proclivity for multilateralism and his anticipated prioritisation of the African Continental Free Trade Area – it could serve as a trading model for other sub-Saharan countries and to enhance commercial engagements. In short, the pieces of the puzzle for US private sector-led growth in Africa are there; it is now up to the Biden administration to put them together.