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Mr. Chairman, Ranking Member Biden and members of the Committee, thank you for inviting me to testify before the Committee today on the African Growth and Opportunity Act (AGOA). It is a particular pleasure to testify on AGOA before this Committee because it allows me to again congratulate the Chairman and other members of this Committee who were instrumental in enacting AGOA into law in 2000, and in the passing of the "AGOA II" package as part of Trade Promotion Authority last summer.

Mr. Chairman, you have asked me to address the impact of AGOA on African countries. I am very pleased about the impact AGOA has had on African countries.

First, a few trade numbers. Excluding energy products, our AGOA imports including products covered by its GSP provisions rose 50% in 2002 to $2.2 billion. This is a relatively low level compared to our overall imports of over $1.1 trillion in 2002, but this isn't trivial for Africa. The United States is Sub-Saharan Africa's largest single-country market, the recipient of about one-quarter of Sub-Saharan Africa's exports.

Total AGOA imports increased 10% in 2002, to $9 billion, about half of our overall imports from Sub-Saharan Africa. About three-quarters of that was oil.

Behind oil, the biggest AGOA import has been apparel. We imported over $800 million in apparel under AGOA in 2002, more than double the 2001 figure, and overall imports in this sector from AGOA-eligible countries are up over 50% from 2000. We have also seen under AGOA large levels of imports of transportation equipment, minerals and metals, agricultural products, and chemicals.

Increases in AGOA trade happened despite the fact that our overall imports from sub-Saharan Africa have actually declined since 2000, mostly due to the drop in key commodity prices - especially oil, which accounts for about 60% of our imports from the region - and the general slowdown in the global and United States economies, with a corresponding slowdown in our overall imports.

While my testimony contains numerous examples of success stories, we need to do a lot more to encourage African economies to diversify, build the economic and policy infrastructure to conduct and facilitate trade, and to attract foreign investment. AGOA, along with these other initiatives, is in our view the right way to go.

In Africa, our overall commitment is to reduce poverty through economic growth, and trade is one of the tools that can make this happen. AGOA is a large part of the U.S.-Africa trade strategy where the primary objective is to integrate African economies into the world trading system. We want these countries to build strong partnerships not only with the U.S. but with other countries around the world.

As AGOA goes forward, we also need to realize that the Administration has several new trade-promotion initiatives -- starting with the President's Trade Initiative for Africa (Trade for African Development and Enterprise). The U.S.-SACU (Southern Africa Customs Union) Free Trade Agreement negotiations will serve as a building block for future market-opening agreements with the United States. As a leading trading nation, the United States has much at stake in making these trade initiatives succeed.

Behind the trade numbers are many success stories and many examples of how AGOA is helping Africans.

One we hear a great deal about is Lesotho. This small, land-locked country of only 2 million was Sub-Saharan Africa's second largest exporter of manufactured goods to the United States in 2002. Last year it sent $320 million in apparel products to the United States, over 99% of it under AGOA. According to Lesotho's trade minister, AGOA has created over 25,000 new jobs in Lesotho's apparel sector so far, and over twenty plants have opened or expanded since 2000. A new plant is opening in one of Lesotho's poorest rural districts that will employ 5000 local residents. For the first time in Lesotho's history, more people are employed in the manufacturing sector than by the government.

South Africa, the most important economy in Africa, has greatly benefited from AGOA. It exported over $1.3 billion under AGOA in 2002. Exports of automobiles have increased sixteen-fold since AGOA went into effect, creating extra investment and employment in that industry. Long-term declines in the South African textile and apparel sectors have been reversed and workers hired as AGOA exports almost tripled in 2002. A small specialty ice-cream maker found a new market in the United States and has greatly expanded its business. South African agricultural products like oranges, fruit juices, and fruit candies have for the first time found markets in the United States, and sales of products like wine, household appliances, and footwear have increased.

A South African economic consultancy last year estimated that AGOA has been directly responsible for the creation of 19,000 new jobs and indirectly for at least 40,000 others. Importantly, its AGOA exports are concentrated in labor-intensive sectors, helping create jobs in a country faced with persistently high unemployment rates.

Kenya saw its overall exports to the United States increased by 50% last year thanks to greater apparel exports under AGOA. Kenya has estimated that 30,000 people hold jobs directly related to AGOA, and over 150,000 others have jobs indirectly linked to AGOA, in industries that support companies manufacturing for export under AGOA. Even manufacturers that aren't selling their products directly to the United States are benefiting - for example, half of Kenya's sisal production is used in dartboards that we import under AGOA. Kenya's export promotion agency estimates they have seen over $45 million in such "backward linkages" into Kenya's economy. And just this month, Kenya announced it would for the first time export processed coffee to the United States under AGOA.

AGOA has increased employment, provided extra income for urban and rural workers, and given a boost to Kenya's economy.

Uganda is another major coffee producer. Now under AGOA a new firm is processing coffee before exporting it to the United States - the first time Uganda has ever added value to its coffee exports, which account for 2/3 of its export revenues. Also thanks to AGOA-inspired investments, new exports of apparel to the United States began in 2002, not only employing urban workers but also boosting income for Ugandan cotton farmers.

Two American companies have invested in plants in Ghana to finish and re-export socks to the United States - these first-time investors in Africa are employing 400 Ghanaians. Another American firm manufactures dried soup mixes in Ghana for export to the United States, and investors from Malaysia and Mauritius are preparing operations with an eye on the American market.

In Cape Verde, American and Portuguese firms have expanded fish processing businesses and are exporting locally-caught, high-quality tuna and mackerel to the United States. Cape Verde began exporting shirts under AGOA just last December.

Foreign companies have invested over $250 million in spinning operations in Namibia, creating some 20,000 jobs by 2005. In the past few months we have seen large increases in exports to the United States under AGOA as these operations come on-line. AGOA is diversifying Namibia's economy beyond diamonds, minerals, and subsistence farming.

A small handicraft company in Tanzania has boomed since AGOA. Before AGOA, it employed 25 people and exported $20,000 a year worth of arts and crafts to the United States. Now, it has increased its exports to the United States ten-fold and has created new jobs and provided income for 125 poor Tanzanians, mostly women.

Not all AGOA-related successes involve exports directly to the United States. AGOA is also stimulating intra-regional trade and investment. For example, Namibian plants produce parts that are included in South African cars exported to the United States.

Zambian cotton exports to South Africa more than doubled in 2002 thanks to increased demand generated by AGOA. This doesn't register as an AGOA export but thousands of Zambian farmers have nonetheless seen their incomes rise thanks to increased demand for their cotton. Also in Zambia, a local manufacturer is now exporting yarn to South Africa - without AGOA, the owner of this factory said they would have gone out of business, and hundreds of Zambians would have lost their livelihoods.

We have witnessed increased African investment in other African countries thanks to AGOA. Mauritian firms have been especially active. They are investing in Mali to build a plant that will produce yarn from Malian cotton. This will employ Malians, boost incomes for Malian cotton farmers. Its product will then be used by apparel plants in Mauritius for products destined for export under AGOA. Mauritian companies have invested in Madagascar, Mozambique, and Ghana, and are looking at Senegal, all due to AGOA.

As we look at various AGOA success stories, there is no avoiding the fact that with a few exceptions, the biggest beneficiaries have been in the textile and apparel sector operating in southern Africa. I suggest a couple of reasons for this.

Major winners from AGOA like South Africa, Namibia, and Lesotho have a combination of factors in their favor. They have reasonable commercial frameworks that allow businesses to set up and operate relatively freely, and governments that have encouraged investment and trade. A company won't invest if the obstacles are too great, or the fear of effective expropriation by unreasonable regulation or corruption too high.

These countries are also for the most part relatively large markets - or are tied to larger markets such as the Southern Africa Customs Union, in the case of Lesotho, Swaziland, and Namibia. They have also been stable politically.

Some countries have seen little benefit from AGOA. Some are simply poor, isolated countries with relatively little economic activity, or little capacity to effectively produce and market products that might find buyers in the United States.
Unsurprisingly, countries with poor governance and/or political instability have not been able to benefit from AGOA. An unfortunate example is Madagascar. Dubbed the poster-child for AGOA in December 2001 by the Wall Street Journal because of its booming apparel industry, Madagascar slid into six months of instability and unrest soon after due to a political crisis. Even though the political situation has stabilized and the new government is doing well, Madagascar's AGOA-based exports are down by a third for the first quarter of 2003 over 2002.

Other countries have simply failed to exploit advantages they enjoy to benefit from AGOA. Nigeria is an example. They are by far the largest exporter under AGOA in dollar terms, but that is almost entirely because of oil - which would be sold to the United States even without AGOA or GSP. Although they have a vibrant private sector, they have done relatively little under AGOA. Other countries like Zimbabwe, which until recently was a very competitive African economy, have of course failed to even gain AGOA benefits due to their failure to meet the eligibility requirements.

Quite simply, AGOA benefits have largely accrued to those countries that have done the most to help themselves, encouraging investment and trade, and maintaining stability. We have worked with other countries to try to improve the results of AGOA through our trade capacity building programs and will continue to do so, but ultimately whether a country can benefit from AGOA is largely in their own hands.

We hope to see greater agricultural trade between the United States and Africa. To do this we are working with African countries on food security issues and on U.S. sanitary and phyto-sanitary (SPS) requirements in particular. The Department of Agriculture and its Animal and Plant Health Inspection Service (APHIS) have, with the support of the US

Agency for International Development, stationed an APHIS scientist at the USAID trade hub in Botswana to help governments and businesses in southern Africa meet our SPS standards. Soon, two additional APHIS scientists will be providing similar services through the trade hubs in eastern and western Africa.

Trade and employment numbers are the most obvious way of measuring the impact of AGOA, but we shouldn't forget the non-quantifiable impacts. For example, most AGOA-eligible countries have established local AGOA committees, usually involving governments and businesses, and frequently our Embassies. The creation of US-market oriented organizations such as these, and the sheer volume of news and commentary in African countries about AGOA demonstrate a shift in thinking. Several countries have credited AGOA's textile visa system for helping them to upgrade and improve the operations of their customs service - a nice side effect.

The AGOA Forum has also been great. We held the first one in October 2001. It was the first major international conference hosted in Washington after the attacks of September 11. The participation of the President and half of the Cabinet, including Secretary Powell and Ambassador Zoellick, plus several members of Congress, demonstrated our commitment to Africa and AGOA.

The second AGOA Forum was in Mauritius this past January, and was a smashing success. In addition to a very lively governmental Forum, which Chairman Thomas and four other House Members attended, the Mauritians helped organize a private sector event that attracted over 900 businesspeople, mostly from the US and Africa, including small African enterprises and American giants like Microsoft and Boeing. The fact that Mauritius volunteered to host this event demonstrated African buy-in to AGOA. I must note that although we have not decided whether we would ever consider having another AGOA Forum outside of the United States, African countries are already volunteering to host future forums.

AGOA is well underway. Now we are considering the future of AGOA, keeping in mind President Bush's videotaped announcement at the Mauritius AGOA Forum of his desire to see AGOA extended beyond 2008. There are three key dates to remember.

The first is September 30, 2004, when the third-country textile benefit is due to expire. Many AGOA beneficiaries have used textiles from places like China in their US-oriented apparel sectors, and have expressed concern that this benefit is ending too soon. On the other hand, there have been major investments in textile plants in Africa made explicitly with this date in mind. We will need to work together on this question. Currently we in the Administration are exploring whether or not to recommend extending the benefit. Of course we very much want to hear Congress's views as well, and will discuss this with other interested parties in the United States and Africa.

The second date is January 1, 2005, when the WTO Agreement on Textiles and Clothing expires - and with it, the current global system of quotas on textiles and apparel. Our experts in government and in industry are assessing the effect this will have on the global apparel market, and on African producers. It is expected that the share of global production for large, cheap producers like China and Vietnam will rise dramatically, and high-cost, inefficient producers can expect to go out of business, accelerating a decades-long trend toward more efficient producers. Artificial quota-driven operations such as plants in the United Arab Emirates run and staffed entirely by workers from Sri Lanka will likely disappear very quickly.

But we are not convinced that all production will immediately leave Africa. First, tariffs will remain in place. That means AGOA producers will have a roughly 17% cost break compared to non-AGOA countries in the US market.

Second, not all buyers will want to switch immediately to China or Bangladesh. Many buyers have relationships with producers in other countries that meet their needs well, and can be expected to continue. Also, companies will probably wish to have some diversity in where they source their apparel, in order to reduce vulnerability to shocks caused by natural disasters or political changes. The recent interruption in trade caused by the SARS outbreak in China is an example of this risk.

Taiwanese firms, major players in Africa that are uniquely subject to pressure from China, can be expected to maintain operations outside of China. Taiwanese firms continue to make new investments in places like Lesotho and Mauritius. Finally, the terms of China's accession to the World Trade Organization allows some temporary special measures to constrain disruptive surges in exports from China.

There is no question that African producers will have to compete more effectively, and not all will be able to do so. They will have to rise to this challenge, but I do not believe they will all fold in 2005.

The third date is September 30, 2008, when the trade provisions of AGOA are due to expire. We are considering what is being called informally AGOA III, the extension of AGOA. As we do so, we should consider other factors in our trade and economic relationship with Africa.

Should AGOA III cover more than just trade in goods? Should it expand to include trade in services, or to consider investment incentives? Are there other elements of economic cooperation that could be included in AGOA, or should we stick to its emphasis on trade?

Again, we are just now beginning consideration of what shape AGOA III should take, and of course look forward to close consultation with Congress as we try to shape this new phase for AGOA, and for our economic relations with SubSaharan Africa.

But there is another date, somewhat farther off, that we must also be aware of. In 2015, we hope that through the WTO we will have achieved a virtually duty-free system for international trade. Preference programs such as AGOA will no longer help developing countries. We - and they - need to move to solidify and advance economic gains in these states to prepare them for the opportunities and competition of a truly global free-trade environment.

I am very pleased at the positive effects of AGOA these past 2 ½ years. It is helping to create a new dynamic in Africa, to deepen the economic ties between those eligible countries and the United States. And it has given Africans new hope.

Again, Lesotho is a great example of the progress countries can make. Lesotho has been regarded by some as a sleepy backwater. Now it's increasingly seen not as an object of pity, but as a model to emulate. I am confident other African countries, with the right mixture of wise policy-making, improved market access, and well-targeted assistance, can also make this leap. Thank you.