THE AFRICA GROWTH AND OPPORTUNITY ACT (AGOA)

Testimony by

Mr. Stephen Hayes
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to

The United States Senate
Committee on Foreign Relations

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Mr. Chairman,
Distinguished Members of this Committee:

It is an honor to be with you today to discuss the success of the Africa Growth and Opportunity Act (AGOA) to date and to state my views on its future. Thank you for inviting me to share with you some of the perspectives of the American private sector on this landmark piece of legislation.

Stated briefly, I believe that AGOA's record thus far is mixed at best.

On one hand, it is indisputable that AGOA has shown positive results. Prior to this year's G8 summit, the White House released figures showing that the United States is the only major world-trading nation whose share of imports from sub-Saharan Africa increased between 1996 and 2001. Exports of manufactured goods from sub-Saharan Africa to the U.S. increased 8 percent over the same five-year time period, while exports from the sub-Saharan region to the European Union dropped 1.5 percent. The White House statement identified that much of this growth occurred in the textiles and apparel sector.

In May 2003, USTR published its third *Comprehensive Report on U.S. Trade and Investment Policy toward Sub-Saharan Africa and Implementation of AGOA* (you can also call it USTR's *Report on AGOA*). According to the Office of the U.S. Trade Representative, AGOA continues to boost trade and investment between the U.S. and sub-Saharan Africa. Total trade between the U.S. and the region reached a value of

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nearly $24 billion in 2002. U.S. exports valued $6 billion and U.S. imports valued $18 billion. U.S. imports under AGOA, specifically, were valued at $9 billion in 2002, a 10% increase from 2001.

The U.S. direct investment position in sub-Saharan Africa increased 5.8 percent at year-end 2001, to $10.2 billion, a figure supported largely by investments in the petroleum sector. If one removes the petroleum and gas sector from the equation, AGOA is a very different story. Without the petroleum industry, figures are approximately 75 percent lower, and many fewer countries are seen as beneficiaries of the AGOA legislation. Leaders and economists in African nations recognize this and are concerned by the lack of benefits for many of their countries through AGOA, yet they remain hopeful despite an increasingly restive population that sees little direct benefit from AGOA to their own lives so far. Despite what I believe are the best intentions of our nation, there is a strong danger that AGOA will result in unfulfilled expectations and increased cynicism towards the United States.

There are essentially two compatible visions that accompanied AGOA legislation. First, AGOA is designed to raise the per capita income of African nations by encouraging those eligible for the program to expand and diversify their exports and, ultimately, build a manufacturing and production base that will support long-term economic growth. Second, the act is intended to serve as an investment tool for U.S. companies seeking African partners. In my opinion, neither approach is working very well.

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The touted "success stories" of the AGOA program are too few. Those with manufacturing capacity already in place are naturally the most immediate beneficiaries. The best examples of this are also the most acclaimed: South Africa, Mauritius, Lesotho, Madagascar, and Swaziland.

USTR reports that South Africa increased its total AGOA exports from $923 million in 2001 to $1.3 billion in 2002, a 45 percent increase. AGOA exports now constitute 32 percent of total South African exports to the U.S.

We expect numbers like this from South Africa. Madagascar, a country with a much smaller economy, exported goods valued at a total of $79.7 million in 2002, equivalent to 37 percent of its total exports to the United States. These exports were primarily in textiles and apparel. Influenced by AGOA, Madagascar has approved 20 new EPZ companies in the last year, nine in textiles and apparel. These new companies represent $10.6 million in international investments and the creation of approximately 5,100 jobs.

Lesotho, too, is one of the most astounding examples of AGOA success. This country's exports totaled $318 million in 2002, representing 99 percent of its total exports to the U.S. Again, the majority of these exports were apparel. Six new garment factories opened in Lesotho in 2002 (13 opened in 2001), elevating total employment in the textile sector to around 45,000.

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I should remind you that I have drawn these examples from a sector that is currently Africa's most dynamic, growing at an annual rate of seven percent.

However, these few examples cannot carry the continent. In general, sub-Saharan African nations lack the manufacturing capacity to benefit under the terms of the current legislation. A report by the International Monetary Fund that was published last Fall calls attention to the fact that not only is the growth of the clothing export industry a unique phenomenon, but the development of these items remains intensely concentrated. As recently as 1999, a few countries – those in the Southern African Customs Union (SACU) and Mauritius – accounted for 80 percent and another three countries for a further 17 percent, of sub-Saharan Africa's exports.

We have to be careful. Mauritius, only months ago upheld by most as the "new African model," is suffering a severe downturn. Since the second meeting of the U.S. sub-Saharan Africa Trade and Economic Cooperation Forum in January of this year (also known as the Mauritius AGOA Forum), dozens of factories have closed and thousands of jobs have been lost. This is attributable to market forces. At the end of the day, Mauritian products are not cost competitive, namely with China, India, Pakistan and Vietnam. This is a problem not only for Mauritius. Technical assistance will be required to help many African nations – Kenya, Madagascar, Mali, and Tanzania among them – enhance their competitiveness.

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This problem will only get worse for Africa's poorest countries if creative approaches are not found to the question looming before us regarding the Third-Country Fabric Provisions, currently scheduled to expire in October 2004. Many observers fear that the initial benefits of AGOA, including jobs created, will evaporate if this provision is not extended.

Most importantly, Africa's contributions to the international market remain wildly disproportionate to its size and relative wealth. Only two percent of total U.S. imports come from Africa. Unless the nations of Africa are able to develop more diversified economies, they will remain highly vulnerable to severe economic downturns and in a depressed international economy they will continue to be the first nations on the planet to suffer.

There are ways to change this, both in the short and long-term. As I said, most African nations do not yet benefit significantly from AGOA because they lack a manufacturing base and an infrastructure adequate to insure that products easily and quickly reach their destinations. African nations remain dependent on one or two products to carry their entire economy. AGOA, with its heavy emphasis on textiles and apparel, has done little to change this situation.

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Necessary Short-term Measures

Africans and Americans alike still lack an understanding and knowledge of what AGOA really means to their individual businesses. Training on AGOA has been insufficient, and within the United States, almost non-existent. My own organization, the Corporate Council on Africa, has conducted 20 training seminars in 18 different nations of Africa this past year. We have also trained Africans about the US economy in six two-week programs across the United States. These programs were made possible by a grant from the U.S. Department of State. However, I am not aware of any organization that has done more and I am aware of few other training programs. This number simply is insufficient. These seminars and trainings should be ongoing; moreover, we should be doing our best to provide our African partners with both U.S. public and private sector perspectives on how to take advantage of the benefits offered by the program. American companies should also receive more information on the potential benefits they could realize through AGOA.

Mr. Chairman,

Distinguished Members of the Committee:

Although not every nation in Africa can benefit from AGOA through textiles and apparel, there is one sector where nearly every African can benefit, and that is through agriculture. If we are to support the economic development of Africa through AGOA, then we need to liberalize provisions of AGOA to make it easier for Africans to export agricultural

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produce to the United States. I know of no single better step to take to bring some degree of prosperity and self-sufficiency to a greater number of Africans than ever before. By opening our markets to agriculture produce, we improve the livelihoods of millions of Africa's farmers and farm employees, and this sector sustains the vast majority of Africans still. To quote the Secretary-General of the Common Market of East and Southern Africa (COMESA): " Only the desert lands of the Middle East provide the US less in terms of agricultural products. In dollar terms, Africa supplies one-fortieth of America's agricultural imports. While apparel imports to the US have increased substantially under AGOA, Africa's share of agricultural imports to the U.S. has decreased, from 6 percent to 4 percent during the past three years."

To reverse this situation, Mr. Chairman, I believe we must place far greater emphasis on streamlining and accelerating the inspection processes for African produce through the U.S. Department of Agriculture's Animal and Plant Health Inspection Service (APHIS). In my opinion, the current inspection capacity is far too little to adequately increase the flow of agricultural produce to the United States. Many of our global problems are complex, but here is one critical problem that could be remedied rather simply and efficiently, and given the scale of our national budget, relatively inexpensively. We need many more inspectors and trainers in inspection to ensure the movement of healthy and safe produce from Africa to the United States. Investment in the inspection process would be one of the best safeguards we could make towards strengthening our economic ties to Africa.

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Another area for consideration in the short-term is that of handicrafts. It is no secret that Africans produce some of the world's most beautiful and original handicrafts. These products enjoy immense appeal here in the United States. The passage of AGOA three years ago prompted much enthusiasm among Africa's artisans who looked forward to increasing their share of the American handicraft market. This has not yet happened for a couple of reasons. First, provisions for the export of African handicrafts to the U.S. under AGOA, often referred to as the Category Nine provisions and overseen by the U.S. Department of Commerce, have proven to be cumbersome to the point of outright stopping new exports of handicrafts. For example, this process can involve laborious and time-consuming submission of samples for each and every handicraft and verification that even the smallest stitching is authentic.

Secondly, many of Africa's small businesses are confronted with a myriad of confusing and complicated standards imposed upon them by their own governments as they seek to comply with AGOA visa provisions. It would be useful for the U.S. government to work more closely with national customs agencies in Africa to find ways to explain better and/or simplify the AGOA certification requirements for African small and medium businesses. Governments in Africa should be supported as they seek ways to undertake export promotion and financing programs for small businesses.

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Longer-term measures

As a tool for Americans to invest in Africa, AGOA, thus far, has been an abysmal failure. Investment in Africa has dropped for three consecutive years and is at its lowest level in thirty years. Americans are either not aware of the opportunities for investment that AGOA represents or they are simply reluctant to do so a this time for a variety of reasons. I believe it is a combination of both. I am not aware of any AGOA training program in America strictly for American businesses. Domestically, we have relied almost solely on word of mouth through business networks and associations to spread the word about AGOA and its potential for investment in Africa. I know of no program within government or the private sector that educates a broad American constituency about using the most important U.S.-Africa trade acts in history. Yet, I am convinced AGOA could prove to be a boon to our own economy as well as those of Africa.

To increase U.S. investment in Africa there needs to be major changes in how we view Africa and how Africans view their own nations.

On our side of the Atlantic, we need to create new incentives for investment in Africa. These incentives include tax relief and deferral, low interest loan guarantees for those wishing to invest in Africa, and a more active use of international credit agencies. Incentives for American small and medium-sized companies are especially important, as they are of a scale appropriate for partnerships and mentoring of African companies. Political and economic stability will not come to African nations until there is a stable

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middle class. That, in turn, will not develop without the development of a vibrant small business sector. No country in the world has better experience in small business and entrepreneurship than the United States of America. We need to develop incentives for our smaller industries to invest in Africa in order to link the African and U.S. economies more closely. The linking of businesses will insure a steady flow of trans-Atlantic trade.

The Corporate Council on Africa, jointly with the Institute for International Economics, yesterday released the report from its Commission on Increasing Private Capital Flows to Africa. I refer you to that report, and its chairman, James Harmon, for a lengthier discussion on the incentives necessary to increase investment in Africa.

The nations of Africa themselves clearly have a major responsibility in creating the economic and political climate necessary for business investment. Some countries such as Botswana, Mauritius, Tunisia, South Africa and Mozambique have taken measures necessary for stimulating investment, but many other countries are far from the establishment of a stable political and economic climate. They need their own form of incentives. Those incentives will need to come from within and from other African nations. The United States can only do so much in this regard, but there are some ways we can influence change while at the same time respecting national sovereignty.

For that reason, I believe that the concept of the Millennium Challenge Account is deserving of our support. Although I believe that many of the problems of Africa are not national but regional, the Millennium Challenge Account at the very least provides

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incentives for some countries to develop a climate more conducive to economic and political development.

At the same time that we support those nations genuinely seeking reform, we need also strengthen Africa's regional economic communities. These groupings are pursuing a goal that I believe we all can support: Regional answers and approaches to Africa's development needs. The Corporate Council on Africa is working to place staff in each of the four major economic communities or Africa -- the Common Market for Eastern and Southern Africa (COMESA); the Southern African Development Community (SADC); the Economic Community of West African States (ECOWAS); and the Economic and Monetary Community of Central Africa (CEMAC) -- to assist these organizations in understanding better what business needs for investment. We recommend also that the U.S. government establish a more active dialogue with the leadership of these economic communities.

Above all we need patience. The conditions that lead to poverty in Africa will not change overnight, and we serve no one by expecting immediate economic development. We must be prepared to make our national investment in Africa a long-term one, filled with realistic incentives for change. I am convinced that if we show patience and wisdom, our relationship with Africa can mature and ultimately be of immense benefit to both Americans and Africans.

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Mr. Chairman,

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The Corporate Council on Africa has been among the strongest supporters of the African Growth and Opportunity Act. In 2001 and again in 2003, we were asked by the U.S. government to organize the private sector sessions of the annual AGOA ministerial forums that are mandated by the AGOA legislation. While we recognize that the legislation was and remains imperfect, we understand that it can, if implemented fully and effectively, serve as a catalyst for much positive change in Africa. It deserves your continued support. That said, AGOA is not a panacea. I hope that my testimony here today, while highlighting some of AGOA's successes thus far, might serve more importantly as a wake-up call to re-focus the U.S. government's efforts on finding ways to comply with the laudable intent of the AGOA legislation.

Thank you for granting me this opportunity. I would be happy to answer any questions.

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