



THOMAS H. HART

United States Senate Testimony on the Africa Growth and Opportunity Act

April 23, 2015

###

Chairman Flake, Ranking Member Markey and distinguished members of the Subcommittee, thank you for the opportunity to testify today on the important role trade plays in alleviating poverty, specifically on the reauthorization of the African Growth and Opportunity Act (AGOA).

The ONE Campaign represents a broad constituency of six million members, one-third of whom are in Africa and one-third in the United States, with the rest in Europe and elsewhere around the world. As a policy advocacy organization committed to the fight against global poverty and disease, we raise awareness about critical issues and work with policy makers on bipartisan solutions. Our members are committed to addressing the impacts of extreme poverty as well as the long-term solutions. We believe trade is an essential tool in that fight.

You probably know ONE from our co-founder Bono, the lead singer of the band U2. Bono actually has a first-hand understanding of the importance of AGOA. His wife Ali Hewson founded a small clothing company, called EDUN, which produces clothes in Kenya and Madagascar, and works with the Conservation Cotton Initiative Uganda. This initiative provides training and enterprise support to farmers in northwest Uganda. EDUN and the cotton initiative are employing Africans and creating clothes that are imported to the United States under AGOA.

ONE heartily supports the reauthorization of AGOA and applauds the Finance Committee for clearing the legislation. We hoped to see a 15 year extension, but believe a 10 year extension provides the assurance businesses need to maintain operations, make new investments, and continue to effectively utilize the AGOA preference program. We also hope the legislation will be strengthened in several ways I will describe later. But most importantly, we urge Congress to reauthorize the program quickly.

The ability to trade is essential to driving economic growth and creating jobs, which in turn reduces poverty. After the Korean War, South Korea was one of the poorest countries in the world with a per capita income of only \$64, making it at that time poorer than the Democratic Republic of Congo. Today, South Korea has a per capita income of over \$23,000, with its own foreign aid program, and is richer than either Spain or New Zealand. South Korea has achieved an average growth rate of seven percent over the last 50 years, which has had a profound impact on alleviating poverty. Trade and export-oriented growth were two key elements of this incredible development and poverty-reduction success.

We are seeing signs of this type of economic development and investment in countries across Africa as well. For example, Kate Spade, the popular U.S. apparel and accessory company has begun working with a Rwandan-owned for-profit business that employs 158 workers. Local artisans in the village of Masoro have honed their skills to create quality products that are exported to global markets. Seventy-seven percent of the employees are the primary or sole income earner in their home and 80 percent report this is their first formal job. Each employee is, on average, supporting four other people. This is not a charity project for Kate Spade; it is a strategic investment in this group of artisans that is helping them become a profitable supplier, able to participate in the global market place.

The impact of this one supplier is not just limited to its employees and their dependents; it is having an impact on the broader community as well. Within the first eight months of the business being an official Kate Spade & Company supplier, a new restaurant opened to serve the employees, and new salons and seamstresses opened as well. This small-scale example demonstrates the powerful impact one access point to the global market place can have for an entire community.

My testimony today will focus on three areas. First, what AGOA has accomplished, particularly in regards to the fight against extreme poverty; second, what we see as some of AGOA's shortfalls and ways it can be improved; and third, what is next for the U.S.-Africa trade relationship.

What has AGOA Accomplished?

Since AGOA's adoption in 2000, U.S. imports from sub-Saharan Africa have increased more than three times, and reached \$26.7 billion in 2014. The vast majority is from oil and minerals. Non-mineral and non-oil exports to the United States have increased fourfold in the last 14 years, leading to strong job creation. Since 2001, AGOA has generated approximately 350,000 direct jobs and over one million indirect jobs across sub-Saharan Africa, supporting up to 10 million people. Increased trade under AGOA has also created around 100,000 jobs in the United States, because as African economies grow they open up new markets for U.S. goods and services.¹

The textile industry has experienced particularly strong growth under AGOA, and is responsible for a good number of the jobs created. Many of these jobs are held by women, which is important given that women are more likely to invest their income in the health and welfare of their families and communities. The State Department is working through its African Women's Entrepreneurship Program to target African women entrepreneurs to promote business growth, create better business environments, and increase trade both regionally and to U.S. markets through AGOA.

How can AGOA be improved?

One often-voiced criticism of AGOA is only a small number of countries use it. In 2013, over half of the AGOA eligible countries exported less than \$1 million of product to the United States. South Africa and Nigeria alone represent 73% of all U.S. non-crude petroleum imports under AGOA in 2013. The top textile and apparel producers are Kenya, Lesotho and Mauritius, followed by Cote d'Ivoire which exports primarily cocoa products.ⁱⁱ

When Congress created AGOA 15 years ago, many believed tariffs and the lack of market access were the biggest inhibitors of economic growth in Africa. However, when AGOA removed those barriers we saw there were other structural problems keeping many African countries from taking advantage of AGOA preferences, including weak trade and technical capacity, a lack of regional trade linkages, and insufficient critical infrastructure. In other words, Congress threw open the doors on tariffs and access, only to find very few products trickle through. These additional barriers must be addressed in order for more sub-Saharan African countries to fully take advantage of the benefits provided under AGOA and grow their economies.

The Agriculture sector is one that demonstrates the needs across all three of these issues. Sub-Saharan Africa is home to 50 percent of the world's uncultivated arable land and could be a major export area for the continent. Yet, it is only expected to produce 15 percent of its own projected food demand by 2030. Barriers to agricultural growth are similar to the barriers in other economic sectors on the continent: lack of regional integration and technical capacity. Before Africa can better utilize the trade preferences AGOA provides, there must be better intra-African value chains throughout the region. This means transportation infrastructure with shorter waiting times at border crossings and ports. It means harmonized regulations and standards throughout the region, to facilitate linkages in the value chain and cross-border collaboration between companies. And it means greater technical assistance from the U.S. government on sanitary and phyto-sanitary standards, so that African produce can be shipped globally.

Trade and Technical Capacity

Trade capacity building is essential for ensuring the utility of AGOA for eligible partners and addressing non-tariff trade barriers. Trade capacity building covers a variety of activities, including efforts to strengthen economic policies; remove trade barriers; build well-functioning economic, political, and legal institutions; improve regulatory policies that affect the way firms compete; and improve private sector operating practices and strategies.

According to the USAID database on trade capacity building there are 21 U.S. government agencies that spent over \$711 million in trade capacity building assistance in 2013.ⁱⁱⁱ This assistance is given in 20 different categories. While all of these agencies are doing good and necessary work, we need greater coordination and streamlining among these agencies to ensure maximum efficiency and return on our investment.

We must also recognize that our African partners know best what they need, and ensure that we are listening to what business owners, local leaders, and government officials in African countries are asking for. The U.S. government must do a better job of properly targeting resources for capacity building projects that are based on locally identified capacity gaps.

Also, we recognize our partners in Africa often lack the technical assistance and knowledge to be able to navigate the complex web of agencies that participate in setting standards for trade.

Regional Integration

As the United States' main Africa trade promotion vehicle, AGOA should encourage and facilitate more intra-Africa trade. Trade barriers, including non-tariff barriers, between African countries are among the highest in the world. USAID and USTR are working through the Obama Administration's Trade Africa initiative to address the need for further regional integration and intra-African trade. In its initial phase, Trade Africa is focused on a partnership with the East African Community.^{iv} It aims to double intra-regional trade among EAC member states, increase exports from EAC member states to the United States by 40 percent, and reduce the average time it takes to import or export a container from a land-locked country by 15 percent, and to decrease by 30 percent the average time a truck takes to transit selected borders.

From 2013-2014 there was a 24 percent increase in exports of goods from the EAC to the United States. Container transit times from Mombasa to Kigali have decreased from 21 days to just six days, and associated costs are down by over \$1,700 per container.^v This is excellent progress and we need more targeted assistance like this, having a real impact on the cost of production that increases the competitiveness of goods from African countries.

We also believe Millennium Challenge Corporation can be a key player in improving regional integration, and believe this legislation should give MCC the authority to pursue regional compacts. MCC has already provided over \$3 billion in trade-related assistance to 14 AGOA eligible countries since its creation in 2004. With regionally focused compacts, MCC could significantly improve trade and investment between and among countries in Africa. By promoting cross-border engagement, MCC regional compacts would help create larger and more harmonized markets for trade and development and, at the same time, open new opportunities for American companies.

Infrastructure and Energy

Lastly, sub-Saharan African countries are struggling with insufficient critical infrastructure. Without adequate roads and ports, they cannot get their goods to market. Transportation costs can equal up to 77 percent of the value of exports, making African products uncompetitive in the global market place. In addition, electricity costs are enormous because a scarcity of grids means that producers are forced to pay for expensive generators and diesel fuel to power their activities.

Among the massive infrastructure deficit on the continent, we believe electricity is a critical challenge we should meet immediately. This is why ONE strongly supports the introduction and passage of the Electrify Africa Act as soon as possible. This legislation would support expanding access to catalyze investment in the energy sector in Africa, generating 20 new gigawatts of power, providing first-time access to 50 million people by 2020. The bill uses already existing government resources, allowing us to reach these goals with no additional appropriations needed.

Nearly half of all African businesses cite the lack of reliable energy access as their biggest obstacle to growth. When electricity provided from the grid is not reliable, businesses must run diesel generators to keep their operations functioning. Pulling energy from a generator costs somewhere between three and six times what electricity from the grid costs worldwide.^{vi} Higher energy prices increase production costs, making manufacturing in Africa uncompetitive, slowing job growth, and slowing annual GDP growth by an estimated one to

three percentage points.^{vii} In Kenya 57 percent of businesses own generators; in Tanzania it is 42 percent; and in Ethiopia, 41 percent.^{viii} In South Africa, growth fell from 2.2 percent in 2013 to 1.5 percent in 2014, due in part to electricity supply constraints.^{ix}

Access to safe and reliable electricity at competitive costs is essential to economic development. In order for African businesses to be competitive in the global market place, we must address these very real and serious infrastructure challenges that are currently serving as non-tariff barriers to trade, both within Africa and between Africa and the rest of the world.

One year ago, I sat at this very table at a hearing on energy poverty, and bipartisan legislation very nearly passed in December. We hope the Senate will move expeditiously to pass the Electrify Africa Act, which, along with speedy passage of AGOA, would be a one-two punch to support economic growth and poverty reduction in Africa.

What is Next for the U.S.-Africa Trade Relationship?

While we strongly support AGOA, we believe there is much more the United States government can and should be doing to enhance trade with sub-Saharan African countries. The statement of policy in the original AGOA legislation expressed support for negotiating reciprocal and mutually beneficial trade agreements. As Congress moves to reauthorize and improve AGOA, now is the time to look beyond preferences, and recognize the need for reciprocal trade agreements in this rapidly maturing relationship between the United States and the continent.

In 2015, sub-Saharan Africa's GDP is expected to grow at 4.5 percent, making it the fastest-growing economic zone in the world, outpacing Asia's regional average of 4.3 percent annual growth.^x This economic growth means there is a rising middle class in Africa, who are new consumers. The United States should be aggressively pursuing agreements that would allow these new consumers to buy American goods.

The European Union and China are both actively pursuing reciprocal trade relationships with sub-Saharan Africa. During the same period that U.S. exports to Africa grew by a multiple of 3, China's grew by a multiple of 13, from \$4.4 billion to \$56.3 billion. In fact, in 2011, U.S. and Chinese exports of machinery and transport equipment to sub-Saharan Africa represented 41 percent and 40 percent, respectively, of the value of the two countries' total exports to sub-Saharan Africa. But China's exports of machinery and transport equipment was almost triple the value of the United States'. If the United States continues to be satisfied with the non-reciprocal AGOA as the primary feature of our trade relationship with Africa, we risk missing out on huge opportunities.

We would like to see the Administration pursue an aggressive trade agenda in Africa over the next 18 months that moves beyond non-binding Trade and Investment Framework Agreements. We would like to see the United States pursue Bilateral Investment Treaties that provide foreign investors with core protections against political risk and uncertain business environments. Currently the United States has only six BIT agreements in place, which collectively only cover seven percent of regional GDP.^{xi} USTR should move to conclude the BIT's currently under consideration with Mauritius and the East African Community. Additionally and importantly, we also would like to see USTR begin pursuing negotiations on FTAs with at least two sub-Saharan African partners before the end of this Administration.

We were pleased to see that the introduced AGOA legislation includes a requirement that USTR submit a report to Congress identifying African countries that have expressed an interest in entering into a FTA and evaluating the viability of pursuing a FTA, and plans for negotiating and concluding a FTA. This reporting requirement is a great start, but should be strengthened.

USTR should be required to report to Congress within six months of passage, and provide updates annually thereafter. The report should include a list of no less than five countries USTR identifies as potential targets for FTA negotiations. USTR should also be required to provide a roadmap of reforms necessary for African countries to be able to enter into a negotiation for an FTA. I hope that Congress will push USTR on this worthy goal, and strengthen reporting language to ensure USTR is proactive in this regard.

Conclusion

ONE supports AGOA and the U.S.-Africa trade relationship because we believe trade is an important tool to reduce poverty, promote job creation and the dignity that all people strive for, no matter where they live. I urge you to reauthorize AGOA as quickly as possible and strive to strengthen it; introduce and pass the Electrify Africa Act; and push the Administration to pursue more reciprocal trade agreements with our partners in sub-Saharan Africa.

Of course, at ONE, we continue to believe our foreign assistance programs remain critical. The United States supports heroic work to combat HIV-AIDS, malaria, hunger and poverty around the world, and this assistance will remain necessary for some time. But that time will be shorter when trade, not aid, defines our relationship with Africa. Now is the time for us to strengthen our resolve and redouble our efforts to boost economic growth in Africa.

Thank you for your time.

ⁱ http://www.brookings.edu/~media/research/files/reports/2012/6/agoa/agoa_full_report.pdf

ⁱⁱ Kenya at \$342 million, Lesotho at \$321 million, and Mauritius at \$199 million.

ⁱⁱⁱ African Development Foundation, Department of Agriculture, Department of Commerce, Department of Defense, Department of Health and Human Services, Department of Homeland Security, Department of Justice, Department of Labor, Department of State, Department of the Interior, Department of Treasury, Environmental Protection Agency, Export-Import Bank, Federal Trade Commission, Inter-American Foundation, Millennium Challenge Corporation, Overseas Private Investment Corporation, Peace Corps, Small Business Administration, Trade and Development Agency, USAID

^{iv} Burundi, Kenya, Rwanda, Tanzania, and Uganda

^v <https://ustr.gov/about-us/policy-offices/press-office/speechestranscripts/2015/february/remarks-ambassador-michael-1>

^{vi} McKinsey & Company. Brighter Africa: The growth potential of the sub-Saharan Electricity Sector” pg. 1

^{vii} Ibid.

^{viii} World Bank Enterprise Survey, World Bank Group, 2013.

^{ix} World Economic Outlook, International Monetary Fund, April 2015. Pg. 65

^x The Economist, “Africa is the horizon: 2015 African Business Outlook Survey” March 2015.

^{xi} Cameroon (1989), the Democratic Republic of Congo (1989), Republic of Congo (1994), Mozambique (2005), Rwanda (2012), and Senegal (1990).