African Growth and Opportunity Act Hearing
Senator Richard G. Lugar
Opening Statement
June 25, 2003

It is my pleasure to welcome our witnesses and distinguished guests to our hearing on the African Growth and Opportunity Act. We are privileged to have on our first panel Flori Liser, the Assistant U.S. Trade Representative for Africa, and Walter Kansteiner, the Assistant Secretary of State for Africa. Following their testimony, we will hear from a second panel composed of distinguished witnesses from outside the Administration.

It has been nearly three years since AGOA has gone into effect. It has been a notable success. In 2002, 94% of U.S. imports from AGOA-eligible countries entered duty-free. The United States imported $9 billion in merchandise duty-free under AGOA in 2002, a 10% increase from 2001. This improvement stands out even more sharply when contrasted with the overall decline in global trade. There have been remarkable individual success stories, including the case of Lesotho, a nation of only 2.2 million people with AGOA exports of $318 million in 2002, representing 99% of Lesotho's total exports to the United States. Six new garment factories opened in Lesotho during 2002. For the first time in Lesotho's history, private sector manufacturing employment exceeds government employment.

The experience of AGOA has taught us valuable lessons about the path to enhanced investment and economic development and has confirmed a few of the principles that proponents of market-based development have used to guide policy. First, the experience of AGOA has demonstrated that a commitment to good governance and a positive investment climate is important to economic growth. Countries such as Lesotho, which has made significant efforts in recent years to promote economic reform and stable democracy, have derived the most benefit from the AGOA provisions. Second, the experience of AGOA has demonstrated that regional integration is as essential to development as access to the U.S. and other foreign markets. Using the infrastructure and economic stability of South Africa as a base, neighboring southern African countries have worked together to take advantage of the benefits under AGOA.

Although AGOA has yielded positive results, sub-Saharan African countries continue to lag far behind other developing countries. Sub-Saharan Africa accounted for only 1.4 percent of world trade in 2001, a percentage that has declined steadily over the last two decades. Over the last decade, sub-Saharan Africa's trade has grown 39% while world trade has grown 85%.

Much more work remains to be done to integrate Africa into the global community. I am committed to improvements that will make the AGOA program more effective, both through legislative expansions of AGOA and through improved implementation of existing AGOA provisions. It is important to extend the AGOA program beyond 2008, and we should take action on this extension soon. Investors will have the certainty they need in making investment decisions in Africa. An even more immediate issue is the extension of the third country fabric provision for least developed countries, which is due to expire in 2004. The third country fabric provision is a complex issue, and we must find creative approaches that will extend the provision for those least developed countries that rely on it, while still maintaining incentives for the development of textile manufacturing capabilities in Africa. This issue has increasing urgency with the approach of the elimination of worldwide quotas on textiles and apparel in 2005. While the current third country fabric provision is not set to expire until September 30, 2004, we should not wait until that expiration date to take action. U.S. retailers often place orders nearly six months in advance, and they will want certainty before placing those orders. African manufacturers will need time to build capacity in advance of 2005 so they can compete with China and other Asian economies when the quotas are eliminated.

As Congress develops legislative enhancements and clarifications of the AGOA program, we must work with the Administration to improve implementation of the program. Many African countries and companies have had difficulties complying with the requirements of the legislation. The United States has provided technical assistance that has been very effective in some areas. In particular, we have helped African countries to develop customs procedures that the legislation requires in order to be eligible for textile and apparel benefits. Since 1999, the United States has provided more than $345 million in trade capacity building support to sub-Saharan African countries. We need to do more through the appropriations process to increase funding for trade capacity building programs.

Finally, we need to find innovative ways to increase investment flows to Africa. Trade is only part of the economic impetus needed in African economies. Africa is not attracting adequate foreign investment, a condition that seriously hinders prospects for economic growth. Africa has approximately 10% of the world's population, but it receives only about 1% of the world's foreign direct investment. Sub-Saharan Africa's share was only .7%, and most of that was invested in petroleum and mining. One of our witnesses today is the Chairman of the Commission on Capital Flows to Africa, which has recently released recommendations on a comprehensive ten-year plan to enhance investment in Africa. I look forward to hearing the Commission's recommendations and the thoughts of all of our witnesses on how to increase trade and investment with Africa.

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