



Statement of the U.S. Chamber of Commerce

ON: The African Growth and Opportunity Act (AGOA)

TO: United States International Trade Commission

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The Chamber's mission is to advance human progress through an economic, political and social system based on individual freedom, incentive, initiative, opportunity and responsibility.

The U.S. Chamber of Commerce is the world's largest business federation representing the interests of more than three million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations. The Chamber is dedicated to promoting, protecting, and defending America's free enterprise system.

More than 96% of Chamber member companies have fewer than 100 employees, and many of the nation's largest companies are also active members. We are therefore aware not only of the challenges facing smaller businesses, and those facing the business community at large.

Besides representing a cross-section of the American business community with respect to the number of employees, major classifications of American business—e.g., manufacturing, retailing, services, construction, wholesalers, and finance—are represented. The Chamber has membership in all 50 states.

The Chamber's international reach is substantial as well. We believe that global interdependence provides opportunities, not threats. In addition to the American Chambers of Commerce abroad, an increasing number of our members engage in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthening America's international competitiveness and opposes artificial barriers to international business, both at home and abroad.

The Chamber's positions on issues are developed by members serving on committees, subcommittees, councils, and task forces. Nearly 1,900 businesspeople participate in this process.

The U.S. Chamber of Commerce is pleased to submit this testimony to the United States International Trade Commission (USITC) on the African Growth and Opportunity Act's (AGOA) trade and investment performance, economic and political implications, and the possibility to promote regional integration as well as access to the U.S. market.

The African Growth and Opportunity Act was first authorized in 2000 and remains the cornerstone of U.S. trade and investment policy toward sub-Saharan Africa. Since then, we have seen a surge of economic growth from numerous African countries. As the Western world is still sluggishly recovering from the global financial crisis, 7 of the world's 10 fastest growing economies are African.¹ These are the countries setting the growth pace today. Their growth is linked not just to U.S. – Africa trading relations but to engagement with the entire global economy including other trade preference programs and commercial agreements.

The decade following AGOA's enactment has seen the continent's trade with the U.S. triple to \$22.5 billion.² It has led to the creation of thousands of American and African jobs and has helped expand Africa's middle class to nearly 350 million consumers.³

AGOA's expiration on September 30, 2015, provides the opportunity to review its integral role within U.S. – Africa relations and to readjust the legislation to Africa's changing economic and political environment. We must realize that the Africa of today is not the same commercial partner as in 2000. In doing so, we must recalibrate our trading preferences to account for recent changes and maximize the full potential of this program for all countries involved.

In this statement, the Chamber provides an overview of AGOA's performance and offers recommendations on how to enhance the U.S. – Africa bilateral trading relationship via the African Growth and Opportunity Act.

¹ These include Ethiopia, Mozambique, Tanzania, Congo, Ghana, Zambia, and Nigeria.

² Office of the United States Trade Representative, <http://www.ustr.gov/countries-regions/africa>

³ African Development Bank, *The Middle of the Pyramid: Dynamics of the Middle Class in Africa*, 2011

Performance

As the cornerstone of U.S. – Africa trade policy, the African Growth and Opportunity Act (AGOA) is central to U.S. strategic interests. The Act represents a shift from our traditional aid-based approach to the continent to one favoring trade and commercial investment.

The first priority of AGOA, as written in the legislation, is to “promote stable and sustainable economic growth and development in sub-Saharan Africa.” Since AGOA’s enactment in 2000, Africa has seen unprecedented levels of economic growth. Furthermore, trading relations between the U.S. and Africa have greatly expanded and are expected to increase in the near future. The results of AGOA and its trade performance with the U.S. are well known:

- AGOA has directly created over 300,000 jobs in sub-Saharan Africa and as many as 100,000 jobs in the United States.⁴
- AGOA has indirectly created as many as 1.3 million jobs in sub-Saharan Africa.
- U.S. exports to Africa since AGOA was enacted tripled to \$23 billion.
- Exports from sub-Saharan Africa to the United States under AGOA have increased more than 500%, from \$8.15 billion in 2001 to \$49.5 billion in 2012.⁵
- 7 of the 10 fastest growing economies in the world are located in Africa.

The growth of African economies since 2000 has been truly phenomenal. With a middle class of 350 million consumers, Africa has become a strategic market for all the major trading powers. As our economic policy platform, AGOA not only benefits the economies of sub-Saharan Africa, but also offers tangible economic benefits for U.S. companies.

While AGOA has provided the framework for enhanced U.S. – Africa trade, it would be unwise to merely extend the legislation without accounting for the changed economic landscape. Upon further review, AGOA can be enhanced so that the potential benefits are maximized for American and African businesses.

⁴ Office of Congressman Chris Smith, *African Diplomats Present AGOA Recommendations to Foreign Affairs Committee*.

⁵ Office of the United States Trade Representative, <http://www.ustr.gov/countries-regions/africa>

U.S. Imports under AGOA

A major focus of improving the benefits of AGOA is within the non-energy imports from sub-Saharan Africa (SSA). The volume of non-energy imports from SSA under AGOA has increased by more than 275%, from \$1.2 billion to \$4.8 billion in 2012.⁶ Apparel products remain the largest non-energy category, followed by automobiles and other manufactured goods. Although non-energy related products have experienced a three-fold increase since 2001, only a handful of countries account for the bulk of non-energy exports to the United States.⁷

- U.S. imports from South Africa totaled \$3.7 billion (2012)
- U.S. imports from Lesotho totaled \$301 million (2012)
- U.S. imports from Kenya totaled \$293 million (2012)
- U.S. imports from Mauritius totaled \$175 million (2012)

As only a handful of countries are utilizing the benefits from AGOA extensively, we must examine the options available to improve the effectiveness of the program. Inclusion of new products would be of great value to many SSA countries. Enhancing and extending for a longer duration the AGOA third-country fabric provision is another step the Chamber supports.

We must also review the U.S. government's aid expenditures in Africa. Some of these funds should be directed to build Africa's technical capacity under the AGOA program in a more substantial way than currently used.

Political and Economic Complications of AGOA

AGOA is the cornerstone of U.S. – Africa trading relations and has significant strategic importance for both American and African companies. Although only a few countries have taken full advantage of the program's benefits, there is still much potential to expand additional benefits throughout SSA.

AGOA's pending expiration strikes a blow to business and investor certainty. Companies operate with long planning horizons, and sourcing decisions are made many months or even several years in advance. For this reason, the expiration of AGOA in less than two years is already beginning to affect business decisions, and this dampening effect on trade will accelerate in the months ahead.

⁶ Brock R. Williams, Congressional Research Service: *African Growth and Opportunity Act (AGOA): Background and Reauthorization*, August 2, 2013

⁷ IBID

If the program were to expire, many of the significant gains made by African economies would be undermined. The extension of AGOA this year would send a strong signal of confidence to the U.S. business community and to our potential business partners in African countries. It would signal a commitment to growing the U.S. – Africa economic partnership and building on its momentum of historic economic growth.

AGOA spurs the dialogue between the U.S. and SSA countries on two-way trade and investment. The annual AGOA forum, most recently held in August in Addis Ababa, presents an opportunity to not only review the trade-preference program but also to review the health of our trading relationship. In this vein, we must look at the functionality of these events on an annual basis and in consultation with the end user, i.e., the business community, to determine if they are being used in the most efficient manner.

As written in the legislation, AGOA gives the U.S. administration authority to conduct an annual review and authorization of all eligible countries. Through these requirements, the United States is able to influence the political and economic structure of AGOA beneficiaries. In light of this, the eligibility requirements of AGOA must include factors that foster greater two-way trade. These may include intellectual property protections, customs regimes, and regulatory and legal standards. Each AGOA eligible country must start the implementation of sound trade practices to enhance bilateral and multilateral trading relationships. If the United States does not begin trade negotiations in the near future, the American business community will be left behind while other trading partners secure improved market access with Africa.

Many other major trading nations have been active in securing preferential trade agreements with Africa including the Economic Partnership Agreements of the European Union, as well as agreements with China and the BRICS. While AGOA is currently a one-way trade preference program, it could lay the foundation for a broader agreement securing market access for both the United States and Africa.

WTO Trade Facilitation Agreement

In December, the World Trade Organization (WTO) won a major victory in completing the Trade Facilitation Agreement. This agreement promises to cut red tape and bureaucracy at ports of entry and reduce the cost of trade and time to market for many products. The agreement is projected to boost the world economy by as much as \$1 trillion, and a majority of these benefits are expected to accrue to developing countries, especially those in Africa.

African governments can promote jobs, growth, and economic opportunities for businesses of all sizes by eliminating barriers at the border and facilitating legitimate trade. A recent World Economic Forum & World Bank report shows that trade facilitation is six times more effective in promoting global economic growth than eliminating tariffs alone. In part, this is because tariffs have already been reduced significantly over the past 65 years, but it is also because trade facilitation reforms eliminate waste in the supply chain.⁸

U.S. businesses are linked together through a global web of interconnected, predictable, and efficient supply chains. They rely on these global supply chains to access international consumers and compete in the global marketplace. Improvements that address cross-border friction smooth the flow of trade and ensure timely delivery of inputs and final products.

We commend the WTO for this progress, but the real challenge will come in implementing this agreement. We call on African governments to push forward with the agreement over the next six months by committing to implement its commitments in an ambitious fashion and take full advantage of the technical assistance and capacity building support made available under the agreement through multilateral organizations and other sources. Eliminating these barriers to trade will help Africa's small businesses access international markets and make companies already engaged in global trade more competitive.

We must now begin the process of seeing how much assistance is needed to implement it. Rather than just a promise to implement the agreement, we need to see its full adoption and implementation by African countries within a reasonable amount of time.

Recommendations

Given the strategic economic and diplomatic importance of SSA to the United States, it is crucial that AGOA legislation be renewed and strengthened in order to ensure positive and profitable future trade relations. To ensure this, it is our view that the following actions should be taken:

Extend the Legislation beyond 2015 – An extension of AGOA benefits both the United States and all AGOA-eligible countries by providing greater predictability and stability for U.S. - Africa trade. In order to maximize AGOA's

⁸ World Economic Forum, *Enabling Trade Valuing Growth Opportunities Report*, 2013

potential and to take into account the dynamic economic environment on the continent, the legislation should receive multi-year renewal.

Expansion of Product Coverages - The AGOA program excludes many products that could be of great value for trade with SSA. The most import-sensitive products, such as certain agricultural products, are also the same products that stand to benefit Africa the most. We should consider adding products that promote market diversification with little harm to U.S producers. The Chamber also supports the extension of AGOA's third-country fabric provisions.⁹

Focus on Regional Integration and Trade Facilitation – The United States should develop a comprehensive strategy aimed at increasing regional integration and trade facilitation reforms within Africa. Regional integration among African countries remains the next leap towards achieving sustained growth. A comprehensive trade strategy should include a U.S. government coordinator specifically assigned to streamline all trade facilitation efforts among African countries under the new WTO agreement. Such a strategy would help develop economic growth among countries and improve U.S. – Africa trade and investment relations.

Require AGOA Eligibility to be Contingent upon Business Climate – AGOA should take into account the deliberate trade and investment actions of African governments. With the main goal of enhancing economic growth and development, AGOA should encourage efforts to promote trade facilitation, expand market access, protect intellectual property, extend fair treatment to foreign investors, and enhance the business climate in other ways.

Move Toward Regional Trade Agreements – To maximize the potential benefits of U.S. – Africa trade relations, we should utilize AGOA as a path towards bilateral and regional free trade agreements.

Conclusion

I thank the Commission for the opportunity to testify today, and I look forward to a robust discussion on U.S. - Africa trade relations. The decade ahead will see the modernization of many African economies and the increasing prominence of Africa in the global economy. The African Growth and Opportunity Act symbolizes our shift from an aid to trade policy with Africa, and we must ensure that we maximize its benefits to further enhance U.S. – Africa trade relations.

⁹ African Growth Initiative at Brookings, *The African Growth and Opportunity Act: An empirical Analysis of the Possibilities Post-2015*, July 2013