Testimony of
Florizelle B. Liser
Assistant United States Trade Representative for Africa
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Mr. Chairman, Senator Biden, and Members of the Committee, thank you for inviting me to appear again before your Committee to discuss the African Growth and Opportunity Act (AGOA). It was my pleasure to participate in the Committee's last hearing on AGOA, in June 2003. Mr. Chairman, the Administration appreciates your longstanding leadership on AGOA and the special attention that this Committee has given to our efforts to strengthen the U.S. trade and economic relationship with sub-Saharan African countries.

In my testimony today, I would like to update you on developments related to AGOA since the Committee's June 2003 hearing and also describe some elements that the Administration hopes to see addressed in legislation now being considered to amend AGOA, including S. 1900, the United States-Africa Partnership Act of 2003. We look forward to working with you and others on this Committee, along with Finance Committee Chairman Grassley, on such legislation this year.

AGOA Achievements Continue to Mount

In my previous testimony before this Committee, I described how AGOA, since its enactment in May 2000, has already made progress toward many of the objectives set for it by Congress. It has boosted U.S-Africa trade, supported African economic and political reforms, and strengthened our dialogue with African countries on trade and economic development issues. I am pleased to report, nine months later, that we continue to witness progress in each of those areas. Here are a few highlights:

Two-way trade is up, with benefits on both sides of the Atlantic. In 2003, two-way trade between the United States and sub-Saharan Africa increased 36 percent over 2002, to just under $33 billion. The increased market access provided by AGOA helped to boost U.S. imports from Africa by 43 percent to $25.6 billion, with over half of this trade covered under AGOA and its GSP provisions. Particularly impressive is the 32 percent growth in non-oil AGOA imports, which include value-added products such as apparel, manufactured goods, and processed agricultural products. Production and export of these goods has a much greater impact on jobs-creation and sustainable economic growth than does export of basic commodities. In 2003, apparel imports from sub-Saharan Africa were up 50 percent; transportation equipment imports (mostly automobiles from South Africa) were up 34 percent; and AGOA agricultural imports were up 13 percent. Africa's share of the U.S. market in each of these areas remains small – for example, constituting just 2.1 percent of the U.S. apparel import market. But these relatively small gains in African access to the U.S. market translate on the African side into substantial benefits and economic development in a region that has been on the margins of the global economy and where over half the population subsists on less than a dollar a day.

AGOA is also benefiting U.S. exporters, both by creating a business environment more conducive to U.S. exports and by generating new exports related to AGOA production. U.S. exports to sub-Saharan Africa increased by 15 percent in 2003, led by increased sales of aircraft, vehicles, and computer and telecommunications equipment. We are also aware of several U.S. businesses that are providing inputs to AGOA apparel producers in Mauritius, South Africa, and Ghana. So AGOA is also having a positive impact here in the United States.

AGOA Forum Enhances U.S.-African Dialogue. In December 2003, trade ministers and senior-level officials from over 30 AGOA-eligible countries met with President Bush and top Administration officials in Washington, DC during the Third Annual U.S.-Sub-Saharan African Trade and Economic Cooperation Forum. This event, also known as “the AGOA Forum,” provides an opportunity for senior African and American officials to discuss ways to strengthen U.S.-African trade and economic relations. The President took the opportunity to reiterate his commitment to AGOA and to encourage African support for open markets and multilateral trade liberalization. Ambassador Zoellick participated in both the government-to-government and the private sector meetings. All three of us on this panel participated in the Forum, as did National Security Adviser Rice, Secretary Powell, Secretary Evans, Secretary Snow, Secretary Veneman, USAID Administrator Natsios, U.S. Global AIDS Coordinator Tobias, and U.S. Trade and Development Agency Administrator Askey. There was also an opportunity for the African ministers to meet with some Members of Congress to discuss challenges related to AGOA implementation and prospects for legislation to amend AGOA.

President Changes List of Beneficiary Countries. On December 31, 2003, President Bush added one new country – Angola – to the list of AGOA beneficiary countries and discontinued the AGOA beneficiary status of two others – the Central African Republic and Eritrea. The President’s action followed the annual interagency AGOA eligibility review, led by USTR. The review of Eritrea cited a serious deterioration in the human rights situation and a lack of progress toward rule of law and political pluralism. The March 2003 overthrow of the elected government of the Central African Republic was a major factor in the decision to terminate that country’s AGOA beneficiary status. This was the first year that previously eligible countries have been removed from AGOA beneficiary status. The President’s action underscored the seriousness with which the Administration views the eligibility criteria.

Free Trade Agreement Launched with SACU. In June 2003, the United States began free trade agreement negotiations with the five countries of the Southern African Customs Union (SACU): Botswana, Lesotho, Namibia, Swaziland, and South Africa. In pursuing this FTA, the Administration is responding to Congress’ direction, as expressed in AGOA, to pursue free trade negotiations with interested sub-Saharan African countries as a catalyst for increasing trade and investment between the United States and Africa. This FTA – the first ever with any country in sub-Saharan Africa – builds on the success that these five countries have already achieved under AGOA and marks a maturation of our trade relationship with these countries, moving from one-way preferences to two-way partnership. We have held four rounds of negotiations so far and expect to intensify the negotiations over the coming months in an effort to conclude the agreement by the end of 2004. Trade capacity building is a fundamental element of bilateral cooperation in support of this FTA. U.S. and SACU officials have established a Cooperative Group on Trade Capacity Building that meets on the side of the negotiations to identify trade capacity building needs arising out of the FTA discussions and to find ways to address these needs.

Trade Hubs Hitting Their Stride. As my USAID colleague, Connie Newman, describes in greater detail, the three Regional Competitiveness Hubs established in Africa at the direction of President Bush have now completed a year or more of work assisting governments and businesses in the region to address trade-related challenges and to develop and diversify their AGOA trade. In response to African requests, the hubs are also devoting greater attention to helping African countries meet sanitary and phytosanitary measures to facilitate greater African agricultural exports under AGOA. Many other U.S. agencies are also involved in AGOA-related technical assistance, which is critical if Africans are to take full advantage of AGOA.

Sustaining and Building on AGOA's Success

AGOA has been an undeniable success. Two-way trade is up. New investment is flowing into Africa. And new economic opportunities have opened for many AGOA-eligible countries. But much remains to be done if we hope to sustain these achievements over the long-term and help African countries to reach their full potential under AGOA.

For example, we need to do more to broaden participation in AGOA and to help beneficiary countries to expand and diversify their exports under AGOA. Many AGOA-eligible countries have yet to export any significant amount of goods under AGOA. Others are doing well on apparel but have not been able to diversify into any of the hundreds of other products for which duty-free market access is provided under AGOA.

Mr. Chairman, we appreciate the leadership that you have brought to addressing the challenges related to AGOA's full implementation. Your introduction last November of S. 1900 – The United States-Africa Partnership Act of 2003 – has helped to focus attention on measures needed to preserve and build on AGOA's successes. We are grateful for the opportunity to provide our views on this topic. As you know, similar legislation is being considered in the House of Representatives.

The Administration has identified several elements that it hopes to see reflected in this legislation. I would note that many of these elements are addressed in some way in S. 1900.

Extend AGOA's Authorization. When President Bush met with senior African officials during the AGOA Forum in December 2003, he reiterated his commitment to work with Congress to extend AGOA beyond its current expiration in 2008. Extension of the AGOA program would increase investor confidence and demonstrate the United States Government's long-term commitment to increasing African growth and development through trade. In order to have the intended effect, the extension should be for a sufficient number of years to provide predictability and spur needed investment.

Extension of AGOA's Special Third-Country Fabric Provision. In the eyes of many AGOA stakeholders, the extension of the third-party fabric provision, which is set to expire on September 30, 2004, is the most urgent item for Congressional action on AGOA. Under this provision, less developed country AGOA beneficiaries are permitted to use fabric from any source in qualifying AGOA apparel. In FY2003, 84 percent of the $1.2 billion in AGOA apparel imports fell under this provision. Although sub-Saharan Africa's share of the U.S. apparel market is just 2.1 percent, this rule has contributed to AGOA's early success by allowing sub-Saharan African countries to develop their apparel industries.

The original rationale for the 2004 expiration of the third-country fabric provision was to give African apparel producers a boost while at the same time providing an incentive for development of an African textile industry. Absent a regional textile industry, African apparel production is unlikely to be competitive in the long-term. While AGOA has indeed sparked investment in the fledgling African textile industry, more time is needed for this industry to develop its capacity and for the African apparel industry to become more competitive with Asian and other producers. This is particularly important with the fast-approaching January 2005 end of the WTO Agreement on Textiles and Clothing. Many analysts have predicted that Africa will lose jobs and market share in a post-quota world.

The uncertainty about the future of the provision is already having a negative impact on AGOA as the Administration's primary initiative to boost African economic growth and development. We understand that several major U.S. buyers have already shifted orders to Asia in anticipation of the September 30 expiration date.

As Ambassador Zoellick said in testimony a few weeks ago, we recognize that this is an important issue to AGOA's continued success. As Congress seeks to address the third-party fabric provision in AGOA legislation, we want to work with you to balance the short-term interest of preserving Africa's AGOA apparel industry and the longer-term objective of developing an African textile industry, while at the same time being mindful of continuing incentives for African sourcing of U.S. textile components.

Provide greater certainty about rules governing AGOA-eligible apparel. Since the enactment of AGOA in 2000, Congress has periodically considered technical corrections to the regulations governing the rules of origin for AGOA apparel. For example, the "AGOA 2" legislation that was passed as part of the Trade Act of 2002 made some technical corrections. As the Committee considers action on S. 1900, it may be useful to consider some additional adjustments to AGOA to address other technical corrections.

Support the President's request for AGOA-related trade capacity building assistance. Many African countries remain unable to take advantage of the broad market access provided by AGOA, both because of supply-side constraints, such as inadequate infrastructure, and because they do not currently produce many exportable, value-added products. As Connie Newman describes in her testimony, USAID and other agencies are addressing these and other AGOA-related challenges through the Regional Competitiveness Hubs and other initiatives. This type of assistance is of great value to beneficiary countries. We hope, therefore, that Congress will support the Administration's FY2005 budget request for trade capacity building programs in

Africa, especially those aimed at helping African countries to expand and diversify their exports under AGOA.

Promote greater African cooperation in multilateral trade negotiations. In that AGOA was developed, debated and enacted prior to the launch of the WTO's Doha Development Agenda in 2001, there is no reference in the Act to the importance for sub-Saharan African and other developing countries of multilateral trade liberalization. In fact, some African countries have opposed tariff reduction efforts in the WTO because of concerns about "erosion of preferences" and potential revenue losses. (The World Bank and the IMF are working with African and other developing countries to address these concerns.) Congress should consider including language in AGOA legislation calling on sub-Saharan African countries to support the larger objective of reducing trade barriers worldwide, even as they continue to benefit from preference programs such as AGOA.

Mr. Chairman, these are some of the elements that we believe deserve Congressional consideration in legislation amending AGOA. We are ready and willing to work with the Congress to develop legislation that is practical, passable, and that will permit us to build on AGOA's many achievements. Thank you.