Statement of Florizelle B. Liser
Assistant U.S. Trade Representative for Africa
Office of the U.S. Trade Representative
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Subcommittee on Africa, Global Human Rights and International Operations

"AGOA: A Five Year Assessment"

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Chairman Smith and Members of the Subcommittee:

Thank you very much for this opportunity to testify before the Subcommittee on the effectiveness of the African Growth and Opportunity Act in promoting African economic growth and development.

I am pleased to report that five years after its implementation, the African Growth and Opportunity Act (AGOA) is having a tremendously positive impact.

Introduction

The impetus for AGOA grew out of recognition—both in the United States and in Africa—that trade can be an important tool for increasing U.S.-African engagement and can serve as an engine for African economic growth and development. Passage of AGOA in 2000 was a major bi-partisan achievement supported by African countries as well as private sector, faith-based, civil rights and non-governmental organizations. Congress and the Bush Administration have demonstrated a continuing commitment to AGOA, twice amending it to enhance and extend its benefits—via the Trade Act of 2002 and the AGOA Acceleration Act of 2004.

When we look at AGOA's impact over the past five years, I believe we can say that the Act's major policy objectives have been achieved: AGOA has ignited an expansion of U.S.-African trade; trade capacity building assistance to support regional integration and development has grown; we are currently negotiating the first-ever free trade area agreement with sub-Saharan African countries; and by offering substantial trade benefits to those countries undertaking sometimes difficult economic and political reforms, AGOA has provided a powerful incentive and reinforcement for African efforts to improve governance, open markets, and reduce poverty. AGOA has also provided a platform--through the annual AGOA Forum—for a high-level dialogue on ways to improve US-African trade and economic cooperation.

U.S Trade with Sub-Saharan Africa Continues to Grow

AGOA has been a measurable success in achieving increased trade between the United States and sub-Saharan Africa. U.S. imports from sub-Saharan Africa increased by over 50 percent from 2000-2004. Much of this increase was related to oil, but non-oil imports—including value-added products such as apparel, automobiles, and processed agricultural goods more than doubled from 2001-2004. Our imports of African-made apparel have more than doubled since AGOA came into effect—increasing from $748 million in 2000 to over $1.7 billion in 2004. Last year, 15 AGOA eligible countries exported apparel to the United States; prior to AGOA only a few countries sent apparel of any significant quantity to the U.S. market.

There are many AGOA success stories: tiny Lesotho has become the leading sub-Saharan African exporter of apparel to the United States; Kenyan's exports under AGOA now include fresh cut roses, nuts, and essential oils, as well as apparel; and many African businesses that had never previously considered the U.S. market are attending trade shows and getting orders—everything from Congolese honey wine to Senegalese seafood to Rwandan baskets. This increased trade has translated into thousands of new jobs in some of the poorest countries in Africa and hundreds of millions of dollars of new investment in the region.

AGOA has also created opportunities for U.S. businesses. Because of AGOA, Africans are increasingly seeking U.S. inputs, expertise, and joint venture partnerships. From 2000 to 2004, U.S. exports to sub-Saharan Africa increased 42 percent, driven in large part by growth in manufactured products exports such as oil field equipment, motor vehicles, and telecommunications equipment.

Admittedly, AGOA's impact has not been shared equally by all eligible sub-Saharan African countries. While more countries are taking advantage of AGOA today than in 2001, much of the AGOA-related trade gains have been in a dozen or so countries and some eligible countries have yet to export any products under AGOA. We also know that most of AGOA's non-oil success has been concentrated in the apparel sector. These facts reinforce the justification for continued trade capacity building for AGOA countries, which I will address later in this statement. The theme of the 2005 AGOA Forum, "Expanding and Diversifying Trade to Promote Growth and Competitiveness," was selected in order to highlight the wide range of products eligible for AGOA and to stress the importance of, and opportunities for, diversification.

AGOA has spurred African economic and political reforms

AGOA has had a positive impact on African economic, political, and social reforms. The annual review of countries to determine eligibility status under AGOA examines specific congressionally-mandated criteria, including the establishment of a market-based economy, political pluralism, the elimination of barriers to U.S. trade and investment, efforts to reduce poverty, and the protection of internationally recognized worker and human rights. We in the Administration take these criteria very seriously, as shown by the countries that have been removed as AGOA beneficiaries for failing to meet the eligibility standards: the Central African Republic lost its eligibility in 2004 following a coup d'etat. Eritrea lost its eligibility in 2004 for its shortcomings on economic reform and human rights; and Cote d'Ivoire was terminated in 2005 for lack of progress on political and economic reforms. Our hope and expectation is that these and other countries currently not found eligible will strive to create conditions so that they may be positively reconsidered. A number of formerly ineligible countries did exactly that: Angola, Burkina Faso, Democratic Republic of Congo, and The Gambia, all addressed the problems we raised during the eligibility review process, made significant economic and political reforms in response to our concerns, and are now AGOA beneficiary countries.

The majority of sub-Saharan African countries *are* undertaking real reforms-- and not only because of AGOA—but because they also perceive it's in their best interests to do so. AGOA countries have liberalized trade, strengthened market-based economic systems, privatized state-owned companies, and deregulated their economies. These changes have improved market access for U.S. companies and benefited African economies. Additionally, many countries reformed their customs regimes in order to meet AGOA's apparel eligibility requirements, as AGOA requires countries to establish an effective apparel visa system before they receive apparel benefits.

AGOA is also having an impact on worker and human rights reforms. Because you asked me specifically about AGOA's impact on these areas, I provide the following specific examples of recent country reforms in these areas:

- Mali signed two separate cooperative agreements with Burkina Faso and Senegal to combat the cross-border trafficking of children. Thus far, Mali has signed such agreements with three of its neighboring countries, including Côte d'Ivoire and Guinea. Under these agreements, individuals involved in trafficking are subject to the criminal code provisions addressing child trafficking of both the source and destination countries.

- The governments of Benin, Burkina Faso, Cameroon, Côte d'Ivoire, Gabon, Mali, and Togo have committed to participate in a U.S. Department of Labor-funded ILO project to combat the trafficking of children for exploitive labor in West and Central Africa through 2007.

- Ethiopia, Kenya, Rwanda, and Uganda are participating in a Department of Labor-funded $14.5 million Education Initiative project focused on providing education and vocational training to HIV/AIDS-affected children involved in or at-risk of participating in the worst forms of child labor.

- Botswana, Lesotho, Namibia, Swaziland, and South Africa are participating in a regional Child Labor Education Initiative project that aims to improve awareness of the relationship between HIV/AIDS and child labor; provide direct educational and social services to HIV/AIDS-affected children, street children, and other vulnerable children; and build the capacity of families, communities, and policy makers to combat the worst forms of child labor.

- Botswana, Lesotho, Malawi, Namibia, Swaziland and Zambia committed to a technical cooperation initiative entitled "Improving Labor Systems in Southern Africa," a $4 million project funded by the Labor Department and implemented by the ILO that will focus on increasing labor law compliance and improving labor-management relations.

Trade Capacity Building Assistance Remains Critical

We appreciate that many eligible countries need assistance in order to take full advantage of AGOA's benefits. The challenges they face include inadequate infrastructure, lack of technical capacity to meet international product standards (such as sanitary and phytosanitary standards) and technical regulations, and little experience in producing and marketing value-added products for the U.S. market.

That's why we are investing in assistance to help African countries to address these challenges. Last year, the U.S. Government dedicated $199 million to trade capacity building in sub-Saharan Africa, up 10 percent over FY2004. This aid goes toward activities such as helping African businesses and farmers to meet quality and standards issues, to get more timely market information, and to establish linkages with prospective American partners. Under the auspices of the U.S Agency for International Development, three regional trade hubs (i.e., resource centers) have been established throughout the region, each with AGOA advisors and trade specialists. A fourth hub, to be located in Dakar, Senegal, is set to open in November.

The President renewed the Administration's commitment to trade-related technical assistance when he announced in July the African Global Competitiveness Initiative (AGCI) with a 5-year funding target of $200 million. The goals of AGCI are to expand sub-Saharan Africa's trade under AGOA and to improve the region's external competitiveness.

As part of the AGOA Acceleration Act of 2004, the President presented a major report to Congress that identifies sectors with the greatest export potential in each of the 37 AGOA-eligible countries. It also identifies domestic and international barriers and makes recommendations for technical assistance to reduce those barriers. African Trade Ministers have informed us that this study will be an integral part of their strategic planning on how to better take advantage of AGOA.

Negotiation of an FTA with the Southern African Customs Union (SACU)

Section 116 of AGOA recommended that the Administration pursue free trade agreement negotiations with sub-Saharan African countries. In mid-2003, we launched negotiations with the five members of the Southern African Customs Union members (Botswana, Lesotho, Namibia, South Africa, and Swaziland). Negotiation of the FTA will move our trade relationship with these countries from one-way preferences to a full two-way reciprocal partnership. In the seven rounds of negotiations to date, we have exchanged information and held detailed discussions on the full range of FTA issues. We have also submitted text on most of the FTA chapters and made progress in establishing some common objectives. Work had been progressing slower than anticipated, but we have recently re-engaged and now have a framework and schedule for moving forward. Both sides have committed to try to complete the agreement by December 2006.

Importance of Doha

Finally, I'd like to make a comment on the important stake African countries have in the successful outcome of the current round of world trade negotiations. A new global trade accord could open up new markets for African goods and—if African countries use the opportunity to continue opening their own markets—could spark new investment flows into the region.

According to the World Bank, the removal of all trade barriers worldwide would increase the income of developing countries by $539 billion, with 80 percent of that increase coming from increased trade *among* developing countries. This is an important point—since developed country markets are already broadly open to African products, a big part of the trade gains for African countries under a new global trade agreement would come from increased trade with other developing countries, especially big emerging markets like Brazil, India, and China.

Conclusion

Thanks to AGOA, and to many Members on this Committee, our trade and investment relationship with sub-Saharan Africa has matured considerably over the past five years. Two-way trade is increasing, African countries are diversifying their exports to the United States, and we are consulting with each other more, both on bilateral and multilateral issues. And in the case of SACU, we are moving forward with the first-ever FTA negotiation with sub-Saharan African countries, a level of engagement we hope to emulate with other African countries. But while we have achieved much under AGOA, significant challenges remain. More needs to be done to diversify Africa's exports under AGOA, and expand the number of countries exporting them. AGOA has created significant opportunities for trade, investment, and partnership and we will continue to work hard to ensure those opportunities are realized.