

**Statement by
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Before the Senate Committee on Foreign Relations
June 25, 2003**

Mr. Chairman, Senator Biden, and Members of the Committee:

Thank you for inviting me to appear before you today to discuss the African Growth and Opportunity Act (AGOA).

Introduction

Over the past three years, the Office of the United States Trade Representative (USTR) has continued to actively implement the far-sighted African Growth and Opportunity Act, which Congress enacted in May 2000 and expanded with the “AGOA II” provisions of the Trade Act of 2002. Implementation of AGOA is a central component of the Bush Administration’s effort to promote free markets, free trade, and free societies. AGOA is supporting this effort by stimulating economic growth, helping sub-Saharan Africa integrate into the global economy, increasing opportunities for U.S. exports and businesses, supporting African reforms, and encouraging a solid U.S.-Africa trade partnership. AGOA is successfully promoting African efforts to embrace free markets, firmly establish the rule of law, reduce poverty, and strengthen labor and human rights. Both the United States and sub-Saharan Africa are benefitting from AGOA’s success in expanding bilateral trade opportunities and African development. The Administration looks forward to Congress’ continued support and guidance on AGOA implementation. Continued bi-partisan Congressional support for AGOA has been a critical part of AGOA’s success.

I would like to focus on three major points today: 1) AGOA is working and has become a major component of U.S.-African relations; 2) although AGOA is succeeding, some countries have not yet benefitted and need help to become more competitive and address supply side constraints; 3) the Administration will need to work with Congress, the private sector, and African governments to identify how to better utilize and extend AGOA (as President Bush has requested) in order to maximize benefits for Africa and the United States.

AGOA Implementation Progress

AGOA is supporting African countries as they recognize the value of open markets and the important role that trade can play in national and regional development strategies. AGOA continues to strengthen, foster, and encourage U.S.-sub-Saharan African trade and investment, creating new jobs and economic growth. Total U.S.-African trade was nearly \$24 billion in 2002, with U.S. exports of \$6 billion and U.S. imports of \$18 billion. U.S. imports under AGOA were valued at \$9 billion in 2002, a 10 percent increase over the previous year, despite a general decline in imports from the region and an overall decline in global trade. Increased AGOA trade is having a remarkable impact on sub-Saharan Africa, while representing less than 2 percent of

all U.S. merchandise imports.

AGOA is promoting the African use of U.S. goods and services, as well as U.S.-African joint-venture partnerships. U.S. merchandise exports to sub-Saharan Africa were just over \$6 billion in 2002, greater than exports to the former Soviet republics, and nearly twice those to Central and Eastern Europe. U.S. exports to South Africa alone were larger than our exports to Russia.

The United States is a leading source of foreign direct investment in Africa, supporting U.S. trade with the region and enhancing U.S.-African business partnerships. AGOA-related trade and investment has created over 190,000 African jobs and over \$340 million in investments. AGOA is also stimulating intra-African investment. It is encouraging African firms in different countries to coordinate on regional production and take advantage of the specific skills, resources, or comparative advantages present in various individual African countries.

AGOA continues to support African economic, political, and social reforms. It requires beneficiary countries to meet specific eligibility 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. Countries may be added or removed from the list of beneficiary countries based on AGOA's eligibility criteria. The Administration reviews sub-Saharan African countries annually to determine their eligibility status. Thirty-eight of the 48 sub-Saharan African countries are currently eligible for AGOA benefits. Two new countries were added this year: The Gambia and the Democratic Republic of the Congo.

AGOA has supported productive discussions with sub-Saharan African countries on economic, political, and social reforms. Countries in the region have liberalized trade, strengthened market-based economic systems, privatized state-owned enterprises, and deregulated their economies. These changes have improved market access for U.S. products and services and benefitted African economies. African political reforms have included measures to combat corruption and improve governance. African countries have improved the protection of workers' rights and efforts to combat the worst forms of child labor. Additionally, many countries have begun to reform their customs regimes in order to meet AGOA's apparel eligibility requirements, as AGOA requires countries to establish an effective visa system before they may receive apparel benefits. This requirement is helping to prevent the illegal transshipment of goods and encouraging African countries to improve their customs procedures. Nineteen countries are currently eligible for AGOA apparel benefits. The Administration is actively engaged with at least four other countries that are in the process of meeting the requirements for AGOA apparel benefits.

The annual U.S.-sub-Saharan Africa Trade and Economic Cooperation Forum, commonly known as the AGOA Forum, is also providing an excellent opportunity for high-level consultations with African officials on economic, political, and social issues. Ambassador Zoellick has used the annual forum to engage African governments, the U.S. private sector, NGO communities, and Congress in discussions on AGOA implementation and U.S.-African trade policy. The AGOA Forum has promoted a unique tripartite alliance among U.S. and African businesses, civil society

organizations, and governments. This alliance has been critical to the success of AGOA.

In August 2002, President Bush signed into law important enhancements to AGOA as part of the Trade Act of 2002. These “AGOA II” revisions extended duty- and quota-free treatment to knit-to-shape apparel, doubled the annual quantitative limit on apparel produced in the region from regional fabric, and granted lesser developed country apparel benefits to Botswana and Namibia. These important revisions were the result of Congress’ strong leadership and support from AGOA’s unique tripartite alliance.

AGOA is also encouraging U.S.-African cooperation in the World Trade Organization (WTO), as African governments play an increasingly important role in the WTO’s Doha Development Agenda trade negotiations. As AGOA strengthens U.S.-sub-Saharan African trade relations, it is also helping the United States and Africa to recognize common WTO interests.

The Administration views trade capacity building and technical assistance programs as essential components of its trade and investment policy. Sub-Saharan African countries need assistance in maximizing the benefits they receive from AGOA. From 1999 to 2002, the United States provided over \$345 million in trade capacity building assistance to sub-Saharan Africa. To improve the delivery of such assistance, the U.S. Agency for International Development (USAID) has established three Regional Hubs for Global Competitiveness in Africa. These hubs— located in Botswana, Ghana, and Kenya – are central locations for trade-related programs. They are providing technical assistance on trade and investment, as well as designing and carrying out trade capacity building programs. In addition to USAID, a number of other U.S. agencies are involved in trade capacity building in Africa, including USTR, the Bureau of Customs and Border Protection, and the Departments of Commerce, Transportation, State, and Agriculture. For example, USTR has held several trade capacity building seminars and workshops throughout Africa over the past three years. These seminars have explained AGOA’s provisions, outlined ways to maximize AGOA benefits, and described how key reforms would enhance AGOA’s benefits.

AGOA instructed the Administration to pursue free trade agreements (FTAs) with sub-Saharan African countries. Towards that goal, the Administration has signed Trade and Investment Framework agreements with Ghana, Senegal, Nigeria, South Africa, the West African Economic and Monetary Union (WAEMU), and the Common Market for Eastern and Southern Africa (COMESA). We have also recently started free trade agreement (FTA) negotiations with the five members of the Southern African Customs Union (SACU) – Botswana, Lesotho, Namibia, South Africa, and Swaziland. The U.S.-SACU FTA is expected to create new commercial opportunities for U.S. companies, farmers and workers.

AGOA Implementation Challenges

AGOA has presented many opportunities, but it has also presented challenges. We are challenged with the task of maximizing and realizing tangible benefits from AGOA across all the countries in the region. While AGOA is succeeding in some countries and in some industry sectors, others are struggling to take advantage of AGOA’s opportunities. Some AGOA

countries continue to be challenged with creating competitive and investor-friendly commercial environments.

Promoting small business is another major challenge given the important role of small business in economic growth and development. Small businesses are critical, both in the United States and in Africa, to achieving increased investment, job creation, and sustained economic growth from trade.

Trade financing and access to credit also present a serious challenge to AGOA implementation and trade development. In addition to U.S. financing provided by the U.S. Overseas Private Investment Corporation (OPIC), EX-IM Bank, and the Trade and Development Agency (TDA), I am pleased at the progress made by many African countries in setting up well-managed trade development and financing funds.

The HIV/AIDS pandemic is having an impact on AGOA implementation and efforts to strengthen the U.S.-African trade and investment relationship. This pandemic is a serious threat to African economic development, productivity, and poverty alleviation. In some African countries, HIV/AIDS is undermining the positive development gains experienced over the last two decades.

Another challenge facing AGOA implementation is preparing for the post-2005 phase-out of the country quotas under the WTO Agreement on Textiles and clothing. The elimination of quotas is widely expected to lead to greater competition and significant changes in the scope and nature of global textile and apparel trade. The Administration has been working with U.S. and African businesses to access the potential impact of the impending quota elimination.

In addition to the challenge presented by quota elimination, the expiration of AGOA's third country fabric provisions in September 2004 is causing some serious concern. AGOA currently provides Lesser Developed beneficiary countries with duty-free access for apparel made from third-country fabric. Many in AGOA's tripartite alliance are requesting that the United States extend AGOA's third-country fabric provisions beyond 2004, particularly since there was a delay in countries obtaining their apparel visas and actually shipping apparel under AGOA. U.S. and African businesses are actively examining which products and fabrics will be most seriously affected by the expiration of the third country fabric provisions.

The Future of AGOA

AGOA's unique tripartite alliance has made a lot of progress on AGOA implementation. AGOA's success is a direct result of our work together on increasing the U.S.-Africa trade and investment relationship. There are some legislative options available that could have an important impact on the future success of AGOA.

One of the highlights of the recent AGOA Forum was President Bush's pledge to work with Congress on extending AGOA beyond 2008. The announcement was hailed as a further demonstration of the United States' commitment to promoting African economic growth and development. The Administration will continue to seek advice as it works with Congress on extending AGOA beyond 2008. I look forward to hearing about any initial views that Congress

may have regarding the extension of AGOA.

One immediate concern is the issue of the expiration of AGOA's third country fabric provisions. As you may know, we are trying to respond to concerns that ending the third country fabric provisions will disrupt trade in the region. There are strong indications that sub-Saharan Africa will lack the capacity to competitively supply its fabric needs after the expiration of AGOA's third country fabric provisions. Based on consultations with Congress, private sector representatives, and African governments, we are trying to evaluate this issue and review the possible effects of a short-term extension of AGOA's third country fabric benefits. We are examining ways that an extension could support current operations, while maintaining the incentive to develop fabric and yarn industries in Africa.

There is already active discussion among the tripartite alliance about the need for "AGOA III" legislation. Several views on possible AGOA III provisions are being discussed by U.S. and African NGOs, government officials, and private sector representatives. These provisions include making additional technical corrections and legislative clarifications, expanding the types of products eligible for AGOA benefits, providing certain tax benefits, supplying more technical assistance, supporting African compliance with U.S. agricultural standards, and increasing the flexibility of U.S. trade financing agencies to support AGOA trade. The Administration will continue to consult with Congress regarding these proposed provisions.

Conclusion

The Administration has placed great emphasis on working to ensure the full implementation AGOA. Through AGOA, African and American businesses are working together to seek mutual benefits from expanded growth and commercial opportunities in Africa. Together they are addressing the challenge of maximizing and realizing tangible trade benefits. USTR is committed to expanding America's economic links with Africa. We will continue to build on AGOA's unique tripartite alliance. We look forward to the continued advice, encouragement, and support from Congress as we continue to work on AGOA implementation.

Mr. Chairman, Senator Biden, and Members of the Committee, thank you for providing me with the opportunity to speak before you today. I look forward to answering any questions you may have.