Before the United States House of Representatives
Committee on Foreign Affairs
Subcommittee on Terrorism, Nonproliferation, and Trade
Subcommittee on Africa, Global Health, and Human Rights

Joint Hearing on African Growth and Opportunity Act: Ensuring Success,

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Thank you Mr. Chairman for inviting me before this Committee once again to advocate for enhanced economic relations between Africa and the United States. You and your sorely missed late colleague, Donald Payne, provided bipartisan leadership in the passage of AGOA twelve years ago and of subsequent amendments to this ground breaking legislation.

I endorse the prompt renewal of AGOA third country fabric. I join a diverse array of organizations including COMESA, the Constituency for Africa, the US Chamber of Commerce, the African Coalition for Trade, CCA and the AGOA Embassy Group for Economic Development.

I recognize the bipartisan effort of Democrats and Republicans on this committee to jumpstart this process. We know that final action is determined by the House Ways and Means and Senate Finance Committee. However, I would like to compliment the House Foreign Affairs Committee for holding these hearings as they could provide a positive impetus to this effort. This support is warranted since there is not only a trade policy justification for the renewal of the program, but US foreign and economic policy also requires it. AGOA is indeed a trade and development initiative.

As my good friends and fellow witnesses Paul Ryberg and Jas Bedi are expounding, textile employment has fallen more than thirty percent in the African apparel industry, and with the holiday selling season fast approaching, the whole industry can be fatally impacted and thousands of jobs lost. Thus, I suggest the faster that this legislation can pass—if possible before the July 4th recess, the better it would be for the region.

I have been asked to opine as to how to prevent this problem from arising again. We agree that the success of AGOA is too important to US and African interests to be allowed to be determined simply by apparel exports. In this regard, we note significant progress in the agricultural areas. However, to be truly transformative, AGOA must also promote the full participation of Africa in global value-added supply chains and distribution networks.

With its burgeoning urban population, the current global and African efforts to increase productivity in agriculture must be duplicated with similar efforts in manufacturing. This is not to state that an enhanced AGOA cannot contribute to a diversification of African agricultural exports to the US. For example, either through a legislative mandate or Administration decisions, AGOA exports could be exempt from tariff rate quotas which are denying a number of agricultural products in which Africa has a competitive advantage access into the US market. This exemption could be designed in a way that it would not have a significant impact on domestic production. Instead, it would shift imports from more developed suppliers to poorer African countries.

The apparel industry shows that, with adequate support, Africa can gain a foothold in manufacturing trade and be part of a fairly sophisticated supply chain. As with the Far East, African economic development will deepen, fostering the emergence of a middle class and become a burgeoning market for US goods and services.

An important tool in the diversification away from this over-reliance on apparel, especially in non-petroleum exports under AGOA, is through a policy aggressively promoting regional integration. It is only through regional integration that the many small, landlocked, or island countries can attain the economies of scale required to participate in these supply chains and distribution networks.

The regional economic communities (RECs) provide the framework for developing the integrated infrastructure required for the development of regional road transportation networks, interconnected power structures; and state-of-the-art communication systems able to carry voice, data based, and visual communications. Elimination of customs formalities at the numerous border crossings among the 48 countries composing Sub-Saharan Africa, as well as harmonization of industrial standards and allowing the free movement of factors of production are all addressed through economic integration. This is what is required to gain the economies of scale required for cost-competitive production and low cost distribution.

It is important for the committee's mandate that economic integration contributes to political stability and strong democratic institutions. This satisfies the basic requirements of the US for strong partners in the fight against terrorism. Intertwined economies and open borders are the best way to assure that peer-pressure and regional peacekeeping can prevent aberrant behavior from acceptable norms. This is what has contributions to the restoration of democracy throughout West Africa, most notably in the Ivory Coast, Sierra Leone, Liberia, and Senegal.

The good news is that, largely on its own, Africa has been developing the architecture of a continental FTA and customs union. In fact, the so-called building bloc approach could be on the way to success if not undermined by premature expectations of reciprocity by third countries.

- One of the two major building blocs will be the Economic Community of Western African States (ECOWAS), which has completed the basic work to form an FTA/Customs union, and all that is needed is the political decision, mainly by Nigeria to move ahead. This group can eventually expand to include French speaking countries in Central Africa, which currently belong to their own more slowly integrating union.

- In Eastern and Southern Africa, the Tripartite Group is well on the way to combing the existing three customs unions in the region (COMESA, EAC and SADC) into a single FTA by 2014 and eventually into a customs union. The African Union is leading efforts to unify these groupings into a single continental FTA by 2017, and a customs union by 2019.

A disruptive element to these efforts is third country efforts to force premature reciprocity on individual countries and smaller regional economic communities before Africa can negotiate as a group. Ironically, the EU which is the model for regional integration is applying pressure to sink economic integration in the SSA region. In order to gain mercantalistic advantages over third country suppliers in the African market, including those from the US, it is trying to force key African countries to apply zero duties on 80 percent of EU imports.

The EU however is trying to do so by establishing the end of the 2013 as an arbitrary deadline by which the thirteen non-LDCs in SSA must agree to what are called comprehensive Economic Partnership Agreements (EPAs), which embody such provisions. Non LDC Countries not entering in such agreements will lose most if not all, of their preferential access into the EU. If these countries acceded to this pressure, (there may be no choice, since many of these countries are reliant on duty-free treatment in the EU markets for their traditional exports) the chances of attaining regional integration would be severely compromised if not doomed to failure. If some but not all members of the same REC entered into such agreements, one could not agree on a common external tariff nor allow free movement of goods across borders. This is what will happen since the majority of SSA countries are considered non-LDCs and these countries will continue to have duty-free access into the EU market under a different program currently reserved only for LDCs.

In this regard, we can only compliment the recently released Administration's "Strategy towards Sub Saharan Africa", requesting Congress to extend unilateral preferences to African countries under the AGOA system beyond 2015. This should force the EU to reconsider its decision to pressure SSA countries to enter into almost fully reciprocal agreements well before that date. The EU would find it difficult to explain why it was insisting on concluding negotiations at the same time as the US was seeking to extend unilateral preferences for SSA countries. The fact is that if the US agreed to extend unilateral preferences until early in the next decade and if the EU joined such a decision, one would provide a significant impetus to regional integration rather than undermining it.

Dissuading the EU from implementing its premature deadline to withdraw duty-free treatment would not only promote regional integration beneficial to African countries but would be beneficial to US suppliers. First, US companies are looking forward to borderless trade with the SSA region since this would allow their supply chains and distribution networks to operate within Africa. Secondly, it would avoid US exporters being placed at a competitive disadvantage to EU exporters in the fastest growing market in the world.

The US and like-minded African countries could work through the G-20 and the WTO to convince the EU to delay their deadline and to support an AGOA-type waiver application for all DFQF schemes to allow time for Africa to integrate. They should be supported by G-20 countries whose exporters, similar to those in the US do not want their producers to be at a competitive disadvantage to EU suppliers.

In summary the Administration decision to ask Congress to extend unilateral preferences if successful and if extended until early into the next decade should allow time for Africa to integrate and thus spur African manufactured exports to move beyond apparel—the basic entry point for developing countries into the world market beyond primary and processed products. Success in this area would be more beneficial to US exporters than lower duties in the region if the result is that premature liberalization sinks the creation of an economically integrated region required for US companies to thrive in the region. This would contribute to moving away from reliance on a single sector—apparel assembly for manufactured exports to the region.

I caution however, the major burden for achieving integration goals falls on African countries. If they do not meet their goals in a timely fashion, the USG and third countries cannot be expected to wait before demanding reciprocity from individual countries or individual RECs.

Thank you for allowing me this opportunity to testify before your committee.