

**Testimony by U.S. Agency for International Development
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U.S. Senate Committee on Foreign Relations
Subcommittee on African Affairs**

“Economic Statecraft: Embracing Africa’s Market Potential”

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Good morning Chairman Coons, Ranking Member Isakson, and members of the Subcommittee. It is my pleasure to appear before you again.

Sub-Saharan Africa is one of the fastest growing regions in the world. In 2011, it was home to six of the world’s 10 fastest growing economies. Foreign direct investment is approaching \$80 billion a year, and trade has tripled over the last decade. Consumer spending is set to rise 80 percent by 2020 and Africa now has a fast-growing middle class, expected to increase from 60 million to 100 million people by 2015.

The continent’s fortune is not the outcome of good luck. It is the result of years of hard work and better macroeconomic management; improved economic and political governance; a reduction in armed conflicts; increasing foreign capital inflows, particularly direct investment; and improvements in the business climate.

The President’s strategy toward Sub-Saharan Africa, released June 14 to coincide with the African Growth and Opportunity Act (AGOA) Forum, renews our emphasis on spurring economic growth, trade, and investment in Africa, including promoting an enabling environment for trade and investment, regional integration, improved economic governance and expanded African capacity to trade. As America supports the development of Africa’s economic growth, it can generate new export markets and tap into a common market that could one day outpace India or China.

Yet the commodity boom in resource-rich countries has not yet succeeded in generating strong, positive, economy-wide spill-over effects to other sectors or neighboring countries. And resource-poor states remain on the sidelines, constrained by their inability to mobilize domestic resources as well as attract external resources—apart from official aid flows that sustain a minimum level of investment that prevents the development process from stalling altogether. Their small, expensive markets keep them isolated from the dynamic changes occurring from globalized markets. Domestic firms often miss out on technical expertise, technology transfer and productivity gains from foreign direct investment. Market informality and a limited tax base limit many countries’ domestic resource base.

Nor has Africa’s growth translated into meaningful development and poverty reduction. Basic infrastructure lags far behind that of other developing regions; the African Development Bank estimates that inadequate infrastructure suppresses Africa’s per capita growth rate by as much as

two percentage points a year. Political fragility, ethnic conflict, and food insecurity plague even the most stable economies such as Kenya and South Africa.

Trade openness has been instrumental in the remarkable economic growth in East and Southeast Asia. But Africa has not seen these same benefits; the continent's share in world trade has declined from around 6 percent 25 years ago to approximately 2 percent today. Intra-African trade is not faring much better. More than 80% of Africa's exports are destined for markets outside of Africa; as a contrast, 40 percent of North American trade occurs with other North American countries and 63 percent of Western European trade is among other Western European nations.

A recent World Bank report concluded that the continent is losing billions of dollars in potential trade earnings every year because of high trade barriers with neighboring countries. Procedures and regulations vary by country, which, coupled with a lack of infrastructure, significantly increases the time and cost required to ship goods across borders. In some cases, it is less expensive to ship a container of goods to Nairobi from Europe than from Lagos. The implications are far-reaching: huge opportunities are lost for specialization and value addition. Production and export structures oriented to primary commodities—minerals, timber, coffee, cocoa, oil, gas—often come at the cost of high-value products that would provide broad-based benefits and create jobs.

Many African governments recognize the detrimental impact of high trade barriers. Throughout the continent, they are working to build bridges across geographical boundaries to create important economic trade regions. Although regional agreements vary, and often overlap, all have the goal of reducing complicated trade barriers among member countries. African regional economic communities have launched various trade liberalization initiatives to stabilize and remove barriers to trade, harmonize customs duties and internal taxes, facilitate trade through information and promotional services and abolish restrictions to the movement of people, goods, services, and investments across borders.

AGOA is the cornerstone of the U.S.-Africa commercial relationship, and is the most generous bilateral trade legislation the United States has ever enacted. AGOA is a key tool in U.S. efforts to foster development of the next generation of emerging markets, which includes building effective trading partnerships between the United States and the countries of sub-Saharan Africa. It provides substantial trade preferences that, along with those under the Generalized System of Preferences and Most-Favored Nation tariff treatment, allow almost all goods produced in the AGOA-eligible countries to enter the U.S. market duty-free. AGOA offers tangible incentives for African countries to continue their efforts to open their economies and build free markets. Promoting prosperity, open markets, and good governance in Africa through programs like AGOA, has improved the trade environment for both U.S. and African businesses and spurred economic growth.

It has worked. Since 2001, exports under AGOA have increased more than 500 percent, from \$8.15 billion in 2001 to \$53.8 billion in 2011. About 90 percent of these exports have been oil, which underscores Africa's growing strategic importance to the United States. At the same time, under AGOA, the volume of non-energy exports to the United States—that critical engine for

growth in jobs and economic development in Africa—has increased 275 percent, from \$1.2 billion to \$4.5 billion between 2001 and 2011. Paul Ryberg, the president of the African Coalition on Trade, which has companies and trade organizations in 19 African countries, estimates that as many as 1.3 million jobs have been created indirectly by AGOA, supporting up to 10 million people. Many of these jobs are held by women—a vital building block for development given that African women are more likely to invest job-related income in the food security, health, and education of their families.

In May 2011, the U.N. Economic Commission for Africa conducted a survey in Africa of AGOA's benefits. Three-quarters of the responding companies viewed AGOA as "very important" (58 percent) or "important" (17 percent). Seventy-five percent of the companies indicated that AGOA had contributed to job creation and capacity building, and a majority of the respondents emphasized the importance of business support services, such as greater technical assistance for conforming with Sanitary and Phytosanitary Standards, and promoting African products in the U.S. market.

Trade capacity building has been central to USAID's work to achieve our development objectives on the continent, particularly the realization of the Millennium Development Goals (MDGs). MDG 1, to eradicate extreme hunger and poverty, is furthered by achieving full, productive, decent employment for all, especially women and young people. Trade and trade agreements increase productive, value added employment opportunities beyond what a self-contained, subsistence economy can provide. It also reduces the proportion of people who suffer from hunger, because free trade, in the context of sound agricultural policy and global integration, balances the differences in natural endowments and labor productivity. Trade also contributes to MDG 8, to develop a global partnership for development, by nurturing an open, rule-based, predictable, non-discriminatory trading and financial system.

Additionally, there is an unavoidable link between the international trading regime and the enjoyment of human rights. The UN Office of the High Commissioner for Human Rights has found that economic growth through free trade increases the resources available for the realization of human rights. Countries do not qualify for AGOA unless they are determined to have established, or made continual progress toward establishing the rule of law and political pluralism; combating corruption; enacting policies to reduce poverty and increase the availability of health care and educational opportunities; protecting human rights and worker rights; and eliminating certain child labor practices.

An extensive study—"From Aid to Trade: Delivering Results"—conducted in November 2010 found a statistically significant relationship between USAID trade capacity-building obligations and developing country export. Specifically it found that an additional \$1 of USAID trade competitiveness assistance is associated with a \$42 increase in the value of developing country exports within two years. In addition, USAID support for trade and investment in Africa provides a significant contribution to trade negotiations conducted by the U.S. Trade Representative.

Over the past 10 years, USAID programs have improved the enabling environment for U.S. trade with sub-Saharan Africa; empowered African small and medium-sized enterprises to increase

their exports to U.S., regional, and international markets; and facilitated regional economic integration. Between 2006 and 2010, USAID's African Global Competitiveness Initiative supported over \$5 billion in non-petroleum exports; leveraged \$2.8 billion for energy, information and communication technologies, and transportation infrastructure, resulting in over 1.35 million Africans gaining access to the internet.

At the regional level, USAID efforts for an improved enabling environment have helped to advance cross-border integration and boost intra- and extra-regional trade—work primarily carried out by USAID's three Trade Hubs located in Botswana, Ghana, and Kenya. These Hubs have implemented innovative and important initiatives to reduce both legal and illicit bottlenecks along major trade corridors, establish single border posts, and computerized customs procedures.

An analysis by the Organization for Economic Cooperation and Development and the World Trade Organization in 2011 concluded that USAID's Trade Hubs had been largely successful in developing best practices in customs procedures, processes and technology. They have helped speed up customs clearances in Mozambique, improved customs procedures in Southern Africa, and established a model for regional economic commissions to harmonize standards, monitor compliance with trade protocols, and facilitate the analysis of technical trade issues. Combined, these initiatives have reduced the time, cost, and red tape long associated with trading in Africa.

USAID's Trade Hubs count many successes. The Southern Africa Trade Hub's efforts to extend border operating hours along the Trans Kalahari Corridor, introduce a single customs declaration, and implement a corridor performance management system, contributed to an increase in a twelvefold usage of the corridor and a reduction in travel time from 72 to 48 hours. In East Africa, USAID support for customs reform in 2010 resulted in the implementation of a common customs software platform that allows customs officials to communicate virtually across borders. This reduced the time it takes to transport goods along the Mombasa-Kigali trade corridor by five days and reduced the cost of trading goods in the East Africa region by 2 percent, despite a 19.2 percent increase in fuel cost in 2010.

At the Sleek Garments factory in Accra, Ghana, a sign overlooks a bustling assembly line of 300 workers: "Quality First, Quantity Second." Sleek's founder and CEO, Nora Bannerman, has held to that philosophy since she began her career as a fashion designer 30 years ago. And she is determined to maintain it as Sleek shifts into mass production, stitching casual shirts and work uniforms for some of the largest retail chains in the United States. Sleek is part of Ghana's blossoming apparel manufacturing cluster, which has been encouraged by the government to relocate and build several clothing factories. Many of these factories export to the United States under AGOA's Third Country Fabric provision, which has provided hundreds of thousands of jobs across Sub-Saharan Africa. USAID's West Africa Trade Hub helped to put Ghana on the radar as an exporter of high-quality garments by connecting Bannerman with international buyers, providing financial planning services, and advising her on pre-export financing to purchase fabric for her orders.

The Presitex garment company in Lesotho was growing and looking for ways to keep expanding its operations and was especially interested in taking advantage of AGOA so it could begin exporting to the United States. At the same time, clothing manufacturers in South Africa were

looking for regional suppliers of textiles and other clothing inputs, like yarn. Presitex used to source from Asia, but, needing to reduce transport costs, it turned to USAID's Southern Africa Trade Hub for help. The Hub put Presitex in touch with a knitting mill in South Africa and helped them to negotiate a \$1.2 million annual deal. Lesotho's apparel industry has grown to become especially successful under AGOA—at one time supporting 50,000 jobs. And regional integration is considered critical for the survival of Lesotho's apparel industry, both to maintain job opportunities in Lesotho and as a platform for future economic growth.

When 24 private sector stakeholders and the USAID West Africa Trade Hub co-founded the African Cashew Alliance (ACA) five years ago, its mandate was simple and clear: to increase cashew processing in West Africa in order to create jobs and reduce poverty. The opening of six new major processing facilities over the last six months—which will employ as many as 5,000 people—is yet more evidence that the Alliance is a success. The ACA today includes over 135 members from 23 countries, including every African cashew-producing country and buyers and retailers from every major international market. In a recent ACA survey of its members found that more than 80 percent had used the Alliance's services to grow their business.

Bringing together every aspect of the industry has allowed international buyers to quickly assess the opportunities—and act. “None of our business in Africa would have been possible without the ACA,” said Shalin Behal of IRACEMA, a leading processor from Brazil that has purchased millions of dollars of African cashews. “The ACA has introduced us to all the key players in the region, facilitated field trips and all our first steps in doing business here.” The impacts in the communities where the processing facilities are located are significant. Residents of a town in Côte d'Ivoire said prostitution, once a problem in the community, had all but disappeared once the factory opened. This was attributed to the hundreds of jobs that were created for young women—some of the almost 10,000 cashew processing jobs ACA has created in West Africa.

Under the President's new Strategy toward Sub-Saharan Africa, USAID's work will capitalize on Africa's steadily rising middle class and burgeoning opportunities, particularly in finance and infrastructure, to promote U.S. trade and investment in the region. USAID is uniquely positioned to take a major role in the implementation of the President's strategy, particularly spurring economic growth, trade and investment. Staff in both Washington and the field have a deep knowledge of the African economic scene, both in terms of macroeconomic conditions and in terms of what businesses need to be successful in Africa. USAID has supported macro and micro policy reform, key to accelerating growth; built the capacity for policy analysis in both government and the private sector; and strengthened various institutions of economic governance such as bank supervision, tax collection, and commercial courts.

Many of USAID's programs have focused on analyzing the constraints to private sector development and to helping remove existing obstacles, both directly and through empowering businesses and business associations to bring the obstacles the face to the attention of their governments. USAID also has strong relationships with both the U.S. and African business communities; USAID implements a number of programs that provide information and link U.S. investors to opportunities in Africa, including the Africa Infrastructure Program. It provides specialized advisors to African governments to address legal, financial, regulatory, and other constraints preventing private sector investment in energy infrastructure. In the past three years

alone, these efforts have leveraged over \$700 million in private sector investment in the energy sector, with an emphasis on clean energy.

USAID's newest trade and investment initiative—the African Competitiveness and Trade Expansion (ACTE) Initiative, announced in 2011—is furthering the progress USAID has made, and supports the President's new U.S. Strategy toward Sub-Saharan Africa. Through USAID's three Trade Hubs, ACTE focuses on the role African governments, businesses, and civil society play in advancing regional and international trade, increasing the international competitiveness of key value chains, and promoting trade and investment between the United States and Africa and within Africa.

USAID established the Private Capital Group for Africa (PCGA) in 2011 to help deploy Agency resources and tools to leverage private investment. For every U.S. assistance dollar, PCGA activities are anticipated to leverage \$30 in private capital to support key development goals. For example, in West Africa we are supporting the formation of a lending company to be co-owned by U.S. companies to support supply chains in the region. We are also working to link a U.S. investment company with Kenyan pension funds to co-invest in small and medium-sized enterprises in Africa. With just an \$18 million investment from USAID, this partnership has the potential to catalyze over \$500 million in private funds that will support the expansion of over 500 enterprises, provide sustainable livelihoods to over 100,000 smallholder farmers, and support 42,000 jobs in sub-Saharan Africa. One of PCGA's early successes was the launch of the Partners Forum, a group of U.S. leaders of industry (in particular those from the investment sector) who provide advice on how to best engage with the private sector and align business and development goals. The Forum represents our commitment to continuous engagement with the private sector to identify where priorities align and partnerships are possible.

At the same time, USAID's Partnership for Growth aligns with these broader U.S. priorities for trade and investment among countries that have a proven, positive track record in policy and development. Our alliances with Ghana and Tanzania are generating investment and trade opportunities for U.S. energy companies, increasing the availability and consistent supply of energy for U.S. companies operating in those countries, supporting regional integration to develop economically attractive markets, and facilitating increased trade opportunities in Ghana.

Looking forward, green technologies offer another promising opportunity to expand U.S.-Africa trade. A 2011 report by Frost & Sullivan—"Mega Trends in Africa: A Bright Vision for the Growing Continent"—suggests that investment in renewable energy in the continent will rise to \$57 billion by 2020 as interest in wind, solar and geothermal power soars. Consequently, at this year's AGOA Forum, USAID and the U.S. Geothermal Energy Association publicly announced their partnership to help develop East Africa's geothermal resources. The extensive geothermal sources found along the East Africa Rift Valley not only has the potential to provide clean power for African economies, but also a significant spur for investment and cooperation between U.S. and African energy companies. USAID plans to continue to make innovative public-private partnerships like this one to support development while also opening new markets for the U.S. investment.

Spurring economic growth, trade, and investment, along with promoting opportunity and development, are two pillars of the President's strategy toward sub-Saharan Africa, and they are inextricably linked. Inclusive economic growth, trade and investment are imperative to achieving lasting, durable development. USAID will bring to bear all of its strengths catalyzing growth through public-private partnerships, leveraging private capital and investment, harnessing on-the-ground and industry knowledge, and leveling the playing field for domestic and international entry to implement the new Presidential Policy Directive on Sub-Saharan Africa.

Thank you for inviting me to speak with you today on this critical issue, and I welcome any questions you might have.