Statement of the U.S. Chamber of Commerce

ON: The African Growth and Opportunity Act

TO: United States Senate
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The U.S. Chamber of Commerce is the world's largest business federation representing the interests of more than three million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations.

More than 96% of Chamber member companies have fewer than 100 employees, and many of the nation's largest companies are also active members. We are therefore cognizant not only of the challenges facing smaller businesses, but also those facing the business community at large.

Besides representing a cross-section of the American business community with respect to the number of employees, major classifications of American business—e.g., manufacturing, retailing, services, construction, wholesalers, and finance—are represented. The Chamber has membership in all 50 states.

The Chamber's international reach is substantial as well. We believe that global interdependence provides opportunities, not threats. In addition to the American Chambers of Commerce abroad, an increasing number of our members engage in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Positions on issues are developed by Chamber members serving on committees, subcommittees, councils, and task forces. Nearly 1,900 businesspeople participate in this process.

On the occasion of this hearing of the Senate Committee on Foreign Relations on the African Growth and Opportunity Act, I am pleased to testify on behalf of the U.S. Chamber of Commerce and our members. The Chamber is the world's largest business federation, representing the interests of more than three million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations, and is dedicated to promoting, protecting, and defending America's free enterprise system.

Across Africa, U.S. companies of all sizes and sectors see vast, often untapped possibilities for trade. The African Growth and Opportunity Act (AGOA) was enacted in 2000 and remains the cornerstone of U.S. trade and investment policy toward sub-Saharan Africa. The AGOA era has witnessed a significant improvement in economic conditions across the continent. Annual real gross domestic product (GDP) growth in sub-Saharan Africa was a half percentage point lower than global GDP growth in the decade prior to AGOA. Since its 2000 passage, sub-Saharan Africa's growth averaged 6.3%, more than 2% higher than the 3.9% world average.[1] AGOA is a small but real contributor to this positive trend. This growth is linked not just to U.S.-Africa trading relations but to engagement with the entire global economy.

The decade following AGOA's enactment has seen the continent's trade with the United States almost quadruple since 2001 with AGOA imports totaling $25.6 billion in 2014.[2] It has led to the creation of thousands of American and African jobs and has helped expand Africa's middle class to nearly 350 million consumers.[3]

However, economic policies in many African nations have for too long served as a drag on intra-regional trade and investment. The region remains home to many of the world's poorest countries with major economic challenges linked to inadequate infrastructure, access to skilled labor, and insufficient power generation. Furthermore, trade with the United States has consisted largely of oil, gas, and minerals.

In this context, AGOA's expiration on September 30, 2015, provides the opportunity to review AGOA's integral role within U.S.-Africa relations and to readjust the legislation to Africa's changing economic and political environment. The Africa of today is not the same commercial partner it was in 2000, and these changes call for an evolution of U.S. trade policy with an emphasis on increased private sector investment and two-way trade.

As stated by U.S. Trade Representative Michael Froman, "If we are able to achieve sustainable development, it is our view that investment must be the driver."[4] In reviewing AGOA, we must recalibrate our trading preferences to account for recent changes and maximize the full potential of this preference program for all countries involved.

[1] Data from International Monetary Fund, *World Economic Outlook*, October 2014.

[2] Data from http://dataweb.usitc.gov/africa/trade_data.asp.

[3] African Development Bank, *The Middle of the Pyramid: Dynamics of the Middle Class in Africa*, 2011.

[4] USTR, "Remarks by United States Trade Representative Michael Froman to the U.S. Global Leadership Coalition," press release, June 25, 2013 http://www.ustr.gov/about-us/press-office/press-releases/2013/june/remarks-united-states-trade-representative-michaelfr.

AGOA's Performance

As the cornerstone of U.S.-Africa trade policy, AGOA is central to U.S. strategic interests. The Act represents a shift from our traditional aid-based approach to the continent to one favoring trade and commercial investment.

The first priority of AGOA, as written in the legislation, is to "promote stable and sustainable economic growth and development in sub-Saharan Africa." Since AGOA's enactment in 2000, trading relations between the United States and Africa have greatly expanded and are expected to increase in the near future:

- AGOA has directly created over 300,000 jobs in sub-Saharan Africa and as many as 100,000 jobs in the United States.[5]
- AGOA has indirectly created as many as 1.3 million jobs in sub-Saharan Africa.
- U.S. goods exports to sub-Sahara were $24 billion in 2014, up 250% from 2003.[6]
- Exports from AGOA eligible countries to the United States were $25.6 billion, more than four times the amount in 2001.
- U.S. imports from sub-Saharan Africa, excluding energy products, were $4.4 billion representing a nearly three-fold increase since 2001.[7]

While AGOA has provided the framework for enhanced U.S.-Africa trade, it would be unwise to merely extend the legislation without accounting for the changed economic landscape. AGOA can be enhanced so that the potential benefits are maximized for American and African businesses.

AGOA has played a leading role in helping sub-Saharan African countries diversify their exports to the United States. However, many countries fail to take advantage of the duty-free benefits of the preference program. A major focus of improving AGOA is in its utilization rate, specifically within non-energy exports to the United States, which have increased by more than 275% since 2000—rising from $1.2 billion to $4.4 billion in 2014. Apparel products remain the largest non-energy category, followed by automobiles and other manufactured goods.

Despite a significant increase of non-energy related exports to the United States, less than $1 million is attributed to over half of the 40 AGOA beneficiary countries in 2014. The few countries that account for the bulk of non-energy exports include:

- U.S. imports from South Africa totaled $3.1 billion (2014)
- U.S. imports from Kenya totaled $423 million (2014)
- U.S. imports from Lesotho totaled $289 million (2014)
- U.S. imports from Mauritius totaled $227 million (2014)[8]

[5] Office of Congressman Chris Smith, *African Diplomats Present AGOA Recommendations to Foreign Affairs Committee.*

[6] Data from http://dataweb.usitc.gov/africa/trade_data.asp.

[7] CRS, *African Growth and Opportunity Act (AGOA): Background and Reauthorization*, 2015.

[8] Ibid

AGOA's renewal allows us the opportunity to examine options to improve its utilization by African countries and AGOA's long-term contribution to the transformation of their economies. Inclusion of new agricultural products would be of great value to many agro-based African economies. Enhancing and extending the duration of the AGOA third-country fabric provision is another step the Chamber supports.

We must also review the U.S. government's aid expenditures in Africa. Some of these funds should be directed to build Africa's technical capacity under the AGOA program in a more substantial way than currently used.

The Cost of Inaction on Renewal

Unfortunately, AGOA's pending expiration is already undermining business and investor certainty. Companies operate with long planning horizons, and sourcing decisions are made many months or even years in advance. For this reason, the expiration of AGOA in a little more than 5 months has begun to affect business decisions, and this dampening effect on trade will accelerate in the months ahead.

If the program were to expire, many of the significant gains made by African economies would be undermined. By contrast, immediate action by Congress for AGOA's renewal would send a strong signal of confidence to the U.S. business community and to our potential business partners in African countries. It would also confirm our commitment to growing the U.S.-Africa economic partnership for the long-term and building on its historic economic growth.

AGOA is central to the dialogue between the United States and African countries on two-way trade and investment. Opportunities such as the annual AGOA Forum and our bi-lateral strategic dialogues present an opportunity to continually review the trade-preference program as well as review the health of our trading relationship. In this vein, we must put greater emphasis on the functionality of these events on an annual basis and in consultation with the end user, i.e., the business community, to determine if they are being used in the most efficient manner.

AGOA gives the U.S. administration the opportunity to conduct an annual review to consider whether countries are meeting the Act's eligibility criteria, a process that allows the United States to positively influence political and economic reforms among AGOA beneficiaries. In light of this opportunity, Congress should consider whether to enhance AGOA's eligibility criteria in ways that foster greater two-way trade. These may include intellectual property protections, customs regimes, regulatory and legal standards, and measures taken to implement the World Trade Organization (WTO) Trade Facilitation Agreement (see below).

Many other major trading nations have been active in securing preferential trade agreements with Africa, including the Economic Partnership Agreements of the European Union, as well as agreements with Brazil and China. While AGOA is a one-way trade preference program, it also represents our primary vehicle for pursuing a broader trade agreement securing market access for both the United States and Africa. As long as the European Union is the sole recipient of reciprocal tariff elimination with several African countries, U.S. firms will remain at a competitive disadvantage in these markets. Looking ahead, the most significant role of AGOA's reauthorization will be in providing a foundation in which our government and business leaders can forge a more dynamic trade and investment relationship with African countries beyond a one-way preference program.

The World Trade Organization and Africa

The Chamber is firmly committed to the global rules-based trading system embodied by the WTO. In the view of Chamber members, the multilateral trading system embodied by the WTO has benefited the entire world, including Africa. Eight successful multilateral negotiating rounds have helped increase world trade from $58 billion in 1948 to $22 trillion today. This is a 40-fold increase in real terms, and it has helped boost incomes in country after country.

While this rising tide of commerce has brought gains for developed countries, its most dramatic benefits have accrued to developing nations, including Africa. As recently as 1993, 1.9 billion people—nearly half the world's men, women, and children—lived on $1.25 a day or less, in constant 2005 dollars. Since then poverty totals have been falling fast. By 2000 the number of people in absolute poverty had fallen to 1.7 billion, and the share of world population to 28%. The most recent estimates issued by the World Bank find the totals down to 1.2 billion people and 17.5% of population.

While no single factor explains these income gains, the rise in international commerce has by all accounts played a major role. The economic growth that trade helps fuel contributes to educating the young, building essential infrastructure, strengthening institutions of governance, and combating measles, malaria, and other preventable illnesses.

The WTO Trade Facilitation Agreement

At the Bali Ministerial, trade ministers unanimously endorsed the first multilateral trade agreement since the organization's creation in 1995. The Chamber warmly welcomed the Trade Facilitation Agreement (TFA), the principal deliverable in the Bali Package, as a cost-cutting, competition-enhancing, anti-corruption agreement of the first order. It promises to streamline the passage of goods across borders by cutting red tape and bureaucracy and promoting border modernization for customs clearance around the globe.

The final agreement has surprised observers with its quality as countries accepted stronger commitments than had been anticipated. Unlike free-trade agreements (FTAs) negotiated by two or several parties, the dynamic at the 159-member WTO often leads to the lowest common denominator; however the final version of the TFA is still impressive. To illustrate, the agreement includes more than 120 "shalls" (indicating obligations binding on all parties) and only a few dozen instances where governments made weaker "best endeavor" commitments.

In a major change for dozens of developing countries—especially in Africa—the TFA will require countries to transition fully to modern border practices under which goods are cleared through customs independently of the final determination of duties and taxes. Countries will migrate to electronic processing of required information to allow clearance through customs before goods arrive in the country. Countries will also look to modernize risk-based targeting.

The true value of a trade agreement lies in its effective implementation. In this process, WTO members will list all the provisions they commit to fully implement by the time the Agreement enters into force, with the goal of securing the necessary ratifications by two-thirds of WTO members by December 2015, when the WTO will hold its 10th Ministerial Conference in Nairobi, Kenya—the first time this biannual event will be held in Africa. Particularly in the case of developing countries, this represents an opportunity to highlight a strong commitment to efficient customs and port procedures before the global business community and private investors, and bold reformers are likely to see economic benefits in the form of increased trade, investment, and growth.

The Chamber is making concerted outreach to governments in Africa and elsewhere to encourage them to take on their commitments in a fulsome manner and to underscore the international business community's keen interest in seeing these reforms advance. We strongly support the administration's efforts to ensure the TFA enters into force in a timely manner and on the most commercially meaningful terms, and we encourage Congress to continue to support these efforts as well.

Electrify/Energize Africa

Another U.S. Chamber legislative priority is the Electrify Africa bill, which the House approved in the previous Congress last May. Similar legislation in the Senate has been named Energize Africa. Insufficient power generation is a leading factor in AGOA's low utilization rate which inhibits the growth of businesses and disrupts supply-chain networks. This bill would assist countries in developing a wide range of power solutions, promote economic growth, and remove a major obstacle in the development of many African economies.

With no additional expenditure by the U.S. government, the Electrify Africa Act would encourage the development of new infrastructure to provide access to electricity in sub-Saharan Africa. More than 70% of the people in the region have no access to electricity, with grave consequences. Indoor air pollution from wood and dung burning stoves kills more than 3 million people per year—more than AIDS and malaria combined. By promoting reliable access to energy, this bill would help remove one of the continent's most significant barriers to development.

Given that Africa is home to a number of the fastest growing economies in the world, this bill has the potential to generate significant new economic opportunities for U.S. companies and the workers they employ. Broader access to electricity would allow a larger middle class to emerge, providing opportunities for U.S. companies. Appropriately, the bill places an emphasis on the role of the private sector as it promotes access to electricity. The Congressional Budget Office (CBO) estimates that implementation of the Electrify Africa Act would save the United States $86 million from 2014-2019.

Trade Promotion Authority

In order to build upon AGOA toward bilateral and regional reciprocal trade agreements, Congress must pass Trade Promotion Authority (TPA). TPA is a vital tool for the negotiation of new trade agreements; without it, the United States has never passed a major trade pact. TPA allows Congress to facilitate a revitalized trade agenda through three ways: (1) It allows Congress to set negotiating objectives for new trade pacts; (2) it requires the executive branch to consult extensively with Congress during negotiations; and (3) it gives Congress the final say on any trade agreement in the form of an up-or-down vote. The result is a true partnership stretching the length of Pennsylvania Avenue.

A simple form of TPA was first approved in 1934, but the latest version lapsed in 2007. TPA will not only be critical for the success of AGOA's legacy but also for the opportunity to move beyond this program to a more robust trade agenda with the continent.

Export-Import Bank

The U.S. Chamber of Commerce strongly supports the reauthorization of the U.S. Export-Import Bank (Ex-Im), which is a vital part of the American economy, especially to the small- and medium-size businesses. Ex-Im supports over 150,000 American jobs at 3,000 companies that depend on the Bank's services in order to compete in global markets. Failure to reauthorize Ex-Im would put at risk hundreds of thousands of American jobs and would hurt many small- and medium-size businesses. Without the Bank's services, American companies would lose crucial support overseas and fall behind foreign competitors.

Sub-Saharan Africa is a priority region for Ex-Im Bank, with over $2.05 billion in transactions in over 20 countries being supported by Ex-Im Bank in 2014. Since 2009, Ex-Im Bank has supported over $6.6 billion in transactions throughout sub-Saharan Africa.[9] In addition, Section 124 of AGOA directs Ex-Im Bank to expand its financial commitments of its loan guarantee and insurance programs to African countries and supports Ex-Im's Africa Advisory Committee in fostering economic cooperation between the United States and sub-Saharan Africa. However, the Advisory Committee was not authorized in the most recent reauthorization of Ex-Im Bank and remains non-operational.

The impending expiration of Ex-Im Bank as well as the current non-operational status of the Africa Advisory Committee threatens the competiveness of American firms in doing business in Africa. Countries such as Brazil, China, France, Germany, India, and Korea have their own equivalents of Ex-Im, and in recent years they have provided two to ten times the level of support for their exporters that Ex-Im has provided to American firms. If Ex-Im Bank including its Africa Advisory Committee are not reauthorized, U.S. companies would be at a sharp disadvantage in many African markets.

Recommendations

Given the rising importance of Africa to the United States, the Chamber urges that Congress and the administration consider these recommendations:

Extend AGOA beyond 2015: An extension of AGOA would benefit both the United States and all AGOA-eligible countries by providing greater predictability and stability for U.S.-

[9] Export-Import Bank, Africa (Sub-Saharan): http://www.exim.gov/about/whatwedo/markets/africa/.

Africa trade. In order to maximize AGOA's potential and to take into account the dynamic economic environment on the continent, the legislation should receive multi-year renewal.

Expansion of Product Coverage: The AGOA program excludes many products that could be of great value for trade with sub-Saharan Africa, and Congress should consider what products can usefully be added. The Chamber also supports the extension of AGOA's third-country fabric provisions.

Review AGOA's Eligibility Criteria: AGOA should take into account the deliberate trade and investment actions of African governments. With the goal of enhancing economic growth and development, AGOA should encourage efforts to promote trade facilitation, expand market access, protect intellectual property, extend fair treatment to foreign investors, and enhance the business climate in other ways.

Move Toward Regional Trade Agreements: To maximize the potential benefits of U.S.-Africa trade relations, U.S. officials should consider how to use AGOA as a vehicle to move beyond a one-way preference program and towards bilateral and regional reciprocal trade agreements.

Pass Trade Promotion Authority: Trade Promotion Authority would drive economic growth and job creation in the United States through the negotiation of critical trade agreements. TPA will be a necessary tool for enhancing trade relations with African nations as we pursue bilateral and regional reciprocal trade and investment agreements on the continent.

Press for Swift Implementation of the WTO Trade Facilitation Agreement: The U.S. government and business community should continue to press African nations to embrace a fulsome list of their commitments under the TFA to highlight their commitment to efficient customs and port procedures. Governments doing so would signal to the global business community their clear intent of real economic reform.

Approve the Electrify/Energize Africa Act: The Electrify Africa Act would encourage the development of new infrastructure to provide access to electricity in sub-Saharan Africa. By promoting reliable access to energy, this bill would help remove one of the continent's most significant barriers to development and would allow a larger middle class to emerge, providing a wide range of opportunities for U.S. companies in years to come.

Re-Authorize the Export-Import Bank: The Export-Import Bank remains a vital part of the American economy and enables American firms to successfully compete in African markets. Re-authorizing Ex-Im and its Africa Advisory Committee would ensure assistance to American companies exporting to Africa.

Conclusion

The Chamber thanks the leadership of the Senate Subcommittee on Africa and Global Health Policy for convening this hearing on the African Growth and Opportunity Act. We look forward to working with Congress and the administration to advance the next reiteration of

AGOA in order to further the trade and investment relations between the United States and the countries of sub-Saharan Africa.