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United States Department of State
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Mr. Chairman, Senator Biden, and Members of the Committee, thank you for inviting me to testify today before the Committee on the African Growth and Opportunity Act (AGOA). It is a particular pleasure to testify on AGOA before this Committee that has been so active in promoting trade and investment between the United States and sub-Saharan Africa. In particular, I want to recognize your role, Mr. Chairman, in supporting the first AGOA bill in 2000.

U.S. Policy Toward Africa

AGOA is one part of a much broader policy of engagement with sub-Saharan Africa. U.S. policy in Africa aims to foster development and democracy and create an environment in which freedom, prosperity and security become benchmarks of the U.S.-Africa partnership of the twenty-first century. We are committed to helping African countries develop the democratic institutions that encourage good governance and rule of law. Development of independent media, effective parliaments, and independent judiciaries are vital to that effort. We also have programs in place on anti-corruption and improved respect for internationally recognized human rights. These efforts help to deepen the fragile roots of new democracies in Africa.

Fighting the HIV/AIDS pandemic ravaging the continent continues to be a priority of U.S. foreign policy. The President's Emergency Plan for AIDS Relief will focus on bringing life-extending HIV/AIDS prevention and treatment to some of the most afflicted and under-resourced countries in the world.

In the firm belief that Africa cannot successfully address conflict, poverty or health challenges without also addressing natural resource and environmental management, we are also working to protect Africa's natural environment. Africa is home to remarkable biological diversity and extensive natural resources that are important not only to Africa, but to us all. Ensuring that Africans are able to manage and protect this bounty is a policy priority.

We are also concerned about human resources in Africa and are working with G8 and other partners to prevent famine and hunger from further draining Africa's fragile human resources. We are the largest provider of humanitarian famine relief, while at the same time we work with African partners to better tap the potential of agriculture as a driver of growth and progress, and a source of increased food security.

Trade is an integral part of our strategy for fostering greater economic prosperity in Sub-Saharan Africa and supports our efforts to improve governance, secure sustainable peace, encourage effective natural resource management, and protect and nurture the region's human capital. For Africa, trade is not only an exchange of goods and services, but also and exchange of ideas. As the continent becomes more integrated through trade in the global economy, Africans and their governments are learning to do business according to new rules—not only trade regulations, as codified in the WTO, but also labor law, environmental standards, and investment codes. These rules bring with them stability and predictability that is critical to economic growth.

But it is not only trade with the United States that is important to bringing economic prosperity and sustainable peace to Africa. Trade among Africans can bring prosperity by allowing them to use their comparative advantages more effectively. Trade among Africans is also important to sustainable peace. One day, the economic bonds that trade creates may become stronger than the ethnic divisiveness that has so often torn the continent apart.

The Role of AGOA

AGOA remains a centerpiece of our policy toward Africa. In the past three years, AGOA has had the very positive effect of increasing our two-way trade with Africa and in diversifying the range of products that are being traded.

AGOA's purpose is to help spur prosperity and development in African countries and bring them more fully into the global economy by giving them greater access to the U.S. market. And AGOA is working. AGOA is also about integrating Africa into the world's trading and finance networks. AGOA makes African countries more attractive, cost-effective sources for purchasing raw materials and finished products. By easing access to U.S. markets, the African Growth and Opportunity Act has had a major impact in Africa. AGOA has facilitated new investment, created jobs, and helped form commercial linkages that will foster new investment opportunities and increase prosperity in sub-Saharan Africa over the long term.

The very existence of AGOA has changed the attitude of many African firms and governments about doing business with the United States and, in fact, with each other. They see the commitment of the United States to deepening economic relations with Africa, and begin to realize that the United States can be a partner for them—they don't have to rely solely on their traditional, usually former colonial, trading partners such as France and Portugal.

But this isn't just altruism on the part of the United States. AGOA offers African countries one concrete benefit: duty- and quota-free access for most products from eligible countries. There are benefits available for American businesses and consumers as well. In many instances, new apparel factories have bought American equipment. U.S. businesses are also investing directly in sub-Saharan Africa. Our firms have made direct

investments in textile and apparel production as well as manufacturing automobiles and parts. At year-end 2002, the U.S. investment position in sub-Saharan Africa stood at \$12.1 billion, an 18 percent increase over the previous year. Investment in South Africa increased to \$3.4 billion in 2002 from \$3.1 in 2001. Our approach to AGOA, which includes dialogue on critical political and economic policy issues as well as AGOA's job and growth benefits, can help in our overall effort to make Africa more stable and prosperous—which will of course make Africa a stronger partner with the United States and a growing market for American goods and services.

AGOA also continues to facilitate regular trade and investment policy discussions through the United States-Sub-Saharan Africa Trade and Economic Cooperation Forums, our premier platform to articulate and advance trade and economic policy toward Africa. I have been fortunate to participate in all three held to date: in October 2001 in Washington, January 2003 in Mauritius, and December 2003 here again in Washington. In Mauritius, Ambassador Zoellick, other senior officials, and I were able to engage the Africans in open and productive conversations on biotech, Doha development agenda, transparency and anti-corruption principles. During the most recent forum, we spoke to the Africans about the importance of infrastructure development to trade, highlighted the role of trade in boosting economic growth and development, agreed on the importance of fighting corruption and increasing transparency, addressed the imperative of increased access to credit for the private sector, and encouraged African countries to explore ways to diversify their exports under AGOA, especially in the agriculture sector. African officials hailed the positive impact of AGOA on trade and economic growth and described supply-side constraints to increased trade. Parallel private sector and NGO forums have focused on the challenges that African countries face in their attempts to take full advantage of opportunities AGOA provides for their economy to grow.

Trade and Development

AGOA is an important part of our efforts to use trade as well as aid as a means of development. Our common challenge is to launch together a new era of sustained growth and lasting development progress that benefits all people. Bringing all of the world's poor into an expanding circle of opportunity is vital to raising hope, improving peoples' lives, and creating a more secure, democratic, and prosperous world.

The Millennium Challenge Account (MCA), like AGOA, seeks to expand the circle of opportunity in developing nations that are committed to taking responsibility for their own economic growth, including nations in sub-Saharan Africa. Countries already taking advantage of AGOA and those that will benefit from the MCA share several traits. They are working to improve governance and rule of law. They are developing economic and social policies that support poverty alleviation. And they are allowing the private sector—not the government—to allocate scarce resources and serve as the engine of economic growth.

The MCA program is focused like a laser on promoting lasting development progress, starting with its focus on selecting partners with a proven track record in governing justly, investing in people, and promoting economic freedom. And already countries are reacting positively to the incentives that the MCA creates to accelerate and deepen efforts on reform, growth, and inclusion.

According to the World Bank and International Monetary Fund, trade is the single most important channel affecting growth for developing countries. The World Bank estimated that increasing poor countries' access to world export markets could generate an additional \$1.5 trillion in income over 10 years, raise their annual gross domestic product growth rates by 0.5 percent, and lower the number of persons living in poverty by 300 million.

Trade and Employment Effects of AGOA

Let me provide a few examples that demonstrate how trade with sub-Saharan Africa has flourished under AGOA. Excluding energy products, African exports in 2003 under AGOA, including products covered by Generalized System of Preferences (GSP) provisions, increased by 32 percent to just under \$3 billion. Total AGOA exports increased 55 percent in 2003, to \$14 billion, well over half of sub-Saharan Africa's overall exports to the United States. Behind oil, the biggest AGOA export has been apparel. Sub-Saharan Africa exported over \$1.2 billion in apparel under AGOA in 2003, almost 50 percent more than in 2002. While this trade is only 2.1% of the US imported apparel market, it has great importance to Africa. We have also seen exports of transportation equipment, minerals and metals, agricultural products, and chemicals all increase under AGOA. In addition to these direct exports to the United States, we are well aware too that AGOA helps to stimulate business within Africa to produce the goods that come to us via AGOA. In that sense, AGOA helps Africans recognize the tremendous benefits of opening up their markets to each other, as well as to the rest of the world.

These figures may seem small compared to our overall imports of \$1.3 trillion in 2003, but this isn't trivial for Africa. The United States is sub-Saharan Africa's largest single-country market, the recipient of about one-quarter of sub-Saharan Africa's exports.

AGOA has also been successful in creating tens of thousands of jobs across the continent. Seven countries that keep track of AGOA job creation—Kenya, Lesotho, Malawi, Mauritius, Namibia, Swaziland, and South Africa—credit AGOA with providing employment to a total of more than 150,000 workers.

Stimulating the Private Sector

Trade and employment numbers are the most obvious way of measuring the impact of AGOA on Africa, but we shouldn't forget the non-quantifiable impacts, the most

important being the sea change in relationships between African governments and the private sector. For example, most AGOA-eligible countries have established local AGOA committees, usually involving governments and businesses, and frequently our Embassies. The creation of U.S.-market oriented organizations such as these, and the sheer volume of news and commentary in African countries about AGOA, demonstrate a shift in thinking. Several countries have credited AGOA's textile visa system for helping them to upgrade and improve the operations of their customs service—a nice side benefit. Governments increasingly see their roles as facilitating rather than regulating trade. As we look at various AGOA success stories, with a few exceptions, the biggest beneficiaries have been countries of southern and eastern Africa. I suggest a couple of reasons for this.

Major winners from AGOA like Lesotho, Namibia, Mauritius, and South Africa have a combination of factors in their favor. They have reasonable commercial frameworks that allow businesses to set up and operate relatively freely, and governments that have encouraged investment and trade. A company won't invest if the obstacles are too great, or if it fears effective expropriation by unreasonable regulation or excessive corruption.

These countries are also for the most part relatively large markets—or are tied to larger markets such as the Southern Africa Customs Union, in the case of Lesotho, Swaziland, and Namibia. They have benefited from a relatively robust and sophisticated infrastructure and shipping connections in southern Africa. They have also been stable politically.

The Importance of the Eligibility Criteria

The countries that are benefiting from AGOA are making continual progress toward 1) promoting a market-based economy that protects private property rights, 2) enforcing the rule of law and fighting corruption, 3) eliminating barriers to trade and investment including the resolution of investment disputes, 4) implementing economic policies that will reduce poverty, and 5) protecting workers' rights and human rights. These are the AGOA eligibility criteria.

Countries such as Zimbabwe, which fail to meet these criteria, simply are not in a position to benefit. This year, President Bush found that two countries, the Central African Republic (CAR) and Eritrea, no longer met AGOA eligibility criteria. The March 2003 military coup d'état in CAR and a general deterioration in the human rights situation in Eritrea were critical factors in this determination.

Quite simply, AGOA benefits have largely accrued to those countries that have done the most to help themselves, encouraging investment and trade, maintaining political stability, and observing the rule of law. We have worked with other countries to try to improve the results of AGOA through our trade capacity building programs and will continue to do so. But ultimately, whether a country can tap all possible benefits from AGOA is largely in its own hands.

Our focus today, however, should not be on those countries that have failed to meet AGOA eligibility, but on those that have met the criteria and have experienced first-hand the importance of trade to economic development. The real success of AGOA is in how it helps Africans to help themselves.

Examples of Success

AGOA is touching individual lives, including those courageous souls who are rebuilding their lives a decade after the horrific events in Rwanda of the early 1990s. In Rwanda, two women are developing a cottage industry that now employs 225 women to produce colorful baskets woven from sisal and fabric—called “peace baskets”—for export to the United States under AGOA. The U.S. business partners in this venture are successfully marketing these high-quality handicrafts.

I believe this effort exemplifies the kinds of activities you hoped would result when the Congress passed AGOA legislation in 2000 and AGOA II in 2002. The private sectors—in both the United States and Africa—have seized on this trading opportunity. The economic impact of this effort will be significant. These women will earn nearly twice Rwanda’s average per capita income of \$210 per year. It is small-scale efforts like this—multiplied across the continent of Africa—that will bring the large-scale economic development Africa so desperately needs.

Another example is Lesotho, a small, land-locked country of only 2 million. Lesotho’s AGOA exports totaled nearly \$373 million, a 17 percent increase over 2002. According to Lesotho’s trade minister, AGOA has created over 25,000 new jobs so far, and over 20 plants have opened or expanded since 2000. New investment means those exports and job numbers are likely to increase. A \$100 million denim-rolling mill will begin operation in April 2004, creating 2,000 new jobs when fully operational. Investors are also constructing a \$40 million yarn-spinning mill that should be completed by the end of 2004. Four new apparel factories opened in Lesotho in 2003. One of them will employ 5,000 in a poor rural district.

South Africa, the largest and most diversified economy in Africa, has greatly benefited from AGOA. It exported over \$1.7 billion under AGOA in 2003, a nearly 25 percent increase over 2002. In 2003, a U.S. jeans manufacturer began to export its South African product to the United States. With the added AGOA production, it increased payrolls in South Africa from 220 to 300. AGOA also kept jobs in the United States. This apparel production is providing a market for U.S. exports in the form of denim—all of the denim in these jeans comes from North Carolina. The thread used is also from North Carolina. These U.S. exports of cotton fabric to South Africa—which increased from \$1 to \$4 million from 2002 to 2003—are a vivid example of how AGOA can benefit not only African economies, but the U.S. economy as well.

Kenya saw its AGOA exports to the United States increase by nearly 43 percent in 2003, reaching \$184 million. Kenya has estimated that 30,000 people hold jobs directly related to AGOA, and over 150,000 others have jobs indirectly linked to AGOA, in industries that support companies manufacturing for export under AGOA. Even manufacturers that aren't selling their products directly to the United States are benefiting—for example, half of Kenya's sisal production is used in dartboards that we import under AGOA. Kenya's export promotion agency estimates it has seen over \$45 million in such "backward linkages" into Kenya's economy. Kenya is also taking small steps in value added products, exporting a small amount of processed coffee—\$58,000 worth—under AGOA in 2003. Granted, this is a small amount, but the point is that AGOA can support agricultural processing in Africa and reduce the impact commodity price fluctuations have on the continent's economic health.

Uganda is another major coffee producer. Under AGOA, a new firm is processing coffee before exporting it to the United States—the first time Uganda has ever added value to its coffee exports. Thanks to this and other AGOA-inspired innovations, total AGOA exports were valued at \$1.5 million in 2003, up from \$32,000 in 2002.

And in Uganda's neighbor to the south, Tanzania, a new apparel factory employs over 650 local workers. A small handicraft company in Tanzania has boomed since AGOA. Before AGOA, it employed 25 people and exported \$20,000 a year worth of arts and crafts to the United States. Now, it has increased its exports to the United States ten-fold and has created new jobs and provided income for 125 poor Tanzanians, mostly women.

Foreign companies have invested over \$200 million in spinning operations in Namibia, creating some 20,000 jobs by 2005. AGOA is diversifying Namibia's economy beyond diamonds, minerals, and subsistence farming.

In Mali—last year Africa's largest cotton producer—a \$12.5 million cotton-thread factory opened in February of this year. The modern facility is one of the few outside South Africa capable of producing quality thread for use in manufacturing apparel for export to the United States under AGOA. In fact, Mauritian investors who operate apparel factories at home and plan to use the thread there were among the investors. The factory—the first of its kind in Mali—created 200 new jobs. It is a noteworthy example of AGOA promoting investment within the continent.

Looking to the Future

Now we are considering the future of AGOA, keeping in mind President Bush's commitment to see AGOA extended beyond 2008. Mr. Chairman, I applaud your initiative in introducing legislation to extend AGOA through 2015. Clearly, with the current global system of quotas on textile and apparel expiring on January 1, 2005, African producers will have to compete more effectively. But with the benefits of AGOA that I've described here, they can rise to this challenge, and I am hopeful that they will thrive beyond 2005.

I am very pleased at the positive effects of AGOA these past three years. It is helping to create a new dynamic in Africa, to deepen the economic ties between those eligible countries and the United States. And it has given Africans new hope. Thank you.