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Written Statement
Senate Committee on Finance
July 30, 2014

Chairman Wyden, Ranking Member Hatch, Members of the Committee, thank you for inviting me here to today to testify about the African Growth and Opportunity Act (AGOA).

AGOA has been the cornerstone of America's economic engagement with sub-Saharan Africa over the past fourteen years. And it has had important success in meeting the objectives set by Congress, including increasing trade and investment between the United States and Africa. U.S. imports from AGOA countries have grown from $8.2 billion in 2001 to $26.8 billion in 2013, a threefold increase. Taking out trade in petroleum products, which is mainly driven by factors other than preference program benefits, AGOA trade has increased almost fourfold during the same time period from $1.4 billion in 2001 to $4.9 billion in 2013. In fact, studies comparing AGOA with unilateral preference programs administered by other countries have found that AGOA is more likely to lead to the export of new products in new sectors than other, similar programs.

AGOA's trade benefits and eligibility criteria have also contributed to improving business and investment climates in Africa. U.S. foreign direct investment (FDI) stock in sub-Saharan Africa increased from approximately $9 billion in 2001 to $35 billion in 2012. In the past, most FDI in sub-Saharan Africa was focused on natural resource extraction. However, from 2007 to 2012, the number of new FDI projects focused on natural resources declined, while the number of projects in the services and manufacturing sectors increased. AGOA's trade preferences have contributed to investment from many countries in non-traditional sectors, including in apparel and textiles during the program's earlier years and in more recent years, in the auto sector, value-added agricultural products and footwear, among others. This increase in investment has had a direct effect on jobs. According to the African Coalition on Trade (ACT), AGOA-related investment has resulted in the creation of some 300,000 jobs in sub-Saharan Africa and supported an estimated 117,000 jobs here in the United States.

However, the importance of AGOA cannot be understood solely through the numbers alone. It has to be understood through the impact on people's lives—like the remarkable women in Ethiopia, many of them former sex workers, who weave scarves and tool leather products for a Nashville-based company called "fashionABLE" or many others who have translated the market access under AGOA into a path to a better future.

But there is more work to be done. Utilization of AGOA is low and uneven. For example, the bulk of U.S. imports under AGOA come from a handful of countries—those exporting oil such as Nigeria and Angola and, on the non-oil side, by South Africa which exports luxury automobiles and a range of other products. In addition, although we are starting to see increasing diversification, exports under the program are still fairly concentrated in a few sectors. Finally, while the growth in exports has been impressive over the life of AGOA, in absolute terms the level of exports is extremely low—only $4.9 billion in non-oil exports across 40 eligible countries. We must and can do better.

To this end, at last year's AGOA Forum in Ethiopia, I announced the launch of a comprehensive review of the program to examine its successes over the last 14 years as well as its shortfalls, with the aim of identifying options for its improvement. As we undertook this exercise, we were mindful too that the world has changed since AGOA was first put in place. The Africa of 2000 is not the Africa of 2014. Africa is rising. Six of the ten fastest growing economies in the world are in Africa. The continent is no longer just an important sourcing center for our manufacturers and retailers—it is also a rapidly expanding market for U.S. products. Africa's relationships with its trading partners are also evolving. An increasing number of African countries are moving away from unilateral preferences and entering into reciprocal trading relationships, including with the European Union. As we think about AGOA's future, we need to consider how the U.S.-Africa trade relationship should evolve over time as well.

Over the course of the last year, USTR has engaged in extensive outreach and consultations with stakeholders both here in the United States and in Africa, government officials, business groups, civil society, NGOs, faith groups, think tanks, academics, the multilateral development banks and other international partners, as well as the range of agencies working on U.S.-Africa trade and investment across the U.S. government. We have drawn from this review three main conclusions:

First, tariff preferences alone are not sufficient to spur the kind of transformational change that we want to see. In particular, the utilization issues that we have seen with AGOA stem largely from factors that are not intrinsic to the program itself. African countries face constraints to trade that range from (1) inadequate and high cost infrastructure, particularly in the energy and transportation sectors; (2) burdensome customs procedures and other cross-border barriers impacting Africa's regional and global trade; (3) difficulties complying with agricultural, safety and marketing standards (including sanitary and phytosanitary requirements); (4) limited skilled labor; to (5) low productivity and competitiveness in non-oil, value-added products. These are just some examples of the supply-side constraints that our AGOA-eligible partners face. And, despite growing business interest in Africa, AGOA countries also continue to face difficulties finding buyers in the U.S. market.

For AGOA to reach its full potential, it must be linked to a broader, coordinated trade and development strategy that targets the full range of the supply-side constraints to trade in Africa, creates new markets for African products, harnesses growing private sector interest in trade and investment in Africa, and promotes regional integration and value-added production. This also includes moving forward with implementation of the WTO Trade Facilitation Agreement concluded in Bali last year, which, by OECD estimates, could lower trade costs for developing countries by up to 15 percent if fully implemented.

Second, there are a small number of discreet but important areas in which the AGOA program itself can be updated and improved. This, of course, is the province of the Congress, and it falls to you to examine further whether changes in these areas are warranted. But the findings of our review can be helpful as you consider these issues. For example:

- Length of Extension. Our research suggests that it is important to extend the program, including the third country fabric provisions, for a sufficient period to encourage investment in critical industries in Africa, including in textile production. For example, to vertically integrate in the apparel sector, investors in yarn and fabric production typically look to amortize their capital investments over a period in the range of 10 years. Without an assurance of stable market conditions over this period, investors could be less willing to take the plunge.

- Product coverage: Most AGOA beneficiaries enjoy duty-free treatment for virtually all (97.5 percent) of their products. However, there are 316 tariff lines that continue to lie outside the program, which could provide new market access for AGOA beneficiaries. We believe Congress should consider whether any new products can now be added to the program. Certainly, there is precedent for iterative expansion of AGOA – the program was expanded in 2006, for example, to include several hundred non-apparel textile products. However, most of the products currently excluded have historically been extremely import sensitive. Any consideration of expansion should take into account current domestic sensitivities.
- Rules of Origin: AGOA has some of the most flexible rules of origin of any preference program. There are, however, areas of the program where flexibility has been constrained. For example, there are limits on the "cumulation" of labor costs across all AGOA countries and on the use of U.S. inputs in meeting the requisite "regional value content" rules. Elimination of these limits could provide beneficiary countries important flexibility and also encourage greater integration into regional and U.S.-Africa value chains. We believe all of these options should be examined.
- Eligibility Criteria: AGOA's eligibility criteria have played an important role in raising standards and improving rule of law throughout the continent. However, they have not been updated since AGOA was first launched. They do not account for changes that have occurred since—for example, the rise in use of unwarranted sanitary and phytosanitary (SPS) barriers to block agricultural trade in countries around the world, including Africa. In addition, there have been changes in the definition of "internationally recognized labor rights" in U.S. trade policy. Updating these criteria could be an important way to modernize the program.
- Eligibility Review Processes: AGOA's mechanism for ensuring countries meet eligibility criteria is all-or-nothing. If a country is not meeting the criteria, the only option is total withdrawal of benefits. Moreover, any decision to withdraw must take effect the year following the one in which a decision is made. A more flexible approach, akin to that in GSP, allowing for partial and more immediate withdrawal may allow the Administration to take a more tailored and nimble approach to drive positive changes in beneficiary countries.

We look forward to working with you as you explore these and other issues in the process of moving forward with renewal.

Third, and finally, while the Administration remains firmly committed to securing AGOA renewal, we need to begin working with our African partners to develop a vision of a trade relationship that goes beyond one-way preferences in the mid- to long-term. As I said at the outset, today's world is different from the one when AGOA was first enacted 14 years ago, both in Africa and elsewhere. Importantly, developing countries' share of world trade is growing – having doubled from 16 percent to 32 percent between 1990 and 2010 – and some countries in the developing world are pulling out far ahead of others. These countries at the head of the pack – the emerging economies – have both a growing role in and responsibility for the global trading order. They also have an increased role to play in contributing to the development of their poorer neighbors. Against this backdrop, we need to consider important questions about the way ahead and how different tools – unilateral preference program, reciprocal trade agreements – might evolve to be used with different partners to help us achieve our goals of broad-based economic growth and prosperity. These are important issues and ones that must be decided with a view to strengthening and improving our trade and development ties. I look forward to working with this Committee to take up these issues.

With that, let me thank you again for the invitation to testify today. I am happy to take your questions.