Brief to The United States International Trade Commission

Investigation on AGOA Trade Performance; on the Program's Economic Effects; on Rules of Origin, and on the Impact of the EU – South Africa Free Trade Agreement on U.S. Exports to South Africa
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Respectfully Submitted by Dennis Matanda
for **Mr. Sindiso Ngwenya** | Secretary General
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Introduction

Mr. Chairman, Commissioners, Fellow Strategic Stakeholders:

Please allow me the honor of, first of all, expressing the sincere gratitude of Mr. Sindiso Ngwenya, the Secretary General of the Common Market for Eastern and Southern Africa (COMESA) for this opportunity to represent COMESA's views. As a citizen of Uganda, a land-linked country in a community of 19 countries, this is also a distinct honor. I also share the aspirations of those keen on the Tripartite Arrangement – between COMESA, the East African Community and the Southern Africa Development Community – as an attempt at merging regional organizations into the African Economic Community. We think that the Tripartite Arrangement is simply the most exciting trade and infrastructure development in Africa at the moment. The arrangement collectively accounts for 27 members of the African Union; a GDP of $ 1.15 trillion dollars, a population of 620 million and a combined landmass of 17 million square kilometers. To this group, COMESA alone brings the 19 member states, a population of 458 million people and an export and import bill of USD $154 bn and USD $108 bn respectively. The United States has over USD $ 13.2 billion in total trade with COMESA countries with exports being over $ 7.8 billion and imports over USD $ 5.4 billion.

When Mr. Ngwenya last testified to the U.S. Congress in 2007, he confirmed COMESA's long-standing relationship with the U.S. This has not changed, and is, in fact, on a trajectory to get even deeper. Following the 2001 Trade and Investment Framework Agreement between the U.S. and COMESA, the two parties have, since then, met over 6 times and also collaborated in terms of trade capacity building that USAID delivers through its East and Central Africa Global Competitiveness Hub. The hub has supported COMESA in advancing its internal free trade area, to harmonize members' policies in telecommunications, services, and investment, and to increase trade linkages with the United States under AGOA. Significant progress has also been made on standardized customs procedures and reduced tariffs, and the COMESA Common Investment Area to facilitate cross-border and foreign direct investments is thriving. Fourteen COMESA members are AGOA-eligible, and nine qualify for textile and apparel benefits.

While the U.S. imports mainly oil under AGOA, it also imports woven apparel, knit apparel, spices, tea and coffee, and textiles. Importantly, U.S. foreign direct investment in COMESA countries has averaged above USD $ 11 billion dollars these past 5 years of the Obama Administration. We are also fortunate that some of our members will take advantage of the *Power Africa* Initiative launched in July 2013.

Trade Africa, the other Obama initiative, positively contributes to four of our member states and while a whole host of challenges still remain, the COMESA Secretariat in tandem with the U.S. is contributing to regional value chains that will identify opportunities to create employment and income generation for a growing African population. Importantly, COMESA is very supportive of AGOA, and we consider this legislation a vital effort on the U.S.' part towards economic growth, and poverty-reduction in Africa. AGOA has helped create many jobs and generate substantial investments in key sectors. That's why we are excited about the prospects of an improved AGOA.

Nonetheless, alongside the Washington, DC Ambassadors' Working Group and the African Union, we share the hope for a coterminous extension of AGOA and its third country fabric provision. As identified by the USITC, Africa's textile and apparel sector has the most potential to expand production for the U.S. market. AGOA, in fact, succeeded in attracting American companies like Gap, Old Navy, Wal-Mart, Vanity Fair, Target, Calvin Klein and others to Kenya, Mauritius and Madagascar before the latter lost its eligibility in 2009. Mauritius and Kenya exported the largest percentage of apparel and textiles in 2011, while Malawi exported 13.5 M, and Ethiopia exported 10 M. But delays to renew AGOA in the past have led to a serious dislocation in the industry as buyers cancelled important Christmas orders over concerns that the AGOA duty-free provisions would lapse. That's why we fully support our Ambassador's calls for seamless renewal of AGOA before the end of 2014.

1. Overall AGOA Trade Performance

Mr. Chairman; As we testified in 2007, for most of Africa, as well as most COMESA members, agriculture is the backbone of our economies. The sector provides over 40% our GDP; employs about 80% of our workforce; and accounts for 30% of our export earnings. Agriculture also provides half of our industrial raw materials. Investments in agriculture have great multiplier effects in the African economies - with every dollar invested in agricultural production generating an additional $2.30.

According to the Brookings Institution and UNECA, the most effective way to improve AGOA is to increase agriculture exports. Since 3 of every 4 Africans live in rural areas and depend on the agriculture sector for their livelihood, using AGOA to stimulate productivity, growth, quality improvement and value addition for our agricultural products would significantly boost incomes of the rural poor and allow them to invest better in their children's health and education, and in their own health.

Thus, if tariff rate quota products – groundnuts, sweetened cocoa, leaf tobacco, cotton, and sugar, *et al* – were fully admissible into the U.S. under AGOA agricultural products to the U.S. would be significantly enhanced. COMESA respectfully urges the ITC to study carefully the manner in which these tariff rate quotas inhibit trade under AGOA. Additionally, AGOA could be enhanced to support Africa's AGOA agricultural exports to the U.S., via agro-processing. For example, a manufacturing plant for edible oils will trigger investments from foreign and local investors in the agricultural sector. Suppliers will then provide services from a closer location and tap into the available market for raw materials.

More importantly, the lessons of AGOA show that market access alone will not automatically translate into dramatic economic gains for many African countries without explicit investments in trade capacity to overcome our serious supply-side constraints. These impede productivity, growth and trade enhancement in Africa. Smallholder farmers and businesses bear the biggest brunt. COMESA calls for a significant up scaling of public and private sector investments from both local and external sources, specifically targeted to trade capacity

Some of the constraints we must deal with include the high cost of production, marketing constraints, poor infrastructure, insufficient communication and expensive sources of energy and other inputs and services; thin legal and regulatory systems; weak institutional and policy support structures; of public-private sector partnerships that facilitate trade; poor input and product market systems; inability to meet U.S. sanitary and phytosanitary standards; and lack of market information and knowledge about U.S. consumer preferences; among other constraints.

Presently, the COMESA region exports well over a billion U.S. dollars of fresh flowers, fruits and vegetables to the European market and within the region, with occasional exports to Australia. The produce shipped to these markets meets all the relevant market quality standards as well as SPS requirements as demanded in the respective export markets. All the products are grown under strict codes of practice, which ensure safe and environmentally acceptable products, and the same can be applied to exports to the U.S. under AGOA.

While the U.S. is currently Africa's biggest contributor to capacity building especially in terms of trade related infrastructure, this funding is, in the face of the magnitude of need, inadequate. The U.S. should increase its funding for trade-related capacity building assistance and leverage additional resources from other official bilateral and multilateral sources, as well as the private sector. We do, however, acknowledge the support of the Millennium Challenge Corporation (MCC). The MCC complements AGOA's objectives by strengthening policies and institutions critical for agricultural development.

2. Overall Economic Effects of AGOA on the Region

Mr. Chairman; there's no doubt that the greatest future gains to be derived under a partnership between the U.S. and Africa will emanate from regional trade, as neighboring countries dismantle trade barriers and competing policies, as well as gain scale economies through harmonized trade standards and more integrated infrastructure. If the United States continues on this trajectory, it will have contributed to the progress made under the Doha Round where a deal was done for the first time in 12 years in Bali this past December. Simply, the Tripartite Arrangement is the quintessential plurilateral deal where COMESA, EAC, and SADC could be open to liberalizing rules on one sort of good or service to, for instance, the Economic Community of West African States.

In terms of AGOA's Economic Effects in the Region, I'd like to pivot towards *Strengthening Regional Markets and Trade*. With the timeliness of this commission hearing, the United States has an excellent opportunity to impact infrastructure at a regional level. Not only would these inputs promote regional integration and regional trade, but also, as exhibited in the Tripartite Arrangement, directly contribute to the foundation of the Continental Free Trade Area (CFTA) as promoted by the African Union. This is very different from what the European Union is doing under their Economic Partnership Agreements.

But this does not mean that COMESA is not open to agreements. We are, in fact, open to allowing any other regional economic communities to joining the Tripartite at any time. Together, we could all promote private sector investments in Africa, work on AGOA's objectives, and enhance the U.S. – Africa business relationships and linkages.

3. On Rules of Origin

Mr. Chairman; COMESA strongly believes that one of these most effective ways for Africa to be inserted into global supply chains and distribution networks is via modernization of the rules of origin. If these rules were changed, producers and suppliers in the Tripartite region, for instance, would be part of the global value chain based on tasks where we have competitive advantage because of our core competencies. And we have examples: The cost structure of the iPhone is broken down like this:

Toshiba from Japan makes Flash Memory, the Display Module, and the Touch Screen valued at $ 24, $ 19.25 and $ 16 respectively. Infineon of Germany makes the Baseband, Camera Module, RF Transciever and GPS Receiver plus the Power IC RF Function for 13, 9.55, 2.80, 2.22 and 1.25 respectively – and so on. Ultimately, the total bill of materials from 5 different countries comes down to about $ 172.46 and you have a grand total of about $ 178.96. However, the point to the above illustration is that the iPhone is labeled Made in

China – yet only a small share – the $ 6.50 from China is what makes the iPhone $178.96. Ultimately, while removal of commodity quotas from AGOA countries would produce its own dynamic, it is a contradiction when it comes to manufactured goods for the U.S. to insist on stringent Rules of Origin whilst the US is a major importer from other parts of the world where it accepts the principle of rules of origin and the application of global value chains.

4. On the Impact of the EU – South Africa FTA on U.S. Exports

Mr. Chairman, some of our colleagues here in the U.S. have suggested that South Africa has been, above all nations, the primary beneficiary of AGOA. It has a well-developed infrastructure and it has a greater work force capacity than any other country in Africa. And because of this, some have called for South Africa to be graduated from AGOA since there are still considerable barriers to U.S. companies attempting to enter the South African market. But let us take a step back and look at the considerable impact such an action could have on the rest of sub Saharan Africa's hopes for regional integration. Basically, if one starts to treat South Africa as a special case, then what prevents this slippery slope from affecting the other 12 non-LDCs including Kenya, Namibia, Nigeria and Ghana?

Conclusion

Mr. Chairman, even with an AGOA, renewed and possibly enhanced on a timely basis. Africa's competitiveness will continue to require support. This can be addressed by an AGOA that speaks to aspects like subsidies and economic partnership agreements. Additionally, we must, collectively, look into the impact that tariff rate quotas have on potential agricultural exports under AGOA. Due to the overwhelming importance of agriculture to the economies of COMESA's membership, we hope that the United States, in these deliberations, will remember that there is still so much to be done – and this could bring incredible benefits for everyone, including developed countries, compared to the status quo. Thank you.