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U.S. Trade and Investment with Sub Saharan Africa-Recent Development
USITC Hearings
Testimony of Stephen Lande
January 23rd

No one should feel complacent about the USG economic position in Africa. The US has been replaced by China as the number one trader with Africa since AGOA went into effect. In fact US trade with Africa has shown negative growth in recent years. Since the imports do not paint an accurate picture since they include oil exports which have been declining drastically due to increasing use of oil shale in the United States, the paper cites exports. US goods exports to Africa fell from $38.09 billion in 2014 to $22.28 billion in 2016. China's exports to Africa, meanwhile, have increased, from $13.22 billion in 2005 to $103.19 billion in 2015—more than five times that of the United States.

In this regard, the request to the USITC for a quantitative and qualitative analysis of economic performance under AGOA is very timely. The request stated that as the Administration works to encourage fair and reciprocal trade with our African trading partners, it is important to have information on where we are succeeding in African markets, where we have the greatest prospects for increased trade and investment, and the factors that could impede that progress.

In the five minutes allotted to Manchester Trade, I will identify the areas where this greatest prospect for increased trade and investment and the factors that impede the progress,

First, AGOA is an undeniably effective instrument for accomplishing this. Wow—Thanks to the effective management and the assurances of continuity of the program by USTR specifically the three Assistant USTRs since AGOA was implemented at the beginning of this century and the support provided by the USTR themselves during this period, AGOA maintains unprecedented support on the Hill and in Africa. The Assistant USTR ensured that AGOA was kept up to date developing three enhancements to the bill and ensuring Hill support by meticulously administering the program as Congress intended. The commitments of Ambassador Robert Lighthizer and his predecessor, Ambassador Michael Froman to AGOA was vividly demonstrated when the former in the midst of launching NAFTA negotiations devoted four or five days to travel to Togo and the latter challenged travel agents by traveling from a WTO Ministerial in Bali, both to attend AGOA Forums with the principle objectives of exchanging with their African counterparts on how to deepen the program in ways which assures that it also provide benefit for the US and respected the conditions of Congress.

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The result is that AGOA is on firm footing in the United States and Africa as witnessed by the fact that just last week at a time when many US trade initiatives are being questioned (TPP, relations with China and other deficit countries, NAFTA and the network of US FTAs which it spawned and even the formerly sacrosanct WTO) the US Congress in about three days passed legislation to enhance AGOA when questions were raised about US commitments to the continent. Whereas, the European Union programs beginning with Lomé preferences with its restrictive origin rule and its efforts to gain reverse preferences in violation of WTO rules and extending into its Economic Partnership Agreements through unheard of threats to remove preferences (it did for the Cong, Gabon, and Nigeria) from non-LDCs refusing to sign and discriminate in favor of European imports over those from many African countries as well as the United States. In fact, African leaders have been trying to put a moratorium on implementation of such programs until they complete the continental FTA and to avoid discrimination against exports from countries providing unilateral preferences or otherwise assisting Africa. Just contrast African reluctance to agree to EPAs and the desire for the moratorium with the enthusiasm shown by Africans in developing AGOA implementation plans.

Previous witnesses have presented data which demonstrate the success of AGOA in the trade field. The basic successes have been in two key areas. One was South Africa where an economy in the process of transition from apartheid to multiracial cooperation has been able to take advantage of the access offered to increase key exports to the United States.

The most important accomplishment in exportation for all of Sub Saharan Africa has been in the garment area. Here new industries were brought to four least developed and developing country—industries which did not exist before AGOA apart from some production by independent enclave within South African borders. Africa was not part of the global supply chain for clothing,

Under AGOA, two least developed countries (Lesotho and, Madagascar) and two developing countries (Kenya and Swaziland) were able to enter world class manufacture of clothing. Two additional least developed countries will soon join this list because of surging exports—Ethiopia and Tanzania. One can trace few similar experiences under unilateral preference programs.

However there has been a second success of AGOA which is not apparent from studying trade statistics. The emphasis of the program on working with AGOA beneficiaries to support their efforts to introduce policies for good governance particularly regime which welcomed foreign investment. The result has been quite impressive. With strong US support, African countries have taken the lead in strengthening democratic systems going as far as military intervention to replace leaders overturning legitimate electoral processes. One recent example much appreciated by worker in Swaziland and US labor union has been using AGOA eligibility as a tool to work with the Government of Swaziland to develop a labor policy consistent with ILO norms. In terms of attracting foreign investment, policy directions are changing, reforms are being undertaken and conducive regulatory environments are being created to unlock private investments. SSA continues to be the region implementing the highest number of reforms according to the World Bank Doing Business 2018 report.

However, there are still some impediments to AGOAs having the transformative impact on Africa and significantly deepening relations between the continent and the United States as originally envisaged by its initial sponsors. To put in the current vernacular. these impediments make difficult implementation of policies which would make both Africa and the United States great.

The USTR request calls for the USITC to identify markets that present the greatest potential to increase exports of African products under AGOA. The request also requests the USITC to identify non-crude petroleum sectors and SSA markets that present the greatest potential for U.S. exports of goods and services and for U.S. foreign direct investment (FDI).

One of the disappointments of AGOA until ng ow has been the failure to integrate Africa into global manufacturing chains beyond garments. With the exception possibly of footwear in Ethiopia, there has been little movement into other supply chains. However, unlike what occurred in the Far East and somewhat in Mauritius, production and assembly of more sophisticated components in such areas as i.e., electronics, toys, have not occurred. This is particularly disappointing since as China moves up the production ladder, many of their operations are becoming uneconomic to carry out there but are moving into close-by Asian areas rather than to Africa.

This even though African countries have devoted much resources to developing export processing zone and their accompanying legal framework and located them in areas with sufficient infrastructure to be competitive they have not attracted non-apparel assembly. Often, they are located at air or seaports or on transportation corridors. They are often self-equipped with sources of power or located close to power generating facilities.

In other areas garments became the growth point for attracting other supply chains since one was able to draw on its managerial and labor work force. Although this has not occurred in Africa yet, these possibilities still exist.

Why has Africa been able to penetrate the global supply chains for garments but not in other manufactures. An impediment is the arcane nature of some of the origin rules of AGOA. These origin rules do not promote the incorporation of African components in supply chains. Also, often the components do not meet the requirements that at least 35 percent of their direct cost of processing must be carried out in African value-added which due to what is excluded from its calculation is s equivalent to about fifty percent of the total value of the product. To be frank, the special third country fabric rule has enabled Africa to participate in the value chain for clothing manufacture but the absence of any special origin rule for non-garment assembly has prevented the development of this industry.

Until now, one has been concerns about suggesting any improvement in AGOA in the current atmosphere toward trade liberalization since if one tried to modify the program it could be terminated or reduced in benefits. The recent outpouring of support for AGOA due in some part to the judicious implementation of Congressional conditions for eligibility now allows such enhancements to be considered without fear of reduced benefits. To promote non-garment supply chains to locate in Africa, we suggest that a special origin rule be added to AGOA designed to attract them. The suggested rule would reduce duties on products produced through global supply chains containing identifiable African inputs even if the product is finished in third countries. The duty reduction would be equivalent to the percentage of the value represented by the African components incorporated in the manufacturing process. Current origin rules require the final stage of production to take place in Africa. In the past, the possibility of fraud specifically claiming that a product contained eligible African value-added would have made it impossible to administer such programs. However, record keeping required for supply chains particularly to show where and from what components are produced to meet life cycle requirements addresses the fraud problem.

This step would also help make America great. As we all know, a key objective of the policy of the Trump Administration is to bring high paying jobs back to the United States. However, to be competitive there is a need for components where the US is no longer competitive to be produced elsewhere.

For the moment, the United States has no choice but to rely largely on China for such components. This need will increase significantly if and when the Administration's efforts are successful to bring high value-added manufacturing back to the United States. The USG and its manufacturers would appreciate the opportunity to rely on Africa for such components rather than on China. In fact, there is no question that it would be a win to rely on African rather than Chinese production. The major goal of Chinese industrial policy is to become the number one-word economic power. One toolt that China uses is to force US companies producing components in China to move their whole production there. This is no possibility that a similar scenario would unfold in Africa.

Such economic processing zones can also be used to incorporate US produced components in African production both for African markets and for third countries. As occurred in all successful countries, there will be efforts to develop what the Nigerian's call national champions. Automobile production is such an example. In NAFTA, one of the key objectives is to replace third country components with those from the United States. Economic Processing Zone can be used to import sophisticated US components to replace those Africa buys from third countries.

There are other recommendations as well as to how to ensure that AGOA better promotes truly reciprocal trade with the United States. In the few short moments remaining to me, let me mention them. Of course, we would be pleased to expand them during Q's and A's or in a supplemental submission to the Commission.

Current and potential AGOA beneficiaries in sub Saharan Africa number 75 million consumers. With an increasing proportion of the African population being composed of the Middle Class and with the burgeoning youth dividend in Africa thirsting for US branded consumer goods, there is a great potential for US exports. However, Sub Saharan Africa is subdivided into 49 economies, most of which are too small to support world class US distribution chains which is based on economies of scale and mass distribution. Thus, US exports would increase as African economies increasingly integrate with each other. Thus, it is not surprising that USTR asked for the USITC to provide a summary of recent developments of regional integration efforts in sub-Saharan Africa, including progress on the negotiation of the Continental Free Trade Agreement. Progress is quite amazing with the CFTA expected to be launched this year, COMESA has been in the forefront of such effort ad I am sure that its representative can provide further details about progress in negotiation not only towards CFTA but towards the formation of the Tripartite agreement bringing together the three-regional grouping in eastern and southern Africa- COMESA, the East African Community a(EAC) and the Southern African Development Community (SADC). AGOA can promote by focusing more on regional communities both as AGOA Implementation plans are being implemented and by working with the communities to facilitate exports to the United States.

There continues to be much discussion as to the best way that AGAO can evolve from being a unilateral to an increasingly more reciprocal program once the current legislation expires in 2025. With US and third country of African efforts, integrated economic communities can be able to negotiate with the US. Although the Trump Administration has a predilection to negotiate with individual countries, this model may not work in Sub-Saharan Africa given their number and the fact they themselves are integrating. Although differences in economic situations among African countries exist, they can be recognized through what is called variable geometry under which liberalization is phased in at different rates depending on development levels.

Finally, AGOA can be an effective tool for opening African markets, specifically removing impediments to US exports. Instead of relying on the current system which is based on threat of removal or reduction of access under AGOA, why not add to AGOA implementation a section which also emphasizes cooperation by all Parties in increasing two-way trade. One can utilize the existing system of Trade Investment Framework Agreements (TIFAs) to implement such a plan. Withdrawal and or limitation would remain a possibility but only if this new mechanism could not work. One issue which could be addressed is mutual concerns about the use of EU negotiating tactic to force preferences deleterious to some US and African objectives.

Finally, one should make sure that US investment promotion programs are linked to AGOA implementation. The private sector should play the primary role here, a subject I would like to explore if there was more time.