

**Testimony Submitted to  
the U.S. House sub-Committee on Africa and Global Health of the  
House Committee for Foreign Affairs**

**Hearing On  
*Beyond Oil and Gas: Africa Growth and Opportunity Act's Benefits to Africa***

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**Respectfully Submitted by**

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**Introduction**

Mr Chairman, Ranking Member:

I thank the Subcommittee on Africa and Global Health for the opportunity to testify on AGOA and how best to improve its impact on Africa's economic development, particularly on regional economic integration. I also would like to compliment the great leaders of the House and Senate who initiated and have shepherded AGOA all along and been such great anchors for Africa's interests in this legislation.

COMESA has a long standing relation with the U.S. underpinned by a Trade and Investment Framework Agreement (TIFA). COMESA is a regional economic community (REC) made up of 19 countries in north, eastern, central and southern Africa accounting for about half of Africa's population (400 million). COMESA is the largest of the eight RECs working under the leadership of the African Union and the New Partnership for Africa's Development (NEPAD). Of the 19 member-countries, 13 are Least Developed Countries (LDCs). COMESA's market integration strategy is based on trade and investment. Its members strive to develop better integrated economies where business thrives as a result of standardized customs procedures, reduced tariffs, encouraged investments and improved infrastructure, to name just a few. COMESA's Free Trade Area, launched in 2000 with a combined Gross Domestic Product of more than \$200 billion is the largest and most dynamic free trade area in Africa. At the recent COMESA Summit in Nairobi, the Members agreed to launch the Customs Union on December 31, 2008. They also initiated the COMESA Common Investment Area, which will facilitate cross-border and foreign direct investments, and also decided to establish a COMAID Unit, which will coordinate Aid for Trade at national and regional levels.

COMESA has all along supported the implementation of AGOA, legislation that we consider a vital U.S. effort towards economic growth, and poverty reduction in Africa, in line with achievement of a number of the Millennium Development Goals. The remarkable progress we have achieved so far under AGOA has helped create many jobs and generate substantial investments in Africa, including in key economic sectors within the COMESA region. That is why I am delighted to be here to share with you our views on what has worked well and what could be usefully improved.

**Overall AGOA Trade Performance**

Mr Chairman

AGOA has played a crucial role in raising the profile of U.S.-Africa trade relations and providing a solid platform for political dialogue between the U.S. and AGOA-eligible African countries on trade matters. This political will has been instrumental for continuing economic dialogue and cooperation between the U.S. and Africa.

I note with great satisfaction the tremendous gains in two-way trade achieved between the U.S. and Africa since AGOA was enacted into law in 2000, and this is what we want to build upon. Both the U.S. and Africa have gained considerably from AGOA. In 1999, total U.S.-Africa trade was worth \$19 billion; this rose to \$71 billion in 2006. Total Africa's exports to the U.S. have increased from \$15 billion in 1999 to \$59 billion in 2006, while U.S. exports to Africa have doubled from \$6 billion to \$12 billion over the same time period.

COMESA region's share of U.S. exports to the region was \$3.2 billion in 2005 and this rose to \$3.5 billion in 2006. However, its 13 AGOA-eligible member States' exports to the U.S. decreased from \$1.6 billion in 2005 to \$1.3 billion in 2006, a situation that we are trying to address and need your assistance.

### **Improving AGOA's Benefits to Africa: The Way Forward**

We at COMESA, and my colleagues in the other regional economic communities, view the trade potential with the U.S. very favorably, and we would like to work with our governments, private sector and civil society to maximize the benefits of AGOA to our people.

Since today's hearing is focused on how best to maximize AGOA benefits for Africa's non-oil trade, I will limit my comments to a few critical issues that warrant urgent attention if this legislation is to better meet its intended objective of enhancing trade and investments in Africa in a manner that improves people's livelihoods and reduces poverty on the continent:

#### *Diversifying AGOA Benefits to African Agriculture*

1. First, AGOA is vitally important for the continued development of U.S.-Africa trade interests, and the future of Africa's economic development. So far, AGOA has made a positive impact on African economies particularly in the textile and apparel trade, where hundreds of thousands of jobs were created ---especially benefiting women ---and hundreds of millions of dollars have been invested in factories and related equipment. However, since the expiration of the WTO Multi-Fiber Agreement in January 2005, this infant industry has suffered great losses. We would like to appeal to the U.S. and other donors for assistance that would sustain the gains made in this industry, and preferably provide find ways to provide complementary public-private sector investments that would stimulate vertical integration and industry competitiveness. Congress should make AGOA and all its provisions permanent. This will serve as further inducement for long term investment.

2. It is important for AGOA to engage the primary industry that drives African economies --- that is, agriculture. For most of Africa, as well as COMESA members, agriculture is the backbone of our economies. The sector provides 30-40% of our GDP; employs about 70-80% of our workforce; and accounts for 25-30% of our export earnings as well as provide half of our industrial raw materials. The African Union and NEPAD have made agriculture a top priority when it comes to developing our economies, as outlined under the Comprehensive African Agricultural Development Program (CAADP) currently being implemented.
3. Secondly, most past benefits of AGOA have been in the oil and gas industry ---accounting for more than 90% of the total value of AGOA imports into the U.S. Unfortunately, this industry has little impact on hunger and poverty alleviation, and instead ---in some parts of Africa ---has been associated with frustration, tension and (in some cases) civil conflict. Without decreasing the importance of oil and gas for our economies, we believe that the most effective means of raising livelihood standards for Africa's poor ---particularly women and children ---is by growing Africa's agricultural and rural sectors, where the majority of the people live and work. AGOA must reach out more to African agriculture. Since three out of every four Africans live in rural areas and depend on the agriculture sector for their livelihoods, use of trade 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 more in their family's health and education.
4. Research has shown that investments in agriculture and rural sectors in Africa have great multiplier effects in the economy---with every dollar invested in agricultural production generating an additional \$2.30 for the economy (according to a study by the International Food Policy Research Institute). Africa's agricultural exports to the U.S. have so far been miniscule, accounting for less than one percent of the total value of exports, but they have great potential not only to expand and increase in value but also to increase in diversity. South Africa is the major agricultural exporter to the U.S. under AGOA, together with Malawi and Kenya.
5. Third, AGOA should be enhanced by including products currently ineligible for AGOA duty-free treatment. This would expand benefits to include a number of agricultural commodities currently subject to Tariff Rated Quotas (TRQs) where imports above a minimal amount often is subject to prohibitive duties.
6. Currently, only a limited number of products and countries are benefiting from AGOA (in fact, out of the 38 AGOA-eligible African countries, five countries accounted for over 90% of total African exports to the U.S. in 2005. These are mostly oil producers; similarly, five countries account for 90% of apparel exports. I suggest that the most important assistance needed is to boost Africa's AGOA exports to the U.S., particularly in agriculture, agro-processing and other kinds of industries, by resolving critical supply- and demand-side constraints that face African farmers and businesses. These constraints are largely due to the high cost of production and marketing resulting from poor infrastructure, poor communication and expensive sources of energy and other inputs and services; inadequate legal and regulatory systems; weak institutional

and policy support structures; lack 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 many other constraints.

7. Mr. Chairman, U.S. assistance to help our countries meet sanitary and phytosanitary (SPS) standards has been very helpful to our members. For example, the horticulture industry is important, not only in employment creation but also for generating foreign exchange earnings as well as contributing to programs on wealth creation and poverty reduction. Currently, vegetable producers from the COMESA region export well over a billion U.S. dollars of fresh flowers, fruits and vegetables annually to the European market and within the region, with occasional exports to Australia. The produce shipped to these markets does meet 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.
8. Producers in the COMESA region have for a long time been keen to access the U.S. market for the export of the full range of vegetables. Currently producers in the region are only allowed to export a limited number of products (three for Zambia and three for Kenya) to the U.S. market out of the more than 15 or so types of vegetables grown for the export market. The current list of approved commodities does not allow producers to increase exports to the U.S. as the region's business strategy is to export processed value-added products in the form of multiple vegetable packs comprising a range of vegetables in a single pack and ready to eat. The few commodities currently approved do not match the required pack mixes. Accordingly, the export of vegetables to the U.S. from the COMESA region has been erratic and intermittent. Zambia, for example, exported some \$100,000 annually or so of snow peas in the 2000-2003 period, and this is now discontinued as this modality is not attractive to export. This compares to Zambia's total fresh vegetable exports valued at \$40 million.
9. The COMESA region's interest in the US market dates back to April 1998 when a formal request for conducting Pest Risk Assessments (PRAs) was made by the Zambian Government to the US Government. This request and requests from other COMESA member states was pending for more than eight years until 2006 when two additional products were approved. The US government is commended for these latest approvals and it is hoped that the process will be hastened further. There seems to now have been loss in momentum in undertaking PRAs in the region. There are delays in completing the entire process from assessment to mitigation and rule making. Although the US Animal and Plant Health Inspection Service (APHIS) Authorization System has provisions for countries wishing to export commodities to the US, to do their own PRAs on the commodities based on the APHIS PRA guidelines and to submit the completed PRA report to APHIS for review, the provision is redundant as no African country has had the benefit of successfully conducting their own PRAs. In practice, it seems that only PRAs conducted by APHIS specialists stand a chance of being accepted. Yet there seems to be a shortage of specialist staff within APHIS to conduct PRAs. Overall, most producers in

COMESA region feel that PRAs were an example of an SPS measure used as a non tariff barrier to trade.

10. It is noteworthy to highlight that COMESA member states have, over the years, performed extremely well in exporting fresh vegetables, fruits and flowers to the European Union. The growing and exporting of cut flowers has become one of the most vibrant and successful industries in the region. Kenya is one of the largest suppliers of quality cut flowers and fresh vegetables to the European Market with annual exports standing at over US\$700 million annually. Indeed, the region has the advantage of good weather, good light intensity and appropriate temperatures resulting in better quality products over those of competitors.

#### *Trade Capacity Building is Key*

11. The lessons of AGOA show that market access alone will not automatically translate into dramatic economic gains for many African countries without explicit investments that build trade capacity to overcome these serious supply-side constraints, which impede productivity growth and trade enhancement in Africa, especially for smallholder farmers and businesses. Dealing with these constraints calls for significantly up-scaling public and private sector investments from both local and external sources, specifically targeted to trade capacity building. The U.S is the current leader in providing trade capacity building resources to Africa, having disbursed approximately \$394 million in FY2006 (up by 95% from FY2005). But given the magnitude of the needs in Africa, especially trade- related infrastructure, this funding is 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.
12. Fourth, Mr. Chairman, we acknowledge the support we have so far received from the U.S., especially through the Millennium Challenge Account (MCA). We view the MCA as complementing the objectives of AGOA very well. For instance, the bulk of MCA support is going towards strengthening policies and institutions that are critical for agricultural development; and –therefore ---ends up addressing some of these very same constraints that I have discussed today. We at COMESA, and indeed the whole of Africa, are very supportive of the MCA, which links free market economy democracy and governance principles and encourages governments to be committed to implementing reform measures for effective development. These same ideals are now enshrined in the Africa Union/NEPAD engagement under the Peer Review Mechanism. We are certainly pleased that five MCC compacts have so far been signed with African countries, one of which is a COMESA member ---Madagascar -- where funding is already flowing. Six other African countries are benefiting from threshold programs to facilitate their meeting eligibility requirements. Four of these are COMESA members, namely Kenya, Malawi, Uganda and Zambia.

#### *Importance of Strengthening Regional Markets and Trade*

13. However, one inherent limitation of the MCA is its inability to work on regional issues. Often, trade and supply chain constraints do not end at national borders, and the failure of African intra-regional trade and the lack of understanding of the fundamentals of comparative advantage are often the result of absent regionally integrated physical infrastructure. Therefore, Mr. Chairman, we would ask that the U.S. consider implementing some of these MCA compacts ---especially those related to infrastructure such as roads, communication, energy, etc. --- at a regional level to promote regional integration and regional trade. COMESA and other RECs are willing to work with your committee and other relevant U.S. and African agencies to discuss the advantages of this approach, and how best to implement it. We encourage the U.S. to take a more regional approach in such programs as the MCA, and possibly even for an improved AGOA ---which could focus on groups of eligible countries, for instance on specific trade capacity building issues not on a country-by-country basis but on a regional basis. This would be very innovative and important. Possibly the Congress should consider modifying the mandate of the MCA to include regional economic communities as potential beneficiaries. The European Union is already negotiating new trade arrangements with Africa on a regional basis.
14. Fifth, it is true that in the future, the greatest gains that will drive Africa's economic growth and development will come not from trade with the United States ---as important as that is ---but by strengthening trade among African countries themselves. Significant economic gains will come 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. Currently, NEPAD is working with COMESA and other African regional economic communities on 12 infrastructure spatial development corridors, which are an effective way of attracting private funding for integrated regional infrastructure that would streamline African regional trade. For example, COMESA, EAC and SADC are collaborating, under Aid for Trade, in two corridors: (1) Durban Lumbumbashi Corridor (South Africa, Zimbabwe, Zambia and DR Congo); and (2) Mombasa Development Corridor (through Kenya, Uganda, DRC Congo and Sudan).
15. Sixth, an area that has received little attention in the past, and which is very critical to future business growth and development, is the promoting of private sector investments in Africa. Specific to AGOA's objectives, the U.S. should enhance U.S.-Africa business relationships and linkages, particularly among small and medium enterprises, and encourage access of the private sector to resources and skills that allow them to effectively participate in trade and in trade policy decision-making. Creating competitive supply chains will greatly depend on strengthening small and medium-scale businesses.

16. Seventh, Mr. Chairman, please allow me to make a few remarks about WTO, the G-8: We are cognizant that past G-8 Summits have pledged additional support to Africa, but this has not yet been forthcoming. In addition, discussions at the current WTO negotiations have promised development outcomes that include additional “Aid for Trade” resources, which would support the kinds of programs that would ease supply-side constraints for least developed countries, and improve access and participation in global trade negotiations.
17. It is time that AGOA and the ongoing WTO discussions on Aid for Trade funnel significantly increased public and private sector investments from the U.S., Africa and other bilateral and multilateral donors in a more coherent and coordinated way that responds to clearly identified African priority needs. It is important that this assistance help to enhance the productive capacity of smallholder farmers and businesses; improve the diversity, quality and competitiveness of African export products, and stimulate local, regional and global market development.
18. It is a reality that even with an improved AGOA, African countries’ competitiveness, especially in agriculture, will continue to be adversely affected by the effects of subsidies ---with the livelihoods of millions of smallholder farmers and businesses that totally depend on these commodities ---greatly diminished. Therefore, we appeal particularly to the U.S. and the E.U. to provide the necessary leadership to make these promises a reality and make the hard decisions to successfully conclude this round of trade negotiations. There are sizable benefits for everyone, including developed countries, compared to the status quo.

### *Conclusions*

Mr Chairman

As I conclude, I would like to say how pleased I am for the opportunity to address you about AGOA, and how we can improve its effects. COMESA is always open to share its experience on the ground to support your deliberations in the Congress and with the Administration, and we hope that the issues raised will receive favourable consideration.

Thank you.