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Testimony before the Senate Finance Committee On Trade Preference Programs

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Good morning. Let me thank Finance Committee Chairman Senator Max Baucus and Ranking Member Senator Charles Grassley and the rest of the committee members for the opportunity to testify before the committee today. It is a great honor to address you on the important issue of trade preference reform.

First of all, let me say that my organization, the Leon H. Sullivan Foundation, in pursuit of our mission to advocate for the poor and disadvantaged worldwide, has been active in promoting American trade policy that will enable Africa to truly join the global economy of the 21st century by building wealth, becoming economically independent and developing middle class societies in which democracy can not only survive, but thrive.

We have led efforts such as the successful civil society promotion of the African Growth and Opportunity Act Acceleration legislation a few years ago. We have organized the last three AGOA Civil Society Forums. Through our biennial Leon H. Sullivan Summits, we have brought together African and American business people and provided international forums on trade policy. We currently have organized a coalition of civil society organizations, businesses and even government officials known as the U.S. Civil Society Coalition for African Trade and Investment.

Personally, I have been involved in the effort to pass several versions of AGOA since I first worked for the House Africa Subcommittee in the mid-1990s. I have trained African business people and government officials on how to access AGOA benefits. I am now representing my organization with numerous partners on examining the most effective changes to current U.S. trade preference policy. I will focus my remarks on preference programs as they relate to Africa.

When I attended the August 2009 AGOA Forum in Nairobi, Kenya, I heard complaints from African participants that AGOA was not as effective as it could be because its term needed to be extended, and its coverage of products needed to be expanded. U.S. government officials responded that AGOA had already been extended to 2015 and that relatively few of the more than 6,400 tariff lines were being used currently by Africans. This disparity is the result of a disconnect on the how and why of AGOA that must be corrected.

African producers aren't taking full advantage of AGOA, but we have made it unnecessarily difficult to do so. The U.S. government has extended AGOA, but what officials see as a long extension is too short for business people asked to make longer-term investments. African governments have been too slow to make the necessary adjustments to enable their producers to better compete on the world market, including trade preference compliance issues and internal trade process issues.

When developing countries, such as those in Africa, became independent beginning in the 1950s, it became clear that their economies were unable to compete with those of North America and Europe. The United States and other developed countries began in the 1960s to accord preferential treatment to imports from developing countries to give them a boost. This resulted in programs such as the Generalized System of Preferences, the Africa Growth and Opportunity Act, the Andean Trade Preferences Act/Andean Trade

Preferences and Drug Eradication Act and the West Bank/Gaza Strip Qualifying Industrial Zones Preferences.

The reason we and other developed nations deviated from the fundamental principles of the General Agreement on Tariff and Trade (and subsequently the World Trade Organization) was that colonialism had crippled the ability of newly independent developing countries to produce and sell world-class products and market them in a globalizing economy.

Some of the developing countries were able to utilize initial assistance and grow their economies, such as the so-called Asian Tigers: Hong Kong, Singapore, South Korea and Taiwan. In Africa, however, obstacles prevented many economies from taking off. These obstacles included continued neocolonial foreign economic interference, disastrous national leadership decisions, the until-recently slow pace of regional economic integration, non-existent or ineffective infrastructure and over-reliance on basic, non-value added products.

GSP and AGOA, which was built on a GSP foundation, were meant to give a boost to African countries by providing benefits such as special tariff reductions to make them more competitive. However, our efforts, though well-intentioned, have been just enough off the mark that they have not accomplished our desired goal of enabling African countries to become more self-sufficient through more successful international trade. There is joint fault for this incomplete success. Neither the United States nor African governments have done the most effective job of working in concert to achieve our mutually desired goal in this regard.

The broader trade coalition with whom my organization is cooperating includes other NGOs seeking to eliminate poverty, trade experts, product experts, former government officials and those who have trained on accessing trade preference benefits. The Preferences Reform Working Group has come to consensus on five general principles regarding trade preference programs that we don't believe are in full effect currently. We believe any successful trade preference program must be:

- Certain, reliable, predictable and long-term;
- Simple to use;
- Encouraging to sustainable development and value-added production opportunities in the beneficiary countries, covering all products that beneficiary countries are capable of producing;
- Sensitive to beneficiaries' differing or unique development needs, and
- Linked wherever possible to targeted policies and programs to build capacity to participate in markets and take full advantage of preferential market access.

AGOA has been extended several times, but the uncertainty of how long it will be in effect has been a disincentive to long-term investment. Those sourcing products from Africa have been leery of major capital outlays because without the tariff benefits under AGOA, it is not as cost-effective to buy from African sources. High transportation costs make African trade less attractive, and it isn't just that that moving goods costs more. The lack of transportation options means that products such as fresh fruit and vegetables and meat would take too long to reach American markets to be competitive.

Our government has made trade rules as complex and arcane as tax law. We have had to revise the AGOA rules of origin provision on textiles and apparel several times. In agriculture, we have sanitary/phyto-sanitary rules that have not been fully explained to African agricultural producers. We train government officials in hopes they will pass on information to their farmers, but they have not.

As for sustainable development, officials in our government have lamented that the vertical integration in cotton, yarn and cloth and finished clothing has not happened as we expected. However, our process has not fully taken into account the impediments that have made such integration all but impossible in some circumstances. Under colonialism, African countries were trained to deal with the colonial power or at best other countries in their language group, and the infrastructure was set to confirm this trade paradigm. Moreover, we have not encouraged American investment in Africa much beyond the extractive industries sectors.

A land-locked country like Mali, for example, must depend on the port of Dakar in Senegal for its non-air shipping. Prior to an agreement with Senegal, it took Mali cargo up to 10 days to reach Dakar, but is now down to 1-2 days, and checkpoints have been reduced from 25 to 4. This dynamic is repeated across the continent in countries with no access to the sea, goods that cannot adequately be shipped by air, especially agricultural products, and varying relations with neighbors who have sea ports. Thus, a one-size-fits-all trade policy regarding transportation is not feasible.

In the several versions of AGOA approved by Congress and signed into law, textiles and apparel have been featured heavily. The thinking was that production of textiles and apparel was the key to industrialization in Africa as it had been in England, America and other early industrializing countries. At first, it seemed to be working, but once the Multi-Fiber Agreement expired in 2005, China and the other Asian nations asserted their mass production and transportation advantages and swamped the export of African textiles and apparel to our country. This is not a situation that will be reversed over the near term, if ever. African producers may increase their production of so-called "heritage" products, but that is only if they strengthen their vigilance in protecting their intellectual property rights, enhance quality standards and improve the speed of product delivery.

Meanwhile, we have neglected the African agriculture sector, in which more than 70% of Africans work. The colonial powers established agricultural processing, such as cereal factories, only to abandon them when they departed. Without value-added production, African agricultural producers are at the mercy of fluctuating world market prices for basic products. Again, we have not sufficiently encouraged American investment in agro-processing or helped make it simpler for African agricultural producers to get their goods into U.S. markets.

This brings me to the point about capacity building. Each year, the Office of the U.S. Trade Representative issues an AGOA report that cites hundreds of millions of dollars spent by the U.S. government on capacity building in support of AGOA. When you subtract the money spent by USTR to teach Africans about World Trade Organization rules and procedures and the money spent to teach African government officials about AGOA, there is surprisingly little spent in imparting a solid understanding of the AGOA process directly to African agricultural producers. If the person who plants the seed, tends the plant and harvests the crop doesn't clearly know what is and is not acceptable for export to America, we have missed an opportunity to help Africans help themselves.

Finally, the last statistics I saw indicated that less than 10% of African trade was internal to Africa. In my experience in teaching Africans about the AGOA process, I was told by producers quite often that they were more interested in selling to America under AGOA than to their neighbors. We sold the concept of AGOA so well that these producers didn't do the calculations necessary to determine whether non-African trade was more profitable than intra-African trade. Add to this equation the limited infrastructure that was never designed to facilitate intra-African trade, and you have a situation in which what seems like common sense to us is not completely feasible in real life. Regionalization in Africa is a process that is intended to unify the continent – first through economic unification. This process is happening slowly, but it is happening. We must encourage it to the extent we can.

Based on the scenarios I have presented, here are the recommendations I would offer:

- AGOA is based on GSP, which also is subject to periodic renewal. The U.S. government should make AGOA and GSP permanent subject to review to remove the reluctance to source products in Africa. All of our reasonable requirements can be maintained to determine which countries should continue to benefit from AGOA even as the overall program continues.

- The U.S. government should support infrastructure programs to lower costs for African producers to reach U.S. markets. For example, the German Marshall Fund and the Hewlett Foundation are working on a Development Corridors program to stimulate the expansion of existing and creation of new transportation structures to allow African products, especially those produced by smallholder farmers, to be brought to market.

- The U.S. government should target capacity building on U.S. trade rules and processes to the African private sector, African government officials and African civil society together. Governments must understand how to make the playing field level, while the private sectors understands the rules under which they must operate and civil society plays watchdog on the whole process.

- The U.S. government should eliminate existing product exclusions under AGOA, which are primarily in agricultural products. This would have negligible impact on American agricultural competitiveness, but would be of great benefit to

African agricultural producers, who comprise such a high percentage of African productive capacity.

- Using its taxation authority, the U.S. government should create tax incentives to stimulate economic development by encouraging American investment in non-extractive, labor-intensive sectors such as the agriculture and hospitality industries in Africa, as well as encouraging shipping companies to provide adequate transportation options to African exporters.

- In order to assist in the African process of regionalization, U.S. government aid programs should take into account the regional impact of single-country grants and create regional grants to help Regional Economic Communities better facilitate the creation of regional markets that are more attractive destinations for U.S. investment and product sourcing and more efficient exporters of African products. Manchester Trade, a trade facilitation firm, has a Partnership for African Economic Growth and Opportunity proposal for facilitating African regional and international trade that should be examined for its U.S. policy implications.

During the last 12 years, a variety of stakeholders have made great contributions to the U.S. effort to create an AGOA that is an effective and mutually beneficial trade preference program. Companies such as Chevron, Coca-Cola and The Limited; the Office of the U.S. Trade Representative's Office of African Affairs and the current and former government officials in the Blacks in Government – Africa Secretariat, and civil society-led coalitions such as the Trade, Aid and Security Coalition and the Partnership to Cut Hunger and Poverty in Africa have successfully worked in collaboration toward this goal. Through our continued cooperation, we can remove the obstacles to full utilization of U.S. trade preference programs, and AGOA can be made more broadly successful than it is currently.

Thank you.