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ECONOMIC STATECRAFT: EMBRACING AFRICA'S MARKET POTENTIAL

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Statement of Ambassador Johnnie Carson

Assistant Secretary of State Bureau of African Affairs

Senate Foreign Relations Committee

June 28, 2012

"Economic Statecraft: Embracing Africa's Market Potential"

Mr. Chairman and Members of the Committee:

Thank you for providing me with the opportunity to address the committee on what I feel is an important and timely topic. The U.S. government is committed to expanding trade and investment in sub-Saharan Africa and the numbers show our commitment. U.S. trade to and from Africa has grown significantly in the past ten years. U.S. exports to sub-Saharan Africa tripled from just under $7 billion U.S. dollars in 2001 to over $21 billion dollars in 2011.

As Secretary of State Clinton said at the annual AGOA Forum two weeks ago: "twelve years ago, the United States passed the Africa Growth and Opportunity act because we believed that the countries of Africa had tremendous untapped economic potential that could and should be developed. We shared a vision with many of you of a future in which economic growth in Africa would fuel growth and prosperity worldwide…trade and investment would multiply…and people across the continent would have new opportunities to start their own businesses, earn higher salaries, improve their lives, and lift the fortunes of their families and communities."

In large part, this vision is becoming reality. It is my firm belief that Africa represents the next global economic frontier. Sub-Saharan Africa continues to weather the global economic crisis more successfully than other regions, and is home to six – and soon to be seven – of the ten fastest growing economies in the world. A recent McKinsey study documented that Africa offers the highest rate of return on foreign investment of any developing region and has for some years now. Consumer spending continues to rise, and 43 percent of Africans currently have discretionary income or could be considered middle class consumers. And a growing middle class is a market for American products – from ipads to Pampers to Caterpillar tractors which increase crop yields to GE turbines which create additional hours of on-grid electricity to Boeing airliners which facilitate African countries' growing links with each other and with other continents.

However, we can do more. Africa's recent economic growth is impressive but the region still only accounts for approximately two percent of global trade. The second pillar of President Obama's recently announced U.S. Strategy Toward

Sub-Saharan Africa directs the Administration to "spur economic growth, trade and investment in sub-Saharan Africa." This new approach recognizes that it is in the interest of both the United States and our African partners to improve the region's trade competitiveness, encourage the diversification of exports beyond natural resources, and ensure sustained economic growth which benefits all sectors of society.

This new strategy elevates economic growth, trade and investment issues by calling for increased U.S. focus to (1) promote an enabling environment for trade and investment ; (2) improve economic governance; (3) promote regional integration; (4) expand African capacity to effectively access and benefit from global markets; and (5) encourage U.S. companies to trade with and invest in Africa.

In addition to the President's new U.S. Strategy Toward Sub-Saharan Africa, our efforts to increase our commercial engagement in Africa are firmly in line with Secretary Clinton's global focus on Economic Statecraft. The State Department's economic statecraft policy harnesses the forces of global economics to advance our diplomatic agenda and puts the tools of our diplomacy to work to meet our economic goals. We are committed to using every opportunity available to advance not only diplomatic and political priorities but our economic and commercial goals as well. I would like to highlight a few of the programs that the Bureau of African Affairs has been working on as we shift our economic orientation towards Africa from focusing almost exclusively on development assistance to promoting sustained economic growth through private sector, commercial, trade and investment activities.

The African Growth and Opportunity Act continues to be the centerpiece of our trade policy with sub-Saharan Africa. It is Africa's most important vehicle for market access and its unilateral trade preferences have created enormous goodwill for the United States on the continent. As you know, many African countries are not taking full advantage of the benefits of AGOA. However, some AGOA beneficiary countries take good advantage of the provisions for fabric and apparel product lines. The third country fabric provision component of AGOA was designed to provide an opportunity for AGOA-qualified countries to be more competitive in labor intensive textile processes such as sewing, stitching and cutting fabric.

It was widely recognized that most African countries were not able to compete in the more capital intensive process of producing fabric from raw cotton.

African manufacturers have successfully used the AGOA third country fabric provision to create jobs, not just in the manufacturing countries but have used this provision to create cross-border pan-African supply chains. These supply chains also encourage regional integration – one of our key goals for the continent. Fabric and apparel exports are the second largest AGOA export after extractive industry products. However, these imports still account for less than two percent of U.S. imports.

I'd like to say a few words about what is likely to happen if third country fabric legislation is not renewed. In our globally linked world, American buyers place orders six to nine to twelve months ahead. 95 percent of AGOA apparel and textile exports enter under the third country provision. And the AGOA third country fabric provision is the only way that African textile and apparel companies can remain competitive with larger producers such as China, Vietnam and Bangladesh.

Without our help, jobs will continue to disappear in some of Africa's most vulnerable economies, affecting primarily women and the families they support. 85 percent of these imports come from just four countries: Lesotho, Kenya, Mauritius and Swaziland. I know that diplomats from these countries have come to see you to emphasize the disproportionate effect that lack of renewal of this provision will have on their economies.

The effects of the loss of orders are troubling. At the AGOA Forum, the Swazi Minister for Trade told AGOA delegates that the loss of the provision will "shut the country down". The textile and apparel sector is the largest formal sector employer with over 15, 000 jobs and employment is already 41 percent in this small, landlocked country. Loss of just one of these jobs means that ten people lose their livelihood, since Swazi officials calculate that each textile job directly supports ten people. Lack of orders have already led to plants closures in Namibia, robbing people of their legitimate livelihoods and governments of much needed tax revenues. The Mauritians report that their orders are down 30 percent since January due to the uncertainty whether this provision will be renewed in a timely fashion.

Madagascar's loss of AGOA eligibility in 2009 is a possible model of what could happen if this provision were to expire. Prior to its loss of AGOA eligibility, Madagascar was one of the top textile producing countries in Africa, exporting over $2050 million in textiles in 2007. Due to 2009 coup, the government of Madagascar lost all AGOA benefits, including the textile provision. Apparel exports plummeted by $150 million in 2010. This more than $150 million drop in textile exports resulted in the loss of 50,000 jobs which will more than likely never return.

We continue to actively educate, inform and encourage U.S. companies to be more active in Africa. This is a continent on the move and there are enormous opportunities for U.S. companies to enter the market, make money, and create jobs for Americans here at home.

In February, I led a trade mission to Mozambique, Tanzania, Nigeria and Ghana with 10 U.S. energy companies ready to do business. A lack of reasonably priced reliable power remains one of the most binding constraints to economic growth throughout Africa. Governments across the continent are working to attract new trade and foreign investment that will sustain their rapid economic growth and build their middle class. The goal of this mission was to highlight opportunities for U.S. companies and help address a glaring need for increased power sector infrastructure in Africa. The mission was a success and a number of these U.S. companies concluded partnership agreements with African companies to jointly develop power projects. Ex-Im Bank and USTDA representatives also participated in the mission to ensure that both the U.S. participants and our Africa partners are fully aware of U.S. financing options. We are in the process of putting together a trade mission to accompany the Secretary to South Africa for the U.S.-South Africa Strategic Dialogue. In addition, I plan to lead similar trade missions in the future and continue to help and encourage U.S. companies to be a part of the growing economic dynamism of Africa.

In our continuing efforts to inform, educate and encourage U.S. companies to pursue commercial opportunities on the continent, just last week, the State Department, in collaboration with the Department of Commerce's U.S. Export Assistance Center in Cincinnati, the Department of Transportion, the Ex-Im Bank, USTDA, USAID USTR, and several other U.S. Government agencies, hosted a U.S.-Africa Business Conference in Cincinnati, Ohio. This conference attracted well over 400 participants, including African government officials, and representatives from the U.S. and African private sectors and civil society. The U.S.-Africa Business Conference expanded on the AGOA Forum infrastructure theme by focusing on infrastructure development, including energy, transportation, and water and sanitation. It showcased U.S. business expertise to potential African clients and highlighted trade and investment opportunities in Africa to U.S. exporters and investors through structured networking opportunities for African government officials and business leaders with U.S. state and local government officials and business leaders; informational sessions on U.S. government opportunities and services from various federal agencies; and site visits to companies and research facilities highlighting potential technologies for Africa.

Cincinnati was selected as the conference location for its potential to increase commercial partnerships with Africa at local, state, and regional levels given its concentration of Fortune 500 and 1000 companies. I am pleased that the Cincinnati conference built on the successes of the 2010 Kansas City, Missouri business conference. Bringing African government officials and private sector representatives outside of the beltway allows us to more effectively focus on business to business linkages.

We also have two very popular programs which develop business capacity in Africa, the African Women's Entrepreneurship Program (AWEP) and the President's Young African Leaders Initiative. This year delegates from both programs participated in both our AGOA Forum and US-Africa Business Conference events. AWEP is an outreach, education and engagement initiative that targets African women entrepreneurs to promote business growth, increase trade both regionally and to the United States using AGOA, create better business environments, and empower African women entrepreneurs to become voices of change in their communities. The State Department organizes an annual AWEP professional exchange program for these women to improve their skills and has created a series of public-private partnerships with ExxonMobil, Intel, Vital Voices and the Cherie Blair Foundation for Women.

This year's President's Young African Leaders Initiative included the Innovation Youth Summit and Mentoring Partnership with Young African Leaders and brought more than 60 participants to the U.S. for three weeks of professional exchange and entrepreneurial hands-on training. This initiative encourages U.S.-Africa collaboration to promote business innovation, investment and corporate social responsibility activities in Africa.

However, there are still many barriers that stand in the way of companies that hope to do business there. In many places, corruption is too common. The cost of finance, including investment finance, is too high. Infrastructure is lacking or inadequate. Regulatory systems are often inconsistent and inefficient. Also, many U.S. businesses see African markets as too risky. The perception of Africa as poverty filled and strife ridden persists. We work closely with African governments so that they will continue to enact the kinds of reforms to support improved investment climates which will attract both domestic and foreign investment. In addition, we continue to highlight opportunities for trade and investment in the region for U.S. companies and to work with them to conclude deals. Our work with GE Transportation in Ghana on a locomotive tender where GE was ultimately able to win a deal worth $200 million in U.S. content is but one example. We are confident that the U.S. can compete effectively in Africa, but we have to continue to encourage American companies to go to Africa and we have to encourage African countries to continue to make their regulatory and business environment more conducive for American business. Greater U.S.-Africa trade is in the interest of both America and Africa.

Mr. Chairman and Members of the Committee, I want to thank you for the opportunity to appear before you today. I will be happy to answer any questions you have.

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Testimony by U.S. Agency for International Development
Assistant Administrator for Africa Earl W. Gast
U.S. Senate Committee on Foreign Relations
Subcommittee on African Affairs

"Economic Statecraft: Embracing Africa's Market Potential"

June 28, 2012

Good morning Chairman Coons, Ranking Member Isakson, and members of the Subcommittee. It is my pleasure to appear before you again.

Sub-Saharan Africa is one of the fastest growing regions in the world. In 2011, it was home to six of the world's 10 fastest growing economies. Foreign direct investment is approaching $80 billion a year, and trade has tripled over the last decade. Consumer spending is set to rise 80 percent by 2020 and Africa now has a fast-growing middle class, expected to increase from 60 million to 100 million people by 2015.

The continent's fortune is not the outcome of good luck. It is the result of years of hard work and better macroeconomic management; improved economic and political governance; a reduction in armed conflicts; increasing foreign capital inflows, particularly direct investment; and improvements in the business climate.

The President's strategy toward Sub-Saharan Africa, released June 14 to coincide with the African Growth and Opportunity Act (AGOA) Forum, renews our emphasis on spurring economic growth, trade, and investment in Africa, including promoting an enabling environment for trade and investment, regional integration, improved economic governance and expanded African capacity to trade. As America supports the development of Africa's economic growth, it can generate new export markets and tap into a common market that could one day outpace India or China.

Yet the commodity boom in resource-rich countries has not yet succeeded in generating strong, positive, economy-wide spill-over effects to other sectors or neighboring countries. And resource-poor states remain on the sidelines, constrained by their inability to mobilize domestic resources as well as attract external resources—apart from official aid flows that sustain a minimum level of investment that prevents the development process from stalling altogether. Their small, expensive markets keep them isolated from the dynamic changes occurring from globalized markets. Domestic firms often miss out on technical expertise, technology transfer and productivity gains from foreign direct investment. Market informality and a limited tax base limit many countries' domestic resource base.

Nor has Africa's growth translated into meaningful development and poverty reduction. Basic infrastructure lags far behind that of other developing regions; the African Development Bank estimates that inadequate infrastructure suppresses Africa's per capita growth rate by as much as two percentage points a year. Political fragility, ethnic conflict, and food insecurity plague even the most stable economies such as Kenya and South Africa.

Trade openness has been instrumental in the remarkable economic growth in East and Southeast Asia. But Africa has not seen these same benefits; the continent's share in world trade has declined from around 6 percent 25 years ago to approximately 2 percent today. Intra-African trade is not faring much better. More than 80% of Africa's exports are destined for markets outside of Africa; as a contrast, 40 percent of North American trade occurs with other North American countries and 63 percent of Western European trade is among other Western European nations.

A recent World Bank report concluded that the continent is losing billions of dollars in potential trade earnings every year because of high trade barriers with neighboring countries. Procedures and regulations vary by country, which, coupled with a lack of infrastructure, significantly increases the time and cost required to ship goods across borders. In some cases, it is less expensive to ship a container of goods to Nairobi from Europe than from Lagos. The implications are far-reaching: huge opportunities are lost for specialization and value addition. Production and export structures oriented to primary commodities—minerals, timber, coffee, cocoa, oil, gas—often come at the cost of high-value products that would provide broad-based benefits and create jobs.

Many African governments recognize the detrimental impact of high trade barriers. Throughout the continent, they are working to build bridges across geographical boundaries to create important economic trade regions. Although regional agreements vary, and often overlap, all have the goal of reducing complicated trade barriers among member countries. African regional economic communities have launched various trade liberalization initiatives to stabilize and remove barriers to trade, harmonize customs duties and internal taxes, facilitate trade through information and promotional services and abolish restrictions to the movement of people, goods, services, and investments across borders.

AGOA is the cornerstone of the U.S.-Africa commercial relationship, and is the most generous bilateral trade legislation the United States has ever enacted. AGOA is a key tool in U.S. efforts to foster development of the next generation of emerging markets, which includes building effective trading partnerships between the United States and the countries of sub-Saharan Africa. It provides substantial trade preferences that, along with those under the Generalized System of Preferences and Most-Favored Nation tariff treatment, allow almost all goods produced in the AGOA-eligible countries to enter the U.S. market duty-free. AGOA offers tangible incentives for African countries to continue their efforts to open their economies and build free markets. Promoting prosperity, open markets, and good governance in Africa through programs like AGOA, has improved the trade environment for both U.S. and African businesses and spurred economic growth.

It has worked. Since 2001, exports under AGOA have increased more than 500 percent, from $8.15 billion in 2001 to $53.8 billion in 2011. About 90 percent of these exports have been oil, which underscores Africa's growing strategic importance to the United States. At the same time, under AGOA, the volume of non-energy exports to the United States—that critical engine for growth in jobs and economic development in Africa—has increased 275 percent, from $1.2 billion to $4.5 billion between 2001 and 2011. Paul Ryberg, the president of the African Coalition on Trade, which has companies and trade organizations in 19 African countries, estimates that as many as 1.3 million jobs have been created indirectly by AGOA, supporting up to 10 million people. Many of these jobs are held by women—a vital building block for development given that African women are more likely to invest job-related income in the food security, health, and education of their families.

In May 2011, the U.N. Economic Commission for Africa conducted a survey in Africa of AGOA's benefits. Three-quarters of the responding companies viewed AGOA as "very important" (58 percent) or "important" (17 percent). Seventy-five percent of the companies indicated that AGOA had contributed to job creation and capacity building, and a majority of the respondents emphasized the importance of business support services, such as greater technical assistance for conforming with Sanitary and Phytosanitary Standards, and promoting African products in the U.S. market.

Trade capacity building has been central to USAID's work to achieve our development objectives on the continent, particularly the realization of the Millennium Development Goals (MDGs). MDG 1, to eradicate extreme hunger and poverty, is furthered by achieving full, productive, decent employment for all, especially women and young people. Trade and trade agreements increase productive, value added employment opportunities beyond what a self-contained, subsistence economy can provide. It also reduces the proportion of people who suffer from hunger, because free trade, in the context of sound agricultural policy and global integration, balances the differences in natural endowments and labor productivity. Trade also contributes to MDG 8, to develop a global partnership for development, by nurturing an open, rule-based, predictable, non-discriminatory trading and financial system.

Additionally, there is an unavoidable link between the international trading regime and the enjoyment of human rights. The UN Office of the High Commissioner for Human Rights has found that economic growth through free trade increases the resources available for the realization of human rights. Countries do not qualify for AGOA unless they are determined to have established, or made continual progress toward establishing the rule of law and political pluralism; combating corruption; enacting policies to reduce poverty and increase the availability of health care and educational opportunities; protecting human rights and worker rights; and eliminating certain child labor practices.

An extensive study—"From Aid to Trade: Delivering Results"—conducted in November 2010 found a statistically significant relationship between USAID trade capacity-building obligations and developing country export. Specifically it found that an additional $1 of USAID trade competitiveness assistance is associated with a $42 increase in the value of developing county exports within two years. In addition, USAID support for trade and investment in Africa provides a significant contribution to trade negotiations conducted by the U.S. Trade Representative.

Over the past 10 years, USAID programs have improved the enabling environment for U.S. trade with sub-Saharan Africa; empowered African small and medium-sized enterprises to increase their exports to U.S., regional, and international markets; and facilitated regional economic integration. Between 2006 and 2010, USAID's African Global Competitiveness Initiative supported over $5 billion in non-petroleum exports; leveraged $2.8 billion for energy, information and communication technologies, and transportation infrastructure, resulting in over 1.35 million Africans gaining access to the internet.

At the regional level, USAID efforts for an improved enabling environment have helped to advance cross-border integration and boost intra- and extra-regional trade—work primarily carried out by USAID's three Trade Hubs located in Botswana, Ghana, and Kenya. These Hubs have implemented innovative and important initiatives to reduce both legal and illicit bottlenecks along major trade corridors, establish single border posts, and computerized customs procedures.

An analysis by the Organization for Economic Cooperation and Development and the World Trade Organization in 2011 concluded that USAID's Trade Hubs had been largely successful in developing best practices in customs procedures, processes and technology. They have helped speed up customs clearances in Mozambique, improved customs procedures in Southern Africa, and established a model for regional economic commissions to harmonize standards, monitor compliance with trade protocols, and facilitate the analysis of technical trade issues. Combined, these initiatives have reduced the time, cost, and red tape long associated with trading in Africa.

USAID's Trade Hubs count many successes. The Southern Africa Trade Hub's efforts to extend border operating hours along the Trans Kalahari Corridor, introduce a single customs declaration, and implement a corridor performance management system, contributed to an increase in a twelvefold usage of the corridor and a reduction in travel time from 72 to 48 hours. In East Africa, USAID support for customs reform in 2010 resulted in the implementation of a common customs software platform that allows customs officials to communicate virtually across borders. This reduced the time it takes to transport goods along the Mombasa-Kigali trade corridor by five days and reduced the cost of trading goods in the East Africa region by 2 percent, despite a 19.2 percent increase in fuel cost in 2010.

At the Sleek Garments factory in Accra, Ghana, a sign overlooks a bustling assembly line of 300 workers: "Quality First, Quantity Second." Sleek's founder and CEO, Nora Bannerman, has held to that philosophy since she began her career as a fashion designer 30 years ago. And she is determined to maintain it as Sleek shifts into mass production, stitching casual shirts and work uniforms for some of the largest retail chains in the United States. Sleek is part of Ghana's blossoming apparel manufacturing cluster, which has been encouraged by the government to relocate and build several clothing factories. Many of these factories export to the United States under AGOA's Third Country Fabric provision, which has provided hundreds of thousands of jobs across Sub-Saharan Africa. USAID's West Africa Trade Hub helped to put Ghana on the radar as an exporter of high-quality garments by connecting Bannerman with international buyers, providing financial planning services, and advising her on pre-export financing to purchase fabric for her orders.

The Presitex garment company in Lesotho was growing and looking for ways to keep expanding its operations and was especially interested in taking advantage of AGOA so it could begin exporting to the United States. At the same time, clothing manufacturers in South Africa were looking for regional suppliers of textiles and other clothing inputs, like yarn. Presitex used to source from Asia, but, needing to reduce transport costs, it turned to USAID's Southern Africa Trade Hub for help. The Hub put Presitex in touch with a knitting mill in South Africa and helped them to negotiate a $1.2 million annual deal. Lesotho's apparel industry has grown to become especially successful under AGOA—at one time supporting 50,000 jobs. And regional integration is considered critical for the survival of Lesotho's apparel industry, both to maintain job opportunities in Lesotho and as a platform for future economic growth.

When 24 private sector stakeholders and the USAID West Africa Trade Hub co-founded the African Cashew Alliance (ACA) five years ago, its mandate was simple and clear: to increase cashew processing in West Africa in order to create jobs and reduce poverty. The opening of six new major processing facilities over the last six months—which will employ as many as 5,000 people—is yet more evidence that the Alliance is a success. The ACA today includes over 135 members from 23 countries, including every African cashew-producing country and buyers and retailers from every major international market. In a recent ACA survey of its members found that more than 80 percent had used the Alliance's services to grow their business.

Bringing together every aspect of the industry has allowed international buyers to quickly assess the opportunities—and act. "None of our business in Africa would have been possible without the ACA," said Shalin Behal of IRACEMA, a leading processor from Brazil that has purchased millions of dollars of African cashews. "The ACA has introduced us to all the key players in the region, facilitated field trips and all our first steps in doing business here." The impacts in the communities where the processing facilities are located are significant. Residents of a town in Côte d'Ivoire said prostitution, once a problem in the community, had all but disappeared once the factory opened. This was attributed to the hundreds of jobs that were created for young women—some of the almost 10,000 cashew processing jobs ACA has created in West Africa.

Under the President's new Strategy toward Sub-Saharan Africa, USAID's work will capitalize on Africa's steadily rising middle class and burgeoning opportunities, particularly in finance and infrastructure, to promote U.S. trade and investment in the region. USAID is uniquely positioned to take a major role in the implementation of the President's strategy, particularly spurring economic growth, trade and investment. Staff in both Washington and the field have a deep knowledge of the African economic scene, both in terms of macroeconomic conditions and in terms of what businesses need to be successful in Africa. USAID has supported macro and micro policy reform, key to accelerating growth; built the capacity for policy analysis in both government and the private sector; and strengthened various institutions of economic governance such as bank supervision, tax collection, and commercial courts.

Many of USAID's programs have focused on analyzing the constraints to private sector development and to helping remove existing obstacles, both directly and through empowering businesses and business associations to bring the obstacles the face to the attention of their governments. USAID also has strong relationships with both the U.S. and African business communities; USAID implements a number of programs that provide information and link U.S. investors to opportunities in Africa, including the Africa Infrastructure Program. It provides specialized advisors to African governments to address legal, financial, regulatory, and other constraints preventing private sector investment in energy infrastructure. In the past three years alone, these efforts have leveraged over $700 million in private sector investment in the energy sector, with an emphasis on clean energy.

USAID's newest trade and investment initiative—the African Competitiveness and Trade Expansion (ACTE) Initiative, announced in 2011—is furthering the progress USAID has made, and supports the President's new U.S. Strategy toward Sub-Saharan Africa. Through USAID's three Trade Hubs, ACTE focuses on the role African governments, businesses, and civil society play in advancing regional and international trade, increasing the international competitiveness of key value chains, and promoting trade and investment between the United States and Africa and within Africa.

USAID established the Private Capital Group for Africa (PCGA) in 2011 to help deploy Agency resources and tools to leverage private investment. For every U.S. assistance dollar, PCGA activities are anticipated to leverage $30 in private capital to support key development goals. For example, in West Africa we are supporting the formation of a lending company to be co-owned by U.S. companies to support supply chains in the region. We are also working to link a U.S. investment company with Kenyan pension funds to co-invest in small and medium-sized enterprises in Africa. With just an $18 million investment from USAID, this partnership has the potential to catalyze over $500 million in private funds that will support the expansion of over 500 enterprises, provide sustainable livelihoods to over 100,000 smallholder farmers, and support 42,000 jobs in sub-Saharan Africa. One of PCGA's early successes was the launch of the Partners Forum, a group of U.S. leaders of industry (in particular those from the investment sector) who provide advice on how to best engage with the private sector and align business and development goals. The Forum represents our commitment to continuous engagement with the private sector to identify where priorities align and partnerships are possible.

At the same time, USAID's Partnership for Growth aligns with these broader U.S. priorities for trade and investment among countries that have a proven, positive track record in policy and development. Our alliances with Ghana and Tanzania are generating investment and trade opportunities for U.S. energy companies, increasing the availability and consistent supply of energy for U.S. companies operating in those countries, supporting regional integration to develop economically attractive markets, and facilitating increased trade opportunities in Ghana.

Looking forward, green technologies offer another promising opportunity to expand U.S.-Africa trade. A 2011 report by Frost & Sullivan—"Mega Trends in Africa: A Bright Vision for the Growing Continent"—suggests that investment in renewable energy in the continent will rise to $57 billion by 2020 as interest in wind, solar and geothermal power soars. Consequently, at this year's AGOA Forum, USAID and the U.S. Geothermal Energy Association publicly announced their partnership to help develop East Africa's geothermal resources. The extensive geothermal sources found along the East Africa Rift Valley not only has the potential to provide clean power for African economies, but also a significant spur for investment and cooperation between U.S. and African energy companies. USAID plans to continue to make innovative public-private partnerships like this one to support development while also opening new markets for the U.S. investment.

Spurring economic growth, trade, and investment, along with promoting opportunity and development, are two pillars of the President's strategy toward sub-Saharan Africa, and they are inextricably linked. Inclusive economic growth, trade and investment are imperative to achieving lasting, durable development. USAID will bring to bear all of its strengths catalyzing growth through public-private partnerships, leveraging private capital and investment, harnessing on-the-ground and industry knowledge, and leveling the playing field for domestic and international entry to implement the new Presidential Policy Directive on Sub-Saharan Africa.

Thank you for inviting me to speak with you today on this critical issue, and I welcome any questions you might have.

Statement of Florizelle Liser,

Assistant U.S. Trade Representative for Africa,

Office of the U.S. Trade Representative

Before the Committee on Foreign Relations Subcommittee on African Affairs

June 28, 2012

Introduction

Chairman Coons, Ranking Member Isakson, and other distinguished members of the subcommittee, thank you for the opportunity to speak with you today about the Obama Administration's strategy to encourage economic growth, trade and investment in Africa. We welcome your interest in and support for advancing the U.S. trade and investment relationship with sub-Saharan Africa.

The Administration's Strategy for Sub-Saharan Africa

On June 14, 2012, President Obama approved a new Presidential Policy Directive (PPD) for sub-Saharan Africa. To advance U.S. interests in Africa, the strategy sets forth four strategic objectives: (1) strengthen democratic institutions; (2) spur economic growth, trade and investment; (3) advance peace and security; and (4) promote opportunity and development.

The new strategy commits the United States to be proactive in the face of the numerous challenges and opportunities facing sub-Saharan Africa. In particular, it directs the United States to expand our efforts to increase economic growth, trade, and investment. USTR is part of an interagency effort - building on the successes of the partnerships we have built in previous years - to foster sustained economic growth and to promote U.S. trade and investment with sub-Saharan Africa.

Spurring Economic Growth, Trade and Investment

Sub-Saharan Africa is expected to grow by more than 5 percent this year, and between 2000 and 2010, 6 of the 10 fastest-growing countries in the world were in Sub-Saharan Africa. Sustained economic growth has the potential to lift millions out of poverty and foster long-term stability. Today's challenge is to ensure that these gains continue and are spread across the continent. The Administration's new strategy addresses these challenges by calling for increased U.S. focus to spur economic growth through expanded trade and investment by (1) promoting an enabling environment for trade and investment; (2) improving economic governance; (3) promoting regional integration; (4) expanding African capacity to effectively access and benefit from global markets; and (5) encouraging U.S. companies to trade with and invest in Africa.

This approach recognizes that it is in the interest of the United States and our African partners to promote regional integration, create new trade and investment opportunities for African and U.S. firms, encourage the diversification of African exports beyond natural resources, and ensure that the benefits from growth are broad-based.

AGOA and The Third Country Fabric Provision

AGOA is the cornerstone of America's trade and investment policy with sub-Saharan Africa. AGOA's performance and effectiveness are closely tied to its Third-Country Fabric (TCF) provision, which is set to expire in September 2012. The TCF provision is crucial to the continued survival of Africa's textile and apparel industry – it has generated hundreds of thousands of jobs in sub-Saharan Africa, including in least developed countries, and has helped American retailers reduce their costs, diversify their supply chains, and provide greater low-cost apparel options for U.S. consumers. Swift passage of legislation extending AGOA's TCF provision is necessary and its extension urgently needed to ensure AGOA's continued success – and the stability, development, and economic growth of sub-Saharan African countries. We applaud Congress' recent agreement to advance AGOA's third country fabric provision, and appreciate the work that members of this Committee have undertaken to move this important provision forward.

Beyond apparel, AGOA is a measurable success. Total two-way trade between the United States and sub-Saharan Africa has increased by over 300 percent since AGOA was enacted in 2000. U.S. imports under AGOA have increased by over 500 percent from 2001 (the first full-year of AGOA trade). Petroleum imports dominate this trade, but non-petroleum AGOA trade has tripled to nearly $5 billion in 2011, spurred by significant growth of nontraditional, value-added products such as apparel, cut flowers, fruits and nuts, wines, cocoa, and footwear. AGOA apparel imports have doubled, and today about twice the number of eligible countries are shipping non-commodity goods under AGOA than they were a decade ago. Additionally, U.S. exports to sub-Saharan Africa have more than tripled since 2001. These exports support thousands of U.S. jobs and help African countries to modernize their economies.

The Obama Administration is committed to working with Congress toward a seamless renewal of AGOA beyond 2015 to provide the predictability needed for U.S. and African businesses, entrepreneurs, buyers, and investors to continue to reap the benefits of AGOA. The Administration is consulting with Africa trade stakeholders, including Congress, African government officials, U.S. and African private sector, and civil society representatives on modifications needed to make AGOA more effective and mutually beneficial.

Promoting U.S.-Sub-Saharan Africa Trade and Investment

As an office within the Executive Office of the President, USTR is responsible for coordinating and leading the interagency engagement with our sub-Saharan partners on trade and investment issues, including under our Trade and Investment Framework Agreements (TIFAs) with individual countries and regional organizations. U.S. TIFAs provide a formal mechanism for a high-level engagement to address bilateral issues and to help enhance U.S.-sub-Saharan Africa trade and investment relations. The United States has eleven TIFA partners in sub-Saharan Africa: Angola, Ghana, Liberia, Mauritius, Mozambique, Nigeria, Rwanda, South Africa, the East African Community (EAC), the Common Market for East and Southern Africa (COMESA), and the West African Economic and Monetary Union (UEMOA). The United States also has a Trade, Investment, and Development Cooperative Agreement with the five countries of the Southern African Customs' Union (SACU).

In addition, the Obama Administration is pursuing a new trade and investment partnership with the EAC, which is one of the most cohesive and ambitious regional economic groupings in sub-Saharan Africa. At a recent meeting which Ambassador Kirk and senior administration officials held with the EAC Secretary General and Trade Ministers, the United States and the EAC agreed to explore under the partnership, a regional investment treaty, a trade facilitation agreement, continued U.S. trade capacity building assistance, and a commercial dialogue. We are working closely with the Commerce Department to move forward on the commercial dialogue, which would create practical ways in which U.S. and EAC governments can work together and with our respective business communities. These agreements and other activities under the partnership will help to promote EAC regional integration and economic growth, and to expand and diversify U.S.-EAC trade and investment. They could also serve as building blocks towards a more comprehensive trade agreement over the long term.

In the toolbox of U.S. Government initiatives to improve the attractiveness of an economy's investment climate, perhaps none is more powerful than an investment treaty. Bilateral investment treaties (BITs) help protect U.S. investment and help promote economic growth by encouraging market-based economic reform and the policies that make doing business in Africa more attractive for U.S. businesses. These agreements establish a framework of reciprocal protections that include nondiscriminatory treatment; free transfer of investment-related funds; prompt, adequate, and effective compensation in the event of an expropriation; and transparency in governance. U.S. BITs also give investors the right to bring investment disputes to neutral, international arbitration panels.

The United States has BITs in force with six countries in sub-Saharan Africa, and the region has become a locus for recent U.S. BIT activity. Our most recently concluded BIT was with Rwanda – an agreement that entered into force on January 1st of this year. We hope that our most recently launched BIT negotiation with Mauritius will soon conclude, and we are actively pursuing BIT discussions with other countries in the region, including with the members of the East African Community in the context of our EAC Partnership, and with Ghana.

The Administration recognizes the importance of African regional integration and intra-African trade. Facilitating intra-African trade, reducing barriers to such trade, and harmonizing investment and trade rules will build economies of scale, improve African competitiveness, and attract investment to the region. Thus, we are supporting African regional integration through a number of initiatives designed to build trade capacity and promote trade and investment within sub-Saharan Africa, strengthening regional economic communities, forging closer ties with the African Union, and supporting African efforts to establish free trade areas such as the Tripartite initiative (covering COMESA, the EAC, and SADC) and the recently announced Continental Free Trade Area (which is scheduled to be enacted by 2017).

The annual United States-Sub-Saharan Africa Trade and Economic Cooperation Forum (also known as "the AGOA Forum") institutionalizes a high-level dialogue between senior officials of the United States and AGOA beneficiary countries, the private sector and civil society on ways to foster stronger economic ties between the United States and sub-Saharan Africa. The eleventh AGOA Forum was held in Washington D.C. on June 14-15, 2012, with the theme, "Enhancing Africa's Infrastructure for Trade", and other AGOA private sector and civil society events were held in Washington, DC and Cincinnati. As always, the Forum was an important opportunity to discuss the challenges in expanding the U.S.-African trade and investment relationship. Thanks to you Chairman Coons and to Senator Isakson for attending the Forum and meeting with the Ministers to discuss AGOA and pending legislation.

This year's focus on infrastructure was timely. According to the World Bank, the annual requirement for infrastructure expenditure and maintenance in sub-Saharan Africa is about $93 billion a year. However, only about $45 billion is being mobilized, leaving a gap of close to $50 billion annually. This significant funding gap cannot be met by current official sources of funding alone. Private investment could help close the funding gap for Africa's infrastructure. Currently, intra-African trade stands at less than 10 percent of African gross domestic product and

Africa's share of world trade is only 3 percent. The United States is working with the international community, African governments and the private sector to improve Africa's hard infrastructure - including the roads, ports, power pools, and telecom networks, and Africa's soft infrastructure - such as the laws, regulations and business environment that impact trade and investment decisions. This collaboration is critical because improvements in Africa's infrastructure could significantly advance our efforts to support regional integration, create larger markets for U.S. exports and promote economic growth in Africa.

Africa as a Market for U.S. Business

With the continent-wide growth mentioned earlier, Africa presents many opportunities for U.S. businesses. It is a market not yet fully tapped and one that is viewed as a "last frontier" for many global actors such as China, Brazil, India, and the European Union. No other region has rates of return on investment as high as Africa, and it is proving to be a growing investment destination, including for U.S. businesses. And with Africa's growing middle class, youth bulge and undercapitalized entrepreneurs – including many women-owned SMEs, we are focused on increasing U.S. exports to and investment in Africa, and fostering joint ventures that can benefit U.S. businesses – including our own SMEs. Our efforts growing out of the new *U.S. Strategy Toward Sub-Saharan Africa* – including a "Doing Business in Africa Campaign" – will build on existing programs and initiatives such as the National Export Initiative.

Conclusion

The Administration is working to strengthen the U.S.-sub-Saharan Africa trade and investment relationship through a range of trade and investment-related initiatives. The new U.S. Strategy toward sub-Saharan Africa builds on this strong foundation and ensures that our trade policy will continue to encourage economic growth, enhance trade and investment, support more jobs in the United States and Africa, and help realize the full potential of the U.S.-sub-Saharan Africa economic partnership.

Thank you.