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Subcommittee on Africa, Global Health, Global Human rights, and International Organizations

"Increasing American Jobs Through Greater Exports to Africa"

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Introduction

Chairman Smith and members of the Subcommittee, thank you for the opportunity to speak before you today, in my capacity as the President & CEO of AASBEA, about increasing American jobs through greater exports to Africa. I would also like to thank the Chairman for his leadership on the important issues with which the Committee and Subcommittee is concerned.

Why it's important to encourage exporting to Africa by SMEs, including African Diaspora firms?

First, it must be stated at the outset that there is no question that U.S. Exports Lead to Jobs and Opportunities. This is why President Obama launched the National Export Initiative with an ambitious goal of doubling U.S. exports by the end of 2014.

There is also no question about the role that SME play in contributing to U.S. exports. Their role was quantified in the U.S. International Trade Commission (USITC) 2010 report entitled, "*Small and Medium- Sized Enterprises: Characteristics and Performance*." It showed that by exporting indirectly through wholesalers and as producers of intermediate inputs, U.S. small- and medium-sized enterprises (SMEs) play a larger role in the export economy than is suggested by traditional trade statistics. In fact, according to the report, "America's small- and medium-sized businesses support four million jobs by directly and indirectly exporting goods and services. Small-and medium-sized businesses account for approximately 40 percent of all export-supported jobs in the United States."

While less is known, however, about both the importance and potential of minority and immigrant-owned exporters among SMEs, gradually the picture is coming into clearer focus. What is known at present is:

- According to the U.S. Census (2007), minority-owned exporting firms were larger than their non-exporting minority-owned counterparts in terms of receipt size and employment. Average receipts for minority-owned exporting firms were $7.4 million; for minority-owned non-exporting firms, $141,776.

- The average number of employees for minority-owned exporting employer firms was 21; the comparable number for minority-owned non-exporting employer firms was 7.

- Average productivity for minority-owned employer exporters (i.e., receipts per employee) was $407,592; the comparable calculation for minority-owned employer non-exporters was $122,545.

The foregoing conveys the fact that exporting matters to minority SME firms and that, in short, those that engage in it tend to be more successful.

We know something more, however, about minority exporters. According to the Minority Business Development Agency (MBDA):

- Minority business export activity spanned 41 countries over six continents, North America, South America, Europe, Asia, Africa and Australia, between 1992 and 2009. Mexico, Brazil and Dominican Republic are the top three markets for minority firms export activity, accounting for 52 percent of all financing transactions authorized for these firms when foreign markets were identified.

- Minority firms in the United States are primed for exporting and are twice as likely to generate sales from exporting as non-minority-owned firms. Some of the reasons are due in large part to language capabilities, cultural compatibility and business agility, which uniquely equips them to expand into foreign markets and contribute to the President's National Export Initiative.

Considering one segment of the minority exporting or potential exporting population, African immigrants, there are data to suggest they may be especially well positioned to export to Africa, given their cultural compatibility and "home country linkages."

Consider a few salient facts about the African immigrant population in the U.S.:

- Although they make up a relatively small number of the total foreign-born population, the number of African immigrants in the U.S. has increased about tenfold in the past thirty years. In 1980, there were a mere 101,520 African-born residents in the U.S., but by 2007, there were 1,023,363.

- The largest concentrations of Africans are in the Northeast, and 40 percent live in just four states: New York, California, Texas, and Maryland.

- The top sending country now is Nigeria (156,182 from Nigeria as of 2007) and Ethiopia is the third ranked sending country from Africa since 1990.

Now consider a couple of salient facts about exports from corresponding areas of the U.S. to corresponding areas of "home linkage countries:"

- **U.S. Exports to Nigeria** (see: USTR.gov)
  - Nigeria was the United States' 44th largest goods export market in 2011.
  - U.S. goods exports to Nigeria in 2011 were $4.8 billion, up 18.4% ($747 million) from 2010.
  - The top export categories (2-digit HS) in 2011 were: Cereals (wheat) ($1.2 billion), Vehicles ($1.1 billion), Machinery ($720 million), Mineral Fuel (oil) ($597 million), and Plastic ($187 million).
  - U.S. exports of agricultural products to Nigeria totaled $ 1.3 billion in 2011. Leading category is: wheat ($1.2 billion).

- **U.S. Exports to Ethiopia** (see: USTR.gov):
  - Ethiopia was the United States' 87th largest goods export market in 2011.
  - U.S. goods exports to Ethiopia in 2011 were $690 million, down 10.8% ($83 million) from 2010.
  - The top export categories (2-digit HS) in 2011 were: Aircraft ($484 million), Cereals (wheat) ($68 million), Machinery ($39 million), Special Other (low-valued shipments and repaired products) ($21 million), and Vegetables ($20 million).
  - U.S. agricultural exports to Ethiopia in 2011 were $107 million. Leading categories include: Wheat ($68 million), Pulses ($20 million), and Vegetable Oils ($10 million).

With these examples in mind, the broader question is: **What can be done to reach out to and facilitate the exporting potential of Africans in the Diaspora to their "home countries?"**

To answer this question, it's important to identify and understand the trade barriers that disproportionately affect SME exporters as a whole and immigrant-owned SMEs as a subset.

In brief, as the Under Secretary for International Trade Francisco J. Sánchez indicated in his testimony before the Senate Committee on Foreign Relations' Subcommittee on African Affairs on July 25, 2012, some of the key trade barriers frequently cited by SMEs are: discriminatory government regulations in foreign markets; high tariffs; insufficient intellectual property protection; and the difficulty in obtaining financing.

A closer look at these barriers suggests, however, that they are mainly focused on the barriers experienced while doing business in the country.

The question for this Subcommittee, we would argue, however, is:

How can more SMEs and more African Diaspora be encouraged to enter into the market in the first place?

Here are some recommendations we put forth as the African Small Business Exporters Association that has over 20 years direct experience in working with the target populations of firms to enhance their export capacity:

1. **Competing with China**: We need to recognize that any and all firms entering the African market now have to <u>compete with China</u>. The question then is how to do that on a strategic, product or service country specific basis? One thing that can be learned from the Chinese is that they develop and pursue tailored strategies for each country and each business endeavor. <u>One size does not fit all</u>. Accordingly, our collective apparatus for promoting U.S. exports, which includes all federal government agencies involved in trade, as coordinated by the Trade Promotion Coordinating Committee (TPCC), and export promotion agencies at regional and local levels need to recognize that they too must tailor their incentives and promotion strategies for each market and to increase outreach to SMEs, including Diaspora firm owners.

2. **Coordinating Between Agencies**: While the U.S. has a Trade Promotion Coordinating Committee (TPCC), Chaired by the Secretary of Commerce, the question is whether it is coordinating adequately? Case in point, while on the one hand the U.S. Government is promoting US exports, on the other hand the U.S. Agency for International Development (USAID) is promoting local procurements

without regard to where the goods came from to enter the local countries. In many cases, the "local goods" came from China, thus limiting the export potential for US SMEs. USAID procurement rules are limiting U.S. exports for all firms, which may disproportionately negatively impact export opportunities for SME and minority owned firms.

3. **Export Processing Zones**: The International Finance Corporation, among other multilateral agencies, has finally understood the importance of promoting Export Processing Zones to create a positive enabling environment for investors, and also for promoting exports into the zone as well as from the zones. Some of the barriers that small firms face are alleviated by the EPZ regime, which levels the playing field and exempts small firms from unfavorable in-country regulations. The Chinese have also recognized this and are building EPZs in Africa for Chinese firms to have a base for penetrating African markets. It is clear that they exports significantly from China into those zones as well as exporting into the domestic market from the zones. Our recommendation is for USAID to similarly consider supporting such zones and reaching out to U.S. based African Diaspora firms to link to their home markets.

4. **Mentor Protégé Programs**: We recommend that the Millennium Challenge Corporation, and all member TPCC agencies to give consideration to providing incentives to link (through mentor protégé programs) large and small firms, including minority-owned firms, in their respective procurements.

5. **Awareness Campaigns**: We strongly urge the USTR to join forces with MBDA to increase their outreach to and targeting of SMEs and minority firms to encourage them to export to Africa. Such campaigns should take into consideration export and import statistics, product categories, and other salient factors to enhance the effectiveness of the outreach campaigns.

6. **Export Financing**: We note that MBDA has entered into an agreement with the EXIM Bank to increase export financing for minority firms. We also recommend that MBDA enter into similar partnerships with all TPCC agencies to increase outreach to SMEs firms, including African Diaspora owned firms to facilitate their exporting to Africa.

Conclusion

To realize the goals of the President National Export Initiative and to increase exports to Africa, greater focus and attention should be paid and assistance rendered to SME and African-owned firms that have unique “home country linkages.”