Testimony to Africa Subcommittee Hearing

Increasing American Jobs through Greater Exports to Africa

**Subcommittee on Africa, Global Health,
Global Human Rights, and International Organizations**

2172 House Rayburn Office Building, Washington, DC 20515

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By Stephen Lande | President

Good afternoon to the House Committee on Foreign Affairs; to *Chairman Ed Royce*, to *Chairman Chris Smith*, and to *Ranking Member Karen Bass*; fellow Americans – I believe that I express the expectations of countless Americans and Africans whose lives this hearing could bring positive change to. My ultimate expectation is that all American businesses, both small and medium sized enterprises as well as the big boys, will be able to do business on a level playing field in an economically integrated Africa. We have all read the tea leaves and can almost smell the opportunity that oozes from collaborating with a continent of over 1 billion increasingly urbanized, more dynamic, better educated, upward mobile and mostly young Africans.

Between 1997 and 2004, when your Chairman Royce led the Africa sub committee in the house, the U.S. was Africa's largest singular trading partner. Today, in 2013, this is no longer the case, and Chairman Smith, your tenacity at working to reverse this by introducing the first-ever comprehensive bill to double US exports to Sub-Saharan African (SSA) countries in tandem with AGOA is laudable. Thank you for reintroducing H.R. 1777 on April 26, 2013.

Ranking Member Bass, on top of your passionate engagement with Africa, your working group of influential members is reviewing options for AGOA renewal and enhancement. Interestingly, for the past 7 years, the 37^{th} District of California has exported 46% of her goods to Asia – worth about $ 601 million dollars in 2012 alone. Hence, opening up

Africa should improve district and U.S. jobs.
Fortunately, I am presenting alongside two experts: Peter Hansen who will, eloquently, address what a lack of accelerated growth in direct investment could mean to U.S.-SSA relations, and Dr. Freeman who will specifically talk about the dynamic African Diaspora in the U.S. In tandem, I focus on something we at Manchester Trade call **the Trans-Atlantic South Partnership.**

We intend for this to be a third leg of the 2 partnerships currently being pursued by Congress and the Obama administration. The ***Trans-Pacific Partnership*** involves 12 Asian and Latin American countries including Japan, the ***Trans-Atlantic Trade and Investment Partnership*** focuses on 27 European countries, and the ***Trans-Atlantic South Partnership***, if adopted could be for Africa. Unlike the other two, *the Trans-Atlantic South Partnership* is not based on a trade agreement but goes well beyond this encompass investment and development goals. It also has significant U.S. national security considerations, and heralds that if we do not craft a coordinated approach to Africa – one that embraces the U.S. government's *whole-of-government* approach - all indications point to a more vulnerable America - one that loses strategic economic ground to the competition.

To stave these negative consequences, we urge that this committee coordinate with other relevant ones to ensure that separate and independent legislative initiatives towards trade and investment with the SSA region reinforce each other. We must begin with the *Ways and Means Committee* considerations to **renew and even more importantly enhance AGOA.** AGOA's emphasis on SSA imports into the US must be coordinated with the U.S. export focus of H.R. 1777. Together, the two elements could, undoubtedly, form an excellent springboard from which the U.S. can increase its commercial footprint in Africa. Also, for example, Rep. Bobby Rush (D, IL)'s H.R. 656 (the *African Investment and Diaspora Act – AIDA* of 2011) ought to be reintroduced as this bill focuses on the African Diaspora. Not only are the Diaspora already U.S. investors in Africa; they are also *cultural brokers*; an invaluable resource China does not have as abundantly.

Secondly, if we are going to be effective global trade competitors, Congress and the Administration must ensure that both the big boys - Coca Cola, GE, Proctor & Gamble or Wal-Mart – and the SMEs have exactly the same opportunities and incentives to do business in Africa. Businesses with between just $ 100K and $ 500K can, effectively, work with Africans, reap rewards, and hire ten or twenty American workers here in the U.S.

Fortunately, unlike our competitors, the U.S. does not, control SOEs or direct private sector where to invest. However, since businesses rush to far-off places if and when assured of U.S. government support, opportunity awaits in Africa if government commits to stand with American entrepreneurs of all sizes.

Other recommendations notwithstanding,[1] we, thus, recommend a four-point action plan to achieve the Trans-Atlantic South Partnership, and grow the U.S. footprint in Africa's thriving marketplace.

1. Maximize off-budget Resources to Enable US Investors to Effectively Meet Third Country Competition

Measures to Support Regional Integration and Level Playing Field

H.R. 1777 contains provisions that ensure that U.S. exports and investors receive adequate funding and support to compete against third countries. Here, we are strongly in favor of the proposal to modify the Export-Import Bank Act of 1945, directing the bank to increase loans, project insurance and guarantees to Africa.

The requirement to specifically present an annual report to Congress if the bank has not used at least 10% of its facilities as well as to make available money for loans that counter non-OECD compliant arrangements offered by US competitors should help ensure that global trade is not distorted. Objectively this should more than double Ex-Im financing to Africa, and comes on the coattails of a laudable three-year period where Ex-Im Bank Chairman Hochberg and his Africa team almost tripled the bank's lending to the region – financing an impressive 7.5 % of all U.S. exports to Africa.

However, more could be done if the Bank's activities were granted new flexibilities to take advantage of Africa's economic progress and trajectory. We suggest that with the low overall default rate of 2%, Ex-Im could, in effect, charge a special premium with expectation that the rate of return on African investment is greater. In cases where non-OECD countries offer absurdly low interest rates, agencies like MCC, USAID and USTDA, in addition to special funding from Ex-Im bank's own resources, can offset some of the increased servicing costs.

Concurrently, SBA and MBDA could develop special mechanisms to consolidate applications from SMEs and also the Diaspora who would, individually be much too small to meet the financial and paper requirements for EX-Im support.[2]

2. Promoting Regional Integration

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[1] There are additional components for inclusion in the Trans-Atlantic South Partnership in the Corporate Council on Africa Recommendations of April 16, 2013, and in ***Beyond AGOA*** by Stephen McDonald, Stephen Lande and Dennis Matanda, published by the Wilson Center.

[2] The same should apply to USTDA and OPIC. OPIC has, despite limited funds, done a fantastic job of expanding regional portfolio.

Through Slowing or Delaying EPAs
Many H.R. 1777 provisions including an *increased financing facility*, the *Special Africa Strategy Coordinator*; *Trade Missions to Africa* or *Added Personnel* will do little to offset gains if the EU successfully 'forces' African countries into Economic Partnership Agreements (EPAs).

In his paper,[3] **Sindiso Ngwenya**[4] suggests that EPAs are fatally flawed because they encumber an already difficult path to Africa's regional integration.

As the head of COMESA, a prominent regional economic community (REC), Ngwenya authoritatively suggests that if a majority of African countries sign EPAs, their first casualty will be the hope for a more effective AGOA since these agreements discriminate against American exports to the region.

The *Ways and Means Committee* has jurisdiction over this, and Rep. Devin Nunes (R-CA), who, in the 112th Congress, introduced H.R. 6537 to address this problem, recognized the EPA threat. Now as Chairman of its Trade Subcommittee, he is in the perfect position to work with the Administration, like-minded African countries and regional economic communities (RECs) and the EU to delay the European Parliament imposed deadline of October 2014.[5] African countries will only be in a better bargaining position after the next decade, and thus, EPAs ought to be postponed to after 2025. Then, Africa will be collectively ready for negotiations.
We suggest that when the Administration informs Congress of its intention to negotiate the T-TIP, this Committee should suggest that a common approach be developed on the issue of reciprocity in Africa so as not to undermine regional integration, or start an unnecessary race to obtain preferential entry into African markets between the EU, the US and third countries. Ngwenya has referred to this as 'an unnecessary race to the bottom on a continent with abundant resources.' Since, the U.S. Congress may soon consider extending a non-reciprocal AGOA, this august body could suggest that this be a subject of a specially convened or the next scheduled EU-US legislative consultation.

Secondly, it is widely accepted that deeper regional integration allows for indigenous peacekeeping, peer pressure against aberrant behavior and free movement of goods and factors of production. These attributes contribute to American ideals of growth, stability,

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[3] *Why Economic Partnership Agreements Undermine Africa's Regional Integration,* Published on the Wilson Center, and co authored with McDonald, Lande + Matanda

[4] Secretary General of the Common Market for Eastern and Southern Africa (COMESA)

[5] Recently, the European Parliament under pressure from EU trade negotiators ignored previous protestation never to force African countries to sign onto EPAs. The Parliament agreed to an October 2014 deadline under which African countries would lose most preferential access to the EU markets if unless they concluded EPAs by that date.

and democratic reform in Africa. From a commercial standpoint, regional integration allows multinational corporations to optimally operate their world-class supply chains and distribution networks. Integration also ensures that Africa is less reliant on China for instance, and less susceptible to cajoling from the EU. In working to delay EPAs, Congress not only assures U.S. competitiveness but also allows Africa to complete its negotiations for a continental FTA by 2017 and even the African wide customs union by 2019 as foreseen in the Abuja Treaty. This treaty lays out the architecture for completing Africa's Union.

To help this process along, Congressional Committees could:[6]

i. *Urge that USAID offer technical assistance for these negotiations, while the USTR and State Department provide polite diplomatic pressure urging African countries to meet integration goals and to remove impediments to the actual free flow of trade.*
ii. *Work with African led efforts at the WTO to extend the AGOA waiver until the next decade and let it cover all preferential schemes as long as progress is being made towards regional integration. It would treat all REC members the same for beneficiary status under DF/QF schemes for at least a few years, to allow this goal to be accomplished.*

iii. *Banking committees can review their mandates to maximize support for regional integration through the use of Special Purpose Vehicles. These could be operationalized in tandem with other donors and multinational banks to support regional projects with guarantees going beyond national sovereignty. In addition, this Committee can consider recommending that 20% of MCC financing be reserved for projects that are deemed regional in their scope, which would, in essence, be increased access to sub Saharan Africa through business facilitation rather than premature reciprocity.*

3. Reviewing unilateral US Actions

The kind actions that inhibit U.S. investment and trade

[6] We realize that this would require the US to delay its own requests for formal reciprocity. However rather than focusing on premature reciprocity which undermines regional integration – something that is, ultimately, of greater value to the US commercial presence and US diplomatic goals - it makes more sense to continue and even intensify efforts with African countries and regional economic communities to ensure a conducive atmosphere for US commercial activities to thrive. One area of particular focus should be on removal of Non Tariff Barriers (NTBs), which not only limit US exports but also impede the free movement of goods between countries even when duty-free movement is assured under regional FTAs. Our recommendation is for the TIFA structure to be deepened, afforded adequate staffing, Federal Register Notice of meetings, private sector participation, and formal reports on results removing impediments to US exports and investment.

US investors face a major inhibition based on the unilateral penalties and sanctions the U.S. applies to various entities in an attempt to promote responsible behavior or observance of law. The U.S. removes countries from AGOA or GSP eligibility; withdraws USAID or MCC programs and penalizes U.S. investors for reasons ignored by US competitors.

While there appears to be no coordination when these decisions are made,[7] each sanction places a low priority on their impact on US competitiveness and commercial presence, and can sometimes prevent U.S. businesses from achieving their optimal potential.[8]

Considering the disparate and random nature of sanctions, we suggest that specially constituted congressional committees review such conditionality to determine appropriateness in this multipolar world.[9] Congress could then suggest how to make them more effective, limiting collateral damage to US investors and innocent groups - as well as the long-term economic growth of the region.

4. A Specific Focus on Agriculture

Without discussing the *Grow Africa/Feed the Future* programs, Congressional committees can take specific measures to promote agricultural production in Africa and encourage export of agricultural products to the U.S. Congress could work towards removing impediments to African agricultural exports to the U.S. and regulating SPS assistance for so-called *competitive agricultural production.*

Agricultural products currently excluded from duty-free treatment under AGOA due to exclusion of high duty-tranche portion of the Tariff Rate Quotas (TRQs) could be designated as part of the program. American cotton subsidies could be reviewed, not only for consistency with WTO rules but also for impact on the prices received for African cotton production.

Conclusion – Understanding the African Landscape

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7 Different Congressional committees mandate their own sanctions and enforcement is usually left to different agencies including State, USAID, MCC, USTR, the Department of Justice and even the Security and Exchange Commission.

8 Following a military coup in Madagascar, the U.S. took unilateral action in removing that country's AGOA eligibility. However, this very action not only affected the economy, but especially the Malagasy women producing under AGOA. It is also important to note that African institutions like the African Union have their own peer review mechanisms. The AU already penalizes 'rogue' nations and the U.S. could piggyback on some of these actions.

9 In addition, the U.S. also denies assistance to power projects utilizing fossil fuels via OPIC's Carbon Gap, to agricultural pre-programs promoting production of agricultural commodities produced in the U.S. and to the use of certain GMO seed. There are also requirements to transport government supported agricultural exports in U.S. bottoms and this extends to satisfying very sophisticated financial requirements under the Dodd-Frank law and SEC regulations.

We must endeavor to adjust how we engage with Africa. Gone are the days when the continent was a basket case of drought, disease and starvation. Today, although there are still pockets of violence and negativity, 6 of the world's fastest growing economies are in Africa – the Congo alone is roughly estimated to hold up to $ 21 trillion dollars of valuable natural resources.

In short, the clear understanding of the commercial threat from almost unlimited Chinese funding of their activities in Africa; the challenge of mercantilist EU policies to gain preferential access into the African market; the importance to political stability in fragile states; the importance of free flow of goods to US led supply chains and distribution networks, all argue for the type of concerted approach to grow American jobs + exports to Africa.

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