

Statement Respectfully Made by

Dr. Daniel D. Karanja

Senior Fellow, Partnership to Cut Hunger and Poverty in Africa

Before the

**Sub-Committee on Africa, Global Human Rights and International Relations
House Committee on International Relations**

During the

Hearing on the Africa Growth and Opportunity Act (AGOA): A Five Year Assessment

October 20, 2005

Introduction

Mr. Chairman, Ranking Member and members of the Committee:

I thank you for this opportunity to testify before the Committee. I grew up on a small farm in Kenya and worked with the Kenyan government for more than 15 years developing technologies to improve productivity and incomes among poor farmers. I earned my Ph.D. in agricultural economics from Michigan State University. So I have experienced personally and studied the critical role of agriculture and rural development in significantly improving the welfare of the millions of poor people in Africa. I wish to record my appreciation for every support the U.S. government and the Congress have given, and continue to give, to promote economic growth and sustainable development in Africa. My remarks today will focus on what might not be covered by the other panelists and give attention to four aspects of implementation of AGOA:

- The differential impact of AGOA by sector and country;
- The critical importance of diversifying exports from Africa;
- The dire need for rationalized trade capacity programs to strengthen agricultural exports and build regional markets within Africa to take advantage of AGOA and other U.S. efforts; and
- How we might better use the annual AGOA summits to address real issues.

The Importance and Impact of AGOA

Mr. Chairman, behind the trade statistics presented here today lie real-life changes and many success stories that are indicative of how AGOA is helping Africans. I am sure I speak for many of these voices when I say AGOA is profoundly important to Africa and is viewed as a strong symbol of U.S. commitment to Africa's economic development. The enactment of AGOA five years ago marked a significant turning point in U.S.-Africa development policy, with trade augmenting development assistance in an effort characterized by the famous ancient Chinese Proverb that states "Give a man a fish, and you feed him for a day; teach him how to catch fish,

and you feed him for a life time.” In other words, AGOA is using trade to complement aid and build sustainable African economies.

AGOA has made positive impacts in the short time it has been around and has potential to do more. The legislation has raised the profile of U.S.-Africa trade and stimulated economic growth by creating hundreds of thousands of new jobs and attracting investments worth hundreds of millions of dollars to Africa. Although Africa supplies only 1 percent of the U.S. market, the United States represents the single largest country market for Africa. Two-way trade between the U.S. and Africa totaled \$44 billion in 2004, up from \$24 billion in 2002, with African exports to the U.S. accounting for \$36 billion, double the level in 2002. While these figures may not be significant when compared to total U.S. global trade, they represent a substantial income gain for Africa. Such gains are not limited only to Africa. U.S. exports to Africa also increased substantially after AGOA was enacted, with Africans buying more U.S. capital goods, such as computers and farm machinery.

I would like to draw attention, however, to the sectoral distribution of AGOA’s benefits. It is clear that the expansion of US-Africa trade over the last few years has had a limited impact on reducing hunger and poverty in Africa – which I believe was the fundamental objective of the architects of AGOA. So far, trade benefits are concentrated mostly in extractive industries in a few countries, with little impact on hunger and poverty. In 2004, oil and gas accounted for 87% of total U.S. AGOA imports from Africa, worth about \$16 billion while five African countries - Nigeria, Gabon, Angola, South Africa and Lesotho – accounted for about 90% of Africa’s exports to the U.S., largely from energy exports. This sectoral and country distribution of benefits has remained the same since 2001, possibly suggesting some difficulty for new countries to take advantage of AGOA and for AGOA trade to expand beyond the traditional oil and gas sectors.

Diversifying AGOA Exports

Mr. Chairman, the greatest stories about AGOA have come, not from the energy sector, but the textile and apparel sector. The expansion of African textile industries in response to AGOA helped poor families in a number of African countries. Lesotho, for instance is a small, land-locked country that became sub-Saharan Africa’s second largest exporter of manufactured goods to the U.S. in 2002, benefiting immensely from new jobs in the apparel sector. But the January 2005 expiration of the WTO Multi-Fiber Agreement lifted the same quotas that had helped facilitate Africa’s entry into the world textile market. Africa’s textiles and apparel industries are now under threat, and factories are closing because African manufacturers cannot compete well with their low-cost Asian counterparts. In the short- and medium-term, it is critical to sustain earnings in this sector by strengthening the parts of the industry that are competitive and encouraging greater vertical integration within the sector. In the long-run, Africa should diversify its exports in sectors, such as agriculture, where countries have stronger comparative advantage and where accelerating economic growth can have positive, direct impact on rural poverty.

Given the strong U.S. policy commitment to reducing poverty in Africa through economic growth, AGOA should – as part of a U.S. trade strategy - help strengthen Africa’s agricultural markets and trade capacity building to fulfill the commitment. To date, a large proportion of Africa’s population – almost equivalent to the U.S. population - is severely undernourished and frequently goes to bed hungry without knowing where the next meal will

come from. About one-half of Africa's population lives on less than \$1 a day. It is this set of people that really needs interventions like AGOA to help lift them out of the poverty trap.

Three-quarters of Africans live in rural areas and depend on agriculture for their livelihood. Therefore, the best means of raising their incomes is through promoting agricultural growth and investing in rural-based economic enterprises. Agricultural growth is a powerful catalyst for broad-based economic development. The International Food Policy Research Institute (IFPRI) estimates that a \$1 increase in agricultural productivity would raise the income of six million Africans above \$1 a day and a \$1 investment in agricultural production generates an additional \$2.30 for the economy as a whole.

Statistics from the U.S. International Trade Commission reveal a potential to expand U.S.-Africa agricultural trade. The share of agricultural imports under AGOA has been about 1% over the past few years. However, several agricultural exporters to the U.S., such as South Africa and Malawi, have doubled their share of agricultural exports – including fruits, vegetables and beverages – between 2001 and 2004. Kenya, Swaziland and Tanzania also exported small but growing quantities. What is most notable is that countries are increasing the diversity and value of their agricultural exports to the United States. This shows there is a growing and untapped potential for improving this sector, with benefits to rural areas and poor, small farmers in Africa.

I now turn my attention to how we can achieve this potential and derive positive benefits for Africa and the United States, and I focus on trade capacity building, expanding market access and better coordination of U.S. efforts.

Importance of Trade Capacity Building for AGOA's Agricultural Exports

Market access provided by AGOA and, hopefully, by the forthcoming Doha negotiations, in combination with coordinated U.S. and African public and private sector investments, can increase the quality and competitiveness of African products and help build stronger capacity for Africa's producers and agribusiness to participate in local, regional and international markets. Public and private investments can ease specific constraints that affect the competitiveness of African products, including poor infrastructure, communication networks, and weak legal and regulatory frameworks. There is a tremendous opportunity for joint U.S.-Africa business ventures that process agricultural commodities and add value to them, creating local jobs and income growth in rural areas, and products for export.

However, it is clear that many producers and agribusinesses in Africa have been unable to take advantage of AGOA. Constraints cited for this include: lack of capacity for producers and agro-processors to supply sufficient amounts of quality products for the U.S. market; lack of access to agricultural inputs, financial services, market information and transport facilities; inability to meet U.S. sanitary and phytosanitary standards; and lack of business skills and contacts, especially among small and medium-sized U.S. and African businesses and producers. Also, very few people – outside of government - know about AGOA, pointing to a need for public education and awareness campaigns about the legislation in both Africa and the U.S.

The current AGOA legislation identifies the importance of easing these constraints in order to unleash Africa's trade potential, and urges the U.S. President to increase support for trade capacity building (TCB) in these key areas. On average, the U.S. spends about \$200 million annually – the Senate Foreign Relations Committee recommends \$214 million for FY2006 – on a range of TCB activities that include trade facilitation, participation in the WTO negotiation process, assistance with trade and financial sector reforms, and technical and

financial assistance for developing transport, port and communication networks. This amount is insufficient to adequately support the kinds of TCB efforts needed in the 37 AGOA-eligible African countries.

Mr. Chairman, current U.S. TCB efforts are scattered among a dozen or so U.S. government agencies. The three African Trade Hubs in West, East and Southern Africa (and the new one coming up in Senegal) could play a very important role in facilitating contacts, market information and capacity building, but they have a rough job and uncertain mandate with regard to coordinating programs from the various U.S. agencies that have different mandates, agendas and timelines. For instance, USAID focuses on development; USDA focuses on expanding U.S. markets; and USTR focuses on getting U.S. advantage from trade negotiations. Sometimes these agendas are conflicting. So, the Hubs find themselves at the front line of trade capacity building without a coherent set of policies or programs in place and no one "in charge" of seeing that the different agencies/programs work together better. With limited funding available, we must pursue more rationalized and better coordinated TCB programs that address priorities set by African national and regional organizations. These will make a difference for Africa.

Strengthening Local and Regional Markets

Strong local and regional markets stimulate agricultural trade and dramatically improve farm incomes, as experience in countries like Malawi, Kenya and Uganda shows. With a tremendous potential for expanding Africa's regional markets through formation of viable trading blocs like ECOWAS in West Africa, COMESA in East and Southern Africa and SADC in Southern Africa, African leaders are stepping up and increasingly focusing their attention to dismantling trade barriers between their countries. AGOA should complement these efforts.

Local producers and processors who gain access into these regional markets are better positioned to scale up their operations and enter the global market place, so that these regional markets serve as launching pads for the global market. There is need, therefore, to connect programs that work on export trade and programs that work on building national and regional trade – whether these are funded by local institutions or by external donors. Currently, these programs often operate in isolation whereas they can be strongly complementary.

Moving Forward – AGOA Forums, Federal Funding and Better Coordination

Mr. Chairman, as we move forward, I respectfully wish to bring to your attention a missed opportunity and make a few recommendations. It was a terrific idea to include as part of the AGOA legislation an annual US-Africa consultative process – the AGOA Forum – to discuss progress made and how to face new challenges, and to allow trading partners chart a common road-map based on identifiable benchmarks. However, experience from the last AGOA Forum in Dakar, Senegal – shows there is much more that can be done to make these meetings effective:

- I suggest that all the three sectoral meetings– the ministerial, the private sector and civil sector forums – continue to be hosted in one location to enable greater networking and substantive discussions amongst the different stakeholders;
- AGOA forum organizers should: (1) streamline the meeting agenda to maximize interactions among the sectors on topics of common interest, with groups having similar discussion

themes holding joint sessions to enrich discussions and extract practical solutions to specific challenges; (2) manage on-site conference registration to enhance participation and minimize disruptions on the meetings; (3) schedule bilateral side-meetings so that they do not divert attention from main sessions; and (4) bolster attendance by the private sector, especially the U.S. and Africa agribusiness sector --unless the people directly involved with implementing AGOA are present in these discussions, a lot of what is recommended at the end is either never taken up or just impractical.

- An Advisory Panel made up of U.S. and African public-private sector and civil society members should jointly prepare the AGOA Summits and help track implementation of recommendations made. A clear sharing of responsibility and deeper involvement by State Department, USAID and USTR will allow integrated planning of the Summits, consistent with efforts to implement the AGOA legislation.

Mr. Chairman, your convening this 5-year review session was timely. AGOA holds great potential for further expanding U.S.-Africa trade. But in order to exploit this potential and increase participation by more African countries and more rural communities in Africa, it is important to mobilize more U.S. and Africa public and private funding to provide capacity building where this is needed most--in agriculture and rural sectors of Africa. In addition, there must be a greater effort to reach out to the U.S. and African private sectors, and a thorough analysis done on how AGOA can better facilitate trade and economic development in Africa, outlining new opportunities in details and how to explore them. The July 2005 report by the USTR, though important, is not useful for mapping future trade and investment strategies.

A recent report by the *Partnership to Cut Hunger and Poverty in Africa and Resources for the Future* reveals that U.S. funding for agricultural development in Africa was stagnant from 2000-2004. This stands in stark contrast to funding for health and education. Increased funding for health and education is critical, but agricultural development should not be neglected. Food, health and better education are interdependent and important for progress. Without food, people will never be healthy; without economic growth in rural communities, African nations will remain dependent on external assistance to sustain their health systems and meet other basic needs. Agriculture is what drives most African economies and growing these economies will provide the much needed broad-based economic growth that will finance future social services in a more sustainable manner.

In view of this and as summary, Mr. Chairman, let me underscore the need for increased funding and streamlining of current and future U.S. TCB programs. With more funding and better coordination, implementing agencies and the Regional Trade Hubs will offer better and more effective assistance to U.S. and Africa entrepreneurs. But, overall, for AGOA to work for the poor as originally intended, it must reach back and complement efforts to strengthen local capacity to produce and trade, as well as help foster nascent local, national and regional markets. In addition, AGOA should not operate in isolation but, rather, it should be part and parcel of the comprehensive U.S. bilateral and multilateral effort to promote economic growth in Africa. Strong African economies and poverty elimination will provide enormous benefits to both Africans and the U.S. Africa's potential is great as it is the greatest untapped market of the future.

Thank you Mr. Chairman, Ranking Member and Members of the Committee for your deep thoughts and attention to making this important legislation work better for the U.S. and Africa.