

**AFRICAN GROWTH AND OPPORTUNITY ACT:  
A FIVE-YEAR ASSESSMENT**

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**HEARING**

BEFORE THE

SUBCOMMITTEE ON AFRICA, GLOBAL HUMAN  
RIGHTS AND INTERNATIONAL OPERATIONS

OF THE

COMMITTEE ON  
INTERNATIONAL RELATIONS  
HOUSE OF REPRESENTATIVES

ONE HUNDRED NINTH CONGRESS

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# CONTENTS

	Page
WITNESSES	
Ms. Florizelle Liser, Assistant U.S. Trade Representative for Africa, Office of the U.S. Trade Representative .....	11
Mr. Steve Hayes, President, Corporate Council on Africa .....	31
Sarah Wykes, Ph.D., Senior Campaigner, Global Witness .....	39
Mr. Bob Baugh, Director, Industrial Union Council, AFL-CIO .....	46
Daniel Karanja, Ph.D., Senior Research Fellow, Partnership to Cut Hunger and Poverty in Africa .....	52
LETTERS, STATEMENTS, ETC., SUBMITTED FOR THE HEARING	
The Honorable Christopher H. Smith, a Representative in Congress from the State of New Jersey, and Chairman, Subcommittee on Africa, Global Human Rights and International Operations: Prepared statement .....	3
Ms. Florizelle Liser: Prepared statement .....	15
Mr. Steve Hayes: Prepared statement .....	34
Sarah Wykes, Ph.D.: Prepared statement .....	42
Mr. Bob Baugh: Prepared statement .....	48
Daniel Karanja, Ph.D.: Prepared statement .....	55
APPENDIX	
The Honorable Diane E. Watson, a Representative in Congress from the State of California: Prepared statement .....	65
Responses from Daniel Karanja, Ph.D. to questions submitted for the record by the Honorable Christopher H. Smith .....	66



## **AFRICAN GROWTH AND OPPORTUNITY ACT: A FIVE-YEAR ASSESSMENT**

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**THURSDAY, OCTOBER 20, 2005**

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON AFRICA, GLOBAL HUMAN RIGHTS  
AND INTERNATIONAL OPERATIONS,  
COMMITTEE ON INTERNATIONAL RELATIONS,  
*Washington, DC.*

The Subcommittee met, pursuant to notice, at 10:32 a.m. in room 2172, Rayburn House Office Building, Hon. Christopher H. Smith (Chairman of the Subcommittee) presiding.

Mr. SMITH. The Subcommittee will come to order and good morning to everyone.

Since being signed into law in May 2000, the African Growth and Opportunity Act, or AGOA, has increased United States-Africa trade to more than \$35 billion last year and created excitement on both sides of the Atlantic Ocean among businesspeople seeking to increase their income through trade.

This trade legislation has been hailed as perhaps the most significant American initiative on Africa in our country's history.

However, approximately 80 percent of trade under AGOA remains in extractive industries, such as oil, and does not involve small- and medium-sized businesspeople, to the extent originally intended by AGOA's authors.

Despite the signing by President Bush of the AGOA Acceleration Act last year and the spending of \$181 million in 2004 on trade capacity-building programs, small- and medium-sized businesses in Africa and America have not been able to take advantage of AGOA's benefits as hoped.

Even after much discussion on this issue, there remain too many African and American businesspeople unable to successfully build the business ties necessary for United States-Africa trade to become more broadly meaningful for African economies.

Consequently, only a relatively small slice of the nearly 6,500 duty-free items under AGOA are being traded by African and American small- and medium-sized businesses, including hundreds of agricultural products that African farmers could be selling to America duty-free.

When AGOA was first proposed in 1996, many of us had concerns about how labor rights in AGOA countries would be protected and how the jobs of Americans would be safeguarded against being exported in significant numbers to lower-wage African workers.

Worries about American jobs being exported turned out not to be as significant as once feared. However, the rights of workers in AGOA countries continue to be a concern.

Our initial concerns with the status of labor and human rights in AGOA-eligible African nations have not been effectively addressed as discussed in the original debate on this trade process.

A major part of the problem seems to be hollow enforcement. Swaziland offers a perfect example of a labor law enforcement process that lacks teeth.

According to the current U.S. Department of State *Human Rights Reports*, Swaziland's Industrial Relations Act does not permit strikes, but rather provides that employees who are not engaged in "essential services" have the right to participate in peaceful protest action to promote their socioeconomic interests.

The law details the steps to be followed when disputes arise and provides penalties for employers who conduct unauthorized lockouts. However, penalties were not imposed for the lockouts that occurred last year.

The IRA empowers the government to mediate employment disputes and grievances through the Labor Advisory Board, yet when disputes arose, the government often intervened to reduce the chances of a protest action.

So on paper, Swaziland has the law and the regulatory agency to defend workers' rights, but the government often circumvented its own process.

Another issue limiting African Government protection of worker rights is the fact that in Swaziland, as in so many other countries, the laws and official labor rights agencies only cover the formal sector.

Throughout the continent, the formal sector represents only about one-quarter to one-third of the overall economy. Consequently, most African workers are not adequately covered by the laws and agencies designed to protect them.

As for human rights, some of the worst abusers are AGOA-eligible countries. Our Ranking Member, Mr. Payne, inserted language into the original bill to highlight the importance of respect for human rights under the AGOA process.

Yet, we have seen little action taken against countries whose human rights practices would seem to disqualify them for trade preferences under AGOA.

One country that has been ousted from the AGOA process is Cote d'Ivoire. The 2005 Human Rights Watch World report lays out the case in Cote d'Ivoire as in the midst of "a serious disintegration of the rule of law" due to armed conflict between the government and rebels and serious political unrest.

Clearly, Cote d'Ivoire is in no shape, economically nor politically, to be part of AGOA at this time. Its ouster from AGOA was all but inevitable.

However, Burkina Faso was granted access to AGOA benefits last December, despite a State Department *Human Rights Reports* citation of a poor human rights record that included torture and abuse of detainees by security forces and arbitrary arrests and detentions.

Good governance is another goal in the AGOA process, yet there are still too many AGOA-eligible countries not making significant progress in that regard and even some who could be said to be losing ground on good governance.

Corruption is supposed to be diminishing, but the misuse of African resources by corrupt government officials continues to be a detriment to the welfare of its own citizens.

There is a participation requirement for African countries to benefit from the provisions of AGOA. Most involve economic and trade policies, but labor and human rights as well as environmental concerns are supposed to be embedded in this process. If we do not enforce these participation requirements, they become meaningless.

AGOA has definitely produced some positive results due to the diligent support of the Administration and many Members of Congress, such as our Vice Chairman, Mr. Royce, and as I mentioned, Mr. Payne as well.

Nevertheless, many of the goals today have not been met after 5 years, so it is time to make some course corrections so that AGOA fully lives up to its promise.

The Subcommittee on Africa, Global Human Rights and International Operations is conducting this oversight hearing to examine and acknowledge AGOA's many successes, but also to determine what needs to be done to more broadly ensure its benefits and to better guarantee the rights of workers and citizens in AGOA nations.

Our witnesses have been invited to testify, not just to critique AGOA, but to begin the process of enhancing its benefits.

Many Members of Congress remain skeptical of trade processes such as AGOA, but since it is here to stay, we must make it perform as effectively and as equitably as possible.

I would like to now yield to my friend and colleague, the Ranking Member, Mr. Payne, such time as he may consume.

[The prepared statement of Mr. Smith follows:]

PREPARED STATEMENT OF THE HONORABLE CHRISTOPHER H. SMITH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW JERSEY AND CHAIRMAN, SUBCOMMITTEE ON AFRICA, GLOBAL HUMAN RIGHTS AND INTERNATIONAL OPERATIONS

Since being signed into law in May 2000, the African Growth and Opportunity Act, or AGOA, has increased U.S.-Africa trade to more than \$35 billion last year and has created excitement on both sides of the Atlantic Ocean among businesspeople seeking to increase their income through trade. This trade legislation has been hailed as perhaps the most significant American initiative on Africa in our country's history.

However, approximately 80% of trade under AGOA remains in extractive industries, such as oil, and does not involve small and medium-sized businesspeople to the extent originally intended by AGOA's authors. Despite the signing by President Bush of the AGOA Acceleration Act last year and the spending of \$181 million in 2004 on trade capacity building programs, small and medium-sized businesses in Africa and America have not been able to take advantage of AGOA's benefits as hoped.

Even after much discussion of this issue, there remain too many African and American businesspeople unable to successfully build the business ties necessary for U.S.-Africa trade to be more broadly meaningful for African economies. Consequently, only a relatively small slice of the nearly 6,500 duty-free items under AGOA are being traded by African and American small and medium-sized businesses, including hundreds of agricultural products that African farmers could be selling to America duty-free.

When AGOA was first proposed in 1996, many of us had concerns about how labor rights in AGOA countries would be protected and how the jobs of Americans would be safeguarded against being exported in significant numbers to lower-wage African

workers. Worries about American jobs being exported turned out not to be as significant as once feared. However, the rights of workers in AGOA countries continue to be a concern.

Our initial concerns with the status of labor and human rights in AGOA-eligible African nations have not been effectively addressed as discussed in the original debate on this trade process. A major part of the problem seems to be hollow enforcement. Swaziland offers a perfect example of a labor law enforcement process that lacks teeth.

According to the current U.S. Department of State Human Rights Report, Swaziland's Industrial Relations Act (IRA) does not permit strikes, but rather provides that employees who are not engaged in "essential services" have the right to participate in peaceful protest action to promote their socioeconomic interests. The law details the steps to be followed when disputes arise and provides penalties for employers who conduct unauthorized lockouts. However, penalties were not imposed for the lockouts that occurred last year. The IRA empowers the Government to mediate employment disputes and grievances through the Labor Advisory Board, yet when disputes arose, the Government often intervened to reduce the chances of a protest action. So on paper, Swaziland has the law and the regulatory agency to defend workers' rights, but the government often circumvented its own process.

Another issue limiting African government protection of worker rights is the fact that in Swaziland, as in so many other countries, the laws and official labor rights agencies only cover the formal sector. Throughout the continent, the formal sector represents only one-quarter to one-third of the overall economy. Consequently, most African workers are not adequately covered by the laws and agencies designed to protect them.

As for human rights, some of the worst abusers are AGOA-eligible countries. Our ranking member, Mr. Payne, inserted language into the original bill to highlight the importance of respect for human rights under the AGOA process. Yet we have seen little action taken against countries whose human rights practices would seem to disqualify them for trade preferences under AGOA.

One country that has been ousted from the AGOA process is Cote d'Ivoire. The 2005 Human Rights Watch World Report lays out the case that Cote d'Ivoire is in the midst of "a serious disintegration of the rule of law" due to armed conflict between the government and rebels and serious political unrest. Clearly, Cote d'Ivoire is in no shape economically nor politically to be part of AGOA at this time. Its ouster from AGOA was all but inevitable. Eritrea also was ousted, but only partly for human rights problems.

However, Burkina Faso was granted access to AGOA benefits last December, despite a State Department human rights report citation of a poor human rights record that included torture and abuse of detainees by security forces and arbitrary arrest and detention.

Good governance is another goal of the AGOA process. Yet there are still too many AGOA-eligible countries not making significant progress in that regard, and even some who could be said to be losing ground on good governance. Corruption is supposed to be diminishing, but the misuse of African resources by corrupt government officials continues to the detriment of the welfare of citizens.

There is a participation requirement for African countries to benefit from the provisions of AGOA. Most involve economic and trade policies, but labor, human rights and good governance, as well as environmental concerns, are supposed to be embedded in this process. If we do not enforce these participation requirements, they become meaningless.

AGOA has definitely produced some positive results due to the diligent support of the Administration and many members of Congress, such as our vice-chairman Mr. Royce and Mr. Payne. Nevertheless, many of the goals they set have not been met, and after five years, it is time to make some course corrections so that AGOA fully lives up to its promise.

The Subcommittee on Africa, Global Human Rights and International Operations is conducting this oversight hearing to examine and acknowledge AGOA's many successes, but also to determine what needs to be done to more broadly ensure its benefits and to better guarantee the rights of workers and citizens in AGOA nations. Our witnesses have been invited to testify not just to critique AGOA, but also to begin the process of enhancing its benefits. Many members of Congress remain skeptical of trade processes such as AGOA, but since it is here to stay, we must make it perform as effectively and as equitably as possible.

Mr. PAYNE. Thank you very much, Mr. Chairman and let me thank you for calling this very important meeting to review AGOA and its implementations over the past 5 years.

I ask unanimous consent, Mr. Chairman, to enter into the record a statement from OSFAM, as relates to AGOA, and I am sure that you will allow the statement from OSFAM without objection.

Mr. SMITH. Without objection.

Mr. PAYNE. Great. AGOA, as we know, extends preferential treatment to imports from eligible countries that are pursuing market reform measures.

Data shows that U.S. imports, under AGOA, are mostly energy products, but imports to date of other products are starting to grow. AGOA has given African nations hope that there is a tool in place to increase trade and investment between Africa and the United States.

I applaud Congressman McDermott and Congressman Randall many years ago when they had the vision of AGOA and created it, and we are interested in its continued success. But as has been indicated, we need to improve it.

Since being signed into law May 18, 2000, AGOA has proven its importance and its power by providing real economic opportunities in Africa.

There is, however, still much that needs to be done on AGOA. It must be expanded to broaden beyond textiles, to maximize economic activities among a variety of sectors, and to ensure a real and measurable impact on the economy and the well-being of sub-Saharan Africa.

According to the United States Department of Commerce, trade between the United States and sub-Saharan Africa is highly concentrated, with a small number of African countries accounting for an overwhelming share for both imports and exports.

We need to broaden the countries that benefit. Those that benefit, benefit well, but it is too concentrated. Nigeria, South Africa, Angola and Gabon together claims 81.4 percent of United States imports from Africa in 2004. Of course mostly in the energy sector in oil.

We have heard from various African leaders and they are ready for a new and more inclusive AGOA. AGOA has had significant impact on Africa, especially with regard to the textile and the energy sector, as I have already indicated.

But again, in order to increase its impact on reducing prevalent hunger and poverty in Africa, and as we know the Millennium Challenge to try to cut poverty in half by 2015, I believe that AGOA should find ways to deepen its coverage of Africa's agricultural sector. Africa is prime for agriculture and we need to take a serious look at that.

The majority of Africa's poor, about 80 percent of its people, live in rural areas and depend solely on agriculture for their livelihoods, with the bulk of economic output in many of the countries coming from agriculture.

Therefore, increasing investment and incentives to African agriculture through AGOA would be the surest way of fighting poverty and hunger, especially among the poorest and neediest people on the continent.

Of course, the major obstacle to Africa's agricultural trade globally is farm subsidies. The United States, the EU, and Japan combined spends over \$360 billion a year on subsidies to farmers.

That is about 1 billion dollars a day. Just about the whole world is aware now of the plight of African farms, especially in the cotton industry, due to the actions taken by the leaders in Benin, Mali, Chad, and Burkina Faso almost 2 years ago.

We need fair trade with Africa and a major part of that is the elimination of farm subsidies and the EU and the United States have to come together and say that we are going to do it. Both are waiting for the other to start moving and they use that as an excuse and even Japan, the subsidy of the farmers there. We must end these farm subsidies. It will make it better for everyone in the world. It makes no sense.

According to the Congressional Research Service, since 1973, sub-Saharan African economies have grown at rates well below other developing countries. This is a trend different from the positive trends we observed in the post-independence era for most countries from 1960 to 1973.

The scourge of HIV and AIDS, tuberculosis and malaria, the debt burden and abject poverty are stifling economic growth in Africa and we must find ways to help the continent overcome these obstacles through AGOA and, of course, through other means.

According to the World Food Program, chronic hunger is taking a growing toll on human lives, accounting for more deaths than AIDS, malaria, and tuberculosis combined, and that is hunger.

More than 6 million people have died from hunger this year alone, primarily in sub-Saharan Africa where the food situation is worsening in countries such as Malawi, based on the WFP statistics. We saw what is happening in Niger.

There is no reason why anyone should be dying of hunger in 2005. It is a worldwide disgrace.

A central problem underpinning many of the world's major problems is poverty and until we address poverty and deal with elimination of poverty, we are going to continue to have problems. We must address poverty or we are being disingenuous about our growth and development in Africa.

As I conclude, I also remind us of the increasing presence of China on the continent. If we do not provide more significant incentives to deepen the relationships between Africa and the United States, we may see China become Africa's closest partner in many ways.

China sees Africa as a solution in many of its oil needs and is closely courting oil-rich nations, like Sudan and Angola. It needs raw materials and Africa has them.

At the same time, the lifting of the WTO quotas on textiles and apparel early this year has had a dramatic impact on Africa and even in the United States, in terms of Chinese imports—1,800 percent increase in some exports in the first few months, devastating Africa.

This is certainly hurting AGOA countries, which mostly export textiles and cannot compete. So we must work to make AGOA stronger, more expansive and more beneficial to Africans.

Once again, Mr. Chairman, I really appreciate you calling this very important hearing and we certainly look forward to the testimonies of our witnesses. Thank you.

Mr. SMITH. Thank you very much, Mr. Payne, and thank you for the leadership that you have provided on this Subcommittee and on this issue. Also providing extraordinary leadership is Chairman Royce. I yield to him such time as he may consume as well.

Mr. ROYCE. Thank you, Mr. Chairman. AGOA is now 5 years old. It is a proven success. In fact, it is one of the most successful Africa policy initiatives that this country has ever taken, ever.

We will hear its results today including a doubling, a doubling of AGOA imports since 2001. Virtually every item manufactured in Africa, produced in Africa, now comes in duty-free into the United States under AGOA.

There are a few exceptions, agricultural exceptions, as Don Payne, our Ranking Member, has mentioned and those need to be lifted. We need to do something about that, but frankly as to the question of why AGOA isn't deployed in other African countries, the answer is because AGOA is used as leverage to get reform.

It is because in those countries there does not exist the proper respect for human rights and as a result, Cote d'Ivoire and other countries have been delisted, but it is a balancing act between getting reforms on human rights and labor rights, while at the same time trying to expand AGOA.

Now over the years, I have visited manufacturing sites in every corner of Africa, where AGOA is working. I have seen job creation firsthand and I have talked to those workers in those plants, and I have also talked to our Peace Corps volunteers that work in those countries to get their feedback.

In every case that I have been engaged in, the response has been very, very positive, from our Peace Corps volunteers on the ground to those who work in the plants.

There is more that needs to be done on enforcement. I know that, but as anyone who knows Africa, one formal job supports, often, an extended family in Africa and formal sector jobs also support many informal sector jobs.

So in sum, AGOA has benefitted millions of Africans. Without it, there would be far fewer jobs and very poor African countries. They would be in China and elsewhere and especially the apparel jobs.

By promoting economic and political reform, reforms that are happening in several African countries, AGOA also aids United States businesses, because United States exports to sub-Saharan Africa increased 25 percent from 2003 to 2004.

These include agricultural, machinery. They include transportation equipment. More trade means higher economic growth for Africa, which leads to better infrastructure in health and education services.

AGOA has given many Africans a psychological boost. It has shown that Africa—traditionally only a raw materials exporter—can play in the highly competitive global apparel industry and in some White manufacturing sectors.

This is no small feat, given intense global competition, especially the competition from China.

Before AGOA, there was no United States-Africa trade agenda. With AGOA, we started a trade dialogue, including through annual forums which several Members, including myself, have participated

in. The goal has been to better integrate Africa into the world economy, from which it has been marginalized in the past.

Encouraged by AGOA, many African countries are now active players in global trade negotiations. Some haven't appreciated Africa's new assertiveness. As our cotton subsidies have been rightly challenged, and they have been challenged in these forums, and they have been challenged as African nations now have begun to demand that they be heard and that they be put on a level playing field.

Many of us believe that Africa's empowerment on trade has been a very positive development, largely spurred by AGOA.

Of course AGOA can be strengthened. That is what the AGOA Acceleration Act of 2004 does. Trade capacity assistance is needed, especially in the agricultural sector, where it increased to 199 million last year, no small sum. This should help diversification.

The Millennium Challenge Account, which also promotes market reforms, compliments AGOA. I would like to see AGOA's eligibility criteria used more aggressively, giving us greater leverage, but we shouldn't lose site of the fact that this bipartisan act has greatly improved the living standards of many Africans in a way that few other United States efforts have.

You would have to hold AGOA to a very unrealistic standard to suggest anything but success. Thank you, Mr. Chairman.

Mr. SMITH. Thank you, Mr. Royce.

Ms. Lee?

Ms. LEE. Thank you, Mr. Chairman. I too want to thank you for this very important hearing and for the opportunity to listen to our witnesses on this very timely hearing.

I agree that this has been the most significant trade policy, as it relates to Africa, in all time. However, I have always been very skeptical of it and I believe that we must want to see AGOA succeed, but in doing so we have got to see it strengthened. It has created very little benefits to African businesses and even fewer to African workers. AGOA remains in need of serious diversification.

Its limited focus on oil and extractive industries and textile apparel leave out the very significant and long neglected agricultural industry, as our Ranking Member and our Chairman have talked about.

Agriculture must be a component, a key component, of a true trade bill for Africa. The reality remains that over 70 percent of sub-Saharan Africa depends on agriculture for their livelihood and most live in rural areas.

When you consider that the United States imported approximately, I think, \$26 billion in AGOA imports in comparison to the \$24 billion in agricultural subsidies, the success of AGOA is less than growing.

We have got to take into consideration the plight of the African worker to earn a decent wage. The significant loss of textile and apparel exports, due to the quota phaseout, the ways in which oftentimes AGOA, yes, undermines the role of African governments in determining their own macroeconomic policy.

AGOAs restrictions to accessing essential medicines, particularly generic drugs—and that is a provision of this trade policy, I think, that needs to quite frankly be repealed.

AGOA's failure to bring civil society, African governments and the private sector together to determine strategies to best utilize AGOA and, of course, the intentional neglect, again as I said earlier, of Africa's agricultural section.

AGOA hasn't reached nearly, it hasn't even gotten close, to reaching its potential that I believe it could reach and so I am very concerned about AGOA and still remain very wary and very skeptical about it, as it is structured at this point as our only trade policy really with Africa.

So I hope that out of this hearing that we will hear ideas on how we may be able to go back to the drawing board and strengthen some of these provisions of AGOA so that the African worker can benefit, truly benefit, and so that the standard of living in sub-Saharan Africa can be raised.

It is in everyone's interest to do that. It is in Africa's interest and it is in America's interest. Thank you, Mr. Chairman.

Mr. SMITH. Mr. Tancredo? Mr. Meeks?

Mr. MEEKS. Thank you, Mr. Chairman. Just walking in, I can tell that I want to join in with the remarks of the Gentlelady from California.

It has been about 5 years since the African Growth and Opportunity Act, AGOA, has passed and signed into law and AGOA has increased United States-African trade by millions of dollars annually. That cannot be denied.

Prior to this legislation, in fact, when you look at Congress and what we had here in the United States, we had no official policy on Africa and we continued to work to develop a policy that will prove beneficial to both nations.

AGOA was created to increase incentives for economic growth through trade and contributing to a growing sense of optimism among businesspeople.

In fact, I was a huge supporter of AGOA, because we really had not done anything, but even at that time I knew that it was, as written, basically symbolic. I thought something was better than nothing. Since we had done nothing from this country before, that we needed to do something.

I thought that AGOA was the first step, clearly, and I think that the bill itself had inadequacies, and I think it is our time to make sure that the bill's inadequacies are finally addressed.

We need to address the needs of the masses of individuals on the continent: (1) by providing microcredit opportunities, because we know that with the development of small- and medium-sized businesses economies will grow and sustain themselves; and (2) by investing in the agricultural societies and when we invest in agricultural, we are creating opportunities and jobs and we are feeding people.

I mean to me, it is crazy to see that we have got so many people starving in Africa, yet they have got some of the most fertile soil anyplace on the planet, but we are not investing in their agricultural communities.

We must address the enormous opportunity that exists by empowering women on the continent and providing them with the opportunity to become business owners.

We know that when women are economically empowered they first feed their families, then educate their children, which makes a difference for a better tomorrow. We should, through this bill and others, find ways to do that.

Investment in infrastructure is vital to development of Africa and we know and we can look at some of the experiences that we have, because if we don't do it, others will.

Let us just look basically over the last 10 or 15 years. You can see how China's influence in Africa has grown, because Africa has invested millions of dollars in projects in more than a dozen countries on the continent.

China has done joint ventures with Nigeria to develop oil fields and build pipelines and refineries, and China has also been rebuilding airways in Nigeria and rebuilding roads in Rwanda and Kenya.

In Zambia, a Chinese company owns one of the companies' largest copper mines, working and creating jobs there. China is also rebuilding electrical grids and communication networks throughout Africa.

In addition, you know China has been doing joint ventures with several of the different countries and looking at China's investment in oil wells or electrical power projects in Sudan, along with their increased trade with Uganda and South Africa.

I mean these are the kinds of things and initiatives that I think that we too should be looking to do to help develop a real relationship so that we can improve the lives of the people on the continent.

We could make sure that they have an opportunity, better than they currently have. I end on this and I think this becomes important sometimes in our viewpoint.

China has basically done this. China has made points as far as its policies toward Africa and they are as follows, from what I understand: (1) to adhere to five principles of a peaceful co-existence, to respect the choice of political system and development road made by African countries themselves, according to their national conventions; (2) to support the African countries and their efforts to strengthen unity and cooperation, to support the positive measures, including the implementation of NEPA, adopted by the AU and other subregional organizations in seeking for peace, stability and development of the African Continent; (3) to strengthen and develop a long-term relationship of all around cooperation with African countries, by increasing the exchange of visits of various levels, cementing friendships and promoting cooperation; (4) to continue to provide the governmental assistance to the best availability, without political conditions, with the Forum on China-Africa Cooperation as a new platform, develop economic and trade cooperation in diversified forms and various fields, encourage enterprises of both sides to enhance exchanges, enlarge bilateral trade and increase investment and seek common development; and (5) to appeal to the international community, especially the developed countries, to show more respect and concern for Africa and attach more importance to peace and development in Africa and adopt feasible measures and increase their aid for Africa.

Now these are the kinds of policies that I think that we need to start looking at. For years, particularly during the Cold War, what we looked at was how Africa helped us, you know, to make sure there wasn't communism.

We allowed vicious dictators to take place. We didn't care about what was taking place, really what was taking place on the ground in regards to African people, and then all of a sudden we turn around now, post the Cold War, and we expect this thing to change.

It will not change, unless we really have the interest of the people at hand and not just looking at the interest of the United States.

We need to make sure, strengthen AGOA. AGOA is an avenue, a avenue of many, that we should be moving to make sure that our policies toward Africa changes so that the people on the continent all have an opportunity for a better tomorrow.

Mr. SMITH. Thank you. Mr. Boozman.

I would now like to introduce our first witness, Florie Liser, who is the Assistant U.S. Trade Representative for Africa in the Office of United States Trade Representative. In this position, she leads United States trade efforts in sub-Saharan Africa, oversees implementation of AGOA, and serves as Chief U.S. Negotiator for a Free Trade Agreement with five member countries of the Southern African Customs Union.

She previously served as Assistant U.S. Trade Rep. for Industry Market Access and Telecommunications and previously, Ms. Liser worked at the Department of Transportation and served as Senior Trade Policy Advisor to the Secretary in the Office of International Transportation and Trade.

In this capacity, Ms. Liser coordinated trade and transportation issues of importance to developing countries, with particular focus on Africa.

Thank you for being here and please proceed as you would like.

**STATEMENT OF MS. FLORIZELLE LISER, ASSISTANT U.S. TRADE REPRESENTATIVE FOR AFRICA, OFFICE OF THE U.S. TRADE REPRESENTATIVE**

Ms. LISER. Chairman Smith and Members of the Subcommittee, thank you very much for this opportunity to testify today before the Subcommittee on the effectiveness of the African Growth and Opportunity Act in promoting African economic growth and development and also in spurring two-way trade between the United States and sub-Saharan Africa.

I have a prepared statement that I would like to submit for the record, which I will summarize as briefly as possible.

Mr. SMITH. Without objection, your full statement will be made a part of the record.

Ms. LISER. Thank you. Let me first say that development schemes by the industrialized world for much of sub-Saharan Africa over the past 30 years have not been particularly successful, largely because they did not focus sufficiently on developing the private sector.

As a result, the poorest people in the region did not see an improvement in their circumstances.

AGOA seeks to recraft African development to promote development through trade. So the impetus of AGOA grew out of recognition in the United States and in Africa that trade can be an important tool for increasing United States-African engagement and can serve as an engine for African economic growth and development.

Congress and the Bush Administration have demonstrated a continuing commitment to AGOA, twice amending it to enhance and extend its benefits, by the Trade Act of 2002 and then the AGOA Acceleration Act of 2004.

When we look at AGOA's impact over the past 5 years, I believe we can say that the act's major policy objectives have been achieved. AGOA has ignited an expansion of United States-African trade, trade capacity-building assistance to support regional integration, and development has grown.

We are currently negotiating the first-ever free trade area agreement with sub-Saharan African countries, and by offering substantial trade benefits to those countries, undertaking sometimes difficult economic and political reforms. AGOA has provided a powerful incentive and reinforcement for African efforts to improve governance, open markets and reduce poverty.

AGOA has also provided a platform, through the annual AGOA forum, for high level dialogue on ways to improve United States-African trade and economic cooperation.

AGOA has spurred African economic and political reforms as well. The annual review of countries, to determine eligibility status under AGOA, examines specific criteria, including the establishment of a market-based economy, political pluralism, the elimination of barriers to United States trade and investment, efforts to reduce poverty and the protection of internationally-recognized worker and human rights.

We, in the Administration, take these criteria very seriously, as shown by the countries that have been removed as AGOA beneficiaries for failing to meet the eligibility standards.

The Central African Republic lost its eligibility in 2004, following a coup d'etat. Eritrea lost its eligibility also in 2004 for its shortcomings on economic reform and human rights, and Cote d'Ivoire was terminated in 2005 for lack of progress on political and economic reforms.

Our hope and expectation is that these and other countries currently not found eligible will strive to create conditions so that they may be positively reconsidered.

AGOA is also having a positive impact on worker and human rights reforms and in my statement, I provide examples of recent reforms undertaken by several countries to prevent trafficking of children, address the worst forms of child labor, and encourage increased labor law compliance to improve labor management relations.

I could also give you an example of a country, Uganda, who is currently putting before its Parliament a new bill to reform its labor laws specifically because we raised it as a part of AGOA and the eligibility criteria.

United States trade with sub-Saharan Africa continues to grow. AGOA has been a measurable success in achieving increased trade between the United States and sub-Saharan Africa.

United States imports from sub-Saharan Africa increased by over 50 percent, doubling from 2000 to 2004. Much of this increase was related to oil, but non-oil imports, including value-added products such as apparel, automobiles and processed agricultural goods, more than doubled from 2000 to 2004.

Our imports of African-made apparel have more than doubled since AGOA came into effect as well, increasing from 748 million in 2000 to over 1.7 billion in 2004.

There are many AGOA success stories. Tiny Lesotho has become the leading sub-Saharan African exporter of apparel to the United States. Kenya's exports under AGOA now include fresh cut roses, nuts and essential oils, as well as apparel. And many African businesses that had never previously considered the United States market are attending United States trade shows and getting orders, everything from Congolese honey wine to Senegalese seafood to Rwandan baskets.

This increased trade has translated into thousands of new jobs in some of the poorest countries in Africa and hundreds of millions of dollars of new investment in the region.

AGOA has also created opportunities for U.S. businesses. Because of AGOA, Africans are increasingly seeking United States inputs, expertise and joint venture partnerships.

From 2000 to 2004, United States exports to sub-Saharan Africa increased 42 percent, driven in large part by growth in manufactured products exports, such as oil field equipment, motor vehicles and telecommunications equipment.

But I should also add here that it was also driven by exports from small- and medium-sized businesses in the U.S. Over 50 percent of our total exports to some 22 of the AGOA countries were generated by small- and medium-sized businesses in the U.S.

Furthermore, there are actually some countries to which these small businesses of the U.S. account for the majority of what has been exported there. Eighty percent of our exports to Zambia, for example, were generated by United States small- and medium-sized businesses. Seventy-four percent of our exports to Uganda were generated by United States small- and medium-sized businesses.

But admittedly, AGOA's impact has not been shared equally by all eligible sub-Saharan African countries. While more countries are taking advantage of AGOA today than in 2001, much of the AGOA-related trade gains have been in a dozen or so countries, and some eligible countries have yet to export any products under AGOA.

We also know that most of AGOA's non-oil success has been concentrated in the apparel sector. These facts reinforce the justification for continued trade capacity-building and technical assistance for AGOA countries.

Trade capacity-building assistance remains critical. We appreciate that many eligible countries need assistance in order to take full advantage of AGOA's benefits.

The challenges they face include inadequate infrastructure; lack of technical capacity to meet international product standards, such as FIDO sanitary and sanitary standards; and little experience in

producing and marketing value-added products for the U.S. market.

Last year, the government dedicated \$199 million in trade capacity-building assistance in sub-Saharan Africa, up 10 percent from fiscal year 2004.

This aid goes toward activities such as helping African businesses and farmers to meet quality and standards requirements, to get more timely market information, and to establish linkages with prospective American partners.

Under the auspices of the U.S. Agency for International Development, three regional trade competitiveness hubs, which are actually resource centers for the Africans, have been established throughout the region, each with AGOA advisors and trade specialists. A fourth hub, to be located in de Carsenegal, is set to open in November.

The President renewed the Administration's commitment to trade-related technical assistance, when he announced in July, the African Global Competitiveness Initiative, AGCI, with a 5-year funding target of \$200 million. The goals of AGCI are to expand sub-Saharan Africa's trade under AGOA and to improve the region's external competitiveness.

As part of the AGOA Acceleration Act of 2004, the President presented a major report to Congress that identifies sectors with the greatest export potential in each of the 37 AGOA-eligible countries. It also identifies domestic and international barriers and makes recommendations for technical assistance to reduce those barriers.

African trade ministers have informed us that this study will be an integral part of their strategic planning on how to better take advantage of AGOA.

We are also negotiating an FTA with the Southern African Customs Union, SACU. Section 116 of AGOA recommended that the Administration pursue free trade agreement negotiations with sub-Saharan African countries. In mid-2003, we launched negotiations with the five members of SACU, which are Botswana, Lesotho, Namibia, South Africa and Swaziland.

Negotiation of the FTA will move our trade relationship with these countries from one-way preferences to a full two-way reciprocal partnership. In the seven rounds of negotiations to date, we have exchanged information and held detailed discussions on the full range of FTA issues. We have also submitted text on most of the FTA chapters and made progress in establishing some common objectives.

Admittedly, work had been progressing slower than anticipated in negotiating this FTA, but we have recently, and I am happy to tell you, reengaged and now have a framework and schedule for moving forward. Both sides have committed to try to complete the agreement by December 2006.

Another area that is also important in the United States-Africa trade relationships is Doha and the international trade negotiations taking place under the auspices of the World Trade Organization, the WTO.

I would like to make a comment on the important stake that African countries have in the successful outcome of the current round of world trade negotiations.

A new global trade accord could open up new markets for African goods and if African countries use the opportunity to continue opening up their own markets as well, this could spark new investment flows into the region, which we all know are sorely needed.

According to the World Bank, the removal of all trade barriers worldwide would increase the income of developing countries by \$539 billion, with 80 percent of that increase coming from increased trade among developing countries.

This is an important point. Since developed country markets are already broadly open to African products, a big part of the trade gains for African countries under new global trade agreements would come from increased trade with other developing countries and for the Africans, especially, in big emerging markets, like Brazil, India and China.

In conclusion, thanks to AGOA, our trade and investment relationship with sub-Saharan Africa has matured considerably over the past 5 years.

Two-way trade is increasing. African countries are diversifying their exports to the United States and we are consulting with each other more, both on bilateral and multilateral issues.

In the case of SACU, we are moving forward with the first ever FTA negotiation with sub-Saharan African countries.

But while we have achieved much under AGOA over the last 5 years, significant challenges remain. More needs to be done to diversify Africa's exports under AGOA and expand the number of countries exporting those products.

More must also be done to spur United States investment and joint ventures in Africa. AGOA has created significant opportunities for trade, investment, and partnership with the countries of sub-Saharan Africa, and we will continue to work hard with them and also with you, and with our private sector, and with civil society to ensure that those opportunities are realized.

Thank you.

[The prepared statement of Ms. Liser follows:]

PREPARED STATEMENT OF MS. FLORIZELLE LISER, ASSISTANT U.S. TRADE REPRESENTATIVE FOR AFRICA, OFFICE OF THE U.S. TRADE REPRESENTATIVE

Chairman Smith and Members of the Subcommittee:

Thank you very much for this opportunity to testify before the Subcommittee on the effectiveness of the African Growth and Opportunity Act in promoting African economic growth and development.

I am pleased to report that five years after its implementation, the African Growth and Opportunity Act (AGOA) is having a tremendously positive impact.

#### *Introduction*

The impetus for AGOA grew out of recognition—both in the United States and in Africa—that trade can be an important tool for increasing U.S.-African engagement and can serve as an engine for African economic growth and development. Passage of AGOA in 2000 was a major bi-partisan achievement supported by African countries as well as private sector, faith-based, civil rights and non-governmental organizations. Congress and the Bush Administration have demonstrated a continuing commitment to AGOA, twice amending it to enhance and extend its benefits—via the Trade Act of 2002 and the AGOA Acceleration Act of 2004.

When we look at AGOA's impact over the past five years, I believe we can say that the Act's major policy objectives have been achieved: AGOA has ignited an expansion of U.S.-African trade; trade capacity building assistance to support regional integration and development has grown; we are currently negotiating the first-ever free trade area agreement with sub-Saharan African countries; and by offering substantial trade benefits to those countries undertaking sometimes difficult economic

and political reforms, AGOA has provided a powerful incentive and reinforcement for African efforts to improve governance, open markets, and reduce poverty. AGOA has also provided a platform—through the annual AGOA Forum—for a high-level dialogue on ways to improve US-African trade and economic cooperation.

*U.S Trade with Sub-Saharan Africa Continues to Grow*

AGOA has been a measurable success in achieving increased trade between the United States and sub-Saharan Africa. U.S. imports from sub-Saharan Africa increased by over 50 percent from 2000–2004. Much of this increase was related to oil, but non-oil imports—including value-added products such as apparel, automobiles, and processed agricultural goods more than doubled from 2001–2004. Our imports of African-made apparel have more than doubled since AGOA came into effect—increasing from \$748 million in 2000 to over \$1.7 billion in 2004. Last year, 15 AGOA eligible countries exported apparel to the United States; prior to AGOA only a few countries sent apparel of any significant quantity to the U.S. market.

There are many AGOA success stories: tiny Lesotho has become the leading sub-Saharan African exporter of apparel to the United States; Kenyan’s exports under AGOA now include fresh cut roses, nuts, and essential oils, as well as apparel; and many African businesses that had never previously considered the U.S. market are attending trade shows and getting orders—everything from Congolese honey wine to Senegalese seafood to Rwandan baskets. This increased trade has translated into thousands of new jobs in some of the poorest countries in Africa and hundreds of millions of dollars of new investment in the region.

AGOA has also created opportunities for U.S. businesses. Because of AGOA, Africans are increasingly seeking U.S. inputs, expertise, and joint venture partnerships. From 2000 to 2004, U.S. exports to sub-Saharan Africa increased 42 percent, driven in large part by growth in manufactured products exports such as oil field equipment, motor vehicles, and telecommunications equipment.

Admittedly, AGOA’s impact has not been shared equally by all eligible sub-Saharan African countries. While more countries are taking advantage of AGOA today than in 2001, much of the AGOA-related trade gains have been in a dozen or so countries and some eligible countries have yet to export any products under AGOA. We also know that most of AGOA’s non-oil success has been concentrated in the apparel sector. These facts reinforce the justification for continued trade capacity building for AGOA countries, which I will address later in this statement. The theme of the 2005 AGOA Forum, “Expanding and Diversifying Trade to Promote Growth and Competitiveness,” was selected in order to highlight the wide range of products eligible for AGOA and to stress the importance of, and opportunities for, diversification.

*AGOA has spurred African economic and political reforms*

AGOA has had a positive impact on African economic, political, and social reforms. The annual review of countries to determine eligibility status under AGOA examines specific congressionally-mandated criteria, including the establishment of a market-based economy, political pluralism, the elimination of barriers to U.S. trade and investment, efforts to reduce poverty, and the protection of internationally recognized worker and human rights. We in the Administration take these criteria very seriously, as shown by the countries that have been removed as AGOA beneficiaries for failing to meet the eligibility standards: the Central African Republic lost its eligibility in 2004 following a coup d’etat. Eritrea lost its eligibility in 2004 for its shortcomings on economic reform and human rights; and Cote d’Ivoire was terminated in 2005 for lack of progress on political and economic reforms. Our hope and expectation is that these and other countries currently not found eligible will strive to create conditions so that they may be positively reconsidered. A number of formerly ineligible countries did exactly that: Angola, Burkina Faso, Democratic Republic of Congo, and The Gambia, all addressed the problems we raised during the eligibility review process, made significant economic and political reforms in response to our concerns, and are now AGOA beneficiary countries.

The majority of sub-Saharan African countries *are* undertaking real reforms—and not only because of AGOA—but because they also perceive it’s in their best interests to do so. AGOA countries have liberalized trade, strengthened market-based economic systems, privatized state-owned companies, and deregulated their economies. These changes have improved market access for U.S. companies and benefited African economies. Additionally, many countries reformed their customs regimes in order to meet AGOA’s apparel eligibility requirements, as AGOA requires countries to establish an effective apparel visa system before they receive apparel benefits.

AGOA is also having an impact on worker and human rights reforms. Because you asked me specifically about AGOA's impact on these areas, I provide the following specific examples of recent country reforms in these areas:

- Mali signed two separate cooperative agreements with Burkina Faso and Senegal to combat the cross-border trafficking of children. Thus far, Mali has signed such agreements with three of its neighboring countries, including Côte d'Ivoire and Guinea. Under these agreements, individuals involved in trafficking are subject to the criminal code provisions addressing child trafficking of both the source and destination countries.
- The governments of Benin, Burkina Faso, Cameroon, Côte d'Ivoire, Gabon, Mali, and Togo have committed to participate in a U.S. Department of Labor-funded ILO project to combat the trafficking of children for exploitive labor in West and Central Africa through 2007.
- Ethiopia, Kenya, Rwanda, and Uganda are participating in a Department of Labor-funded \$14.5 million Education Initiative project focused on providing education and vocational training to HIV/AIDS-affected children involved in or at-risk of participating in the worst forms of child labor.
- Botswana, Lesotho, Namibia, Swaziland, and South Africa are participating in a regional Child Labor Education Initiative project that aims to improve awareness of the relationship between HIV/AIDS and child labor; provide direct educational and social services to HIV/AIDS-affected children, street children, and other vulnerable children; and build the capacity of families, communities, and policy makers to combat the worst forms of child labor.
- Botswana, Lesotho, Malawi, Namibia, Swaziland and Zambia committed to a technical cooperation initiative entitled "Improving Labor Systems in Southern Africa," a \$4 million project funded by the Labor Department and implemented by the ILO that will focus on increasing labor law compliance and improving labor-management relations.

*Trade Capacity Building Assistance Remains Critical*

We appreciate that many eligible countries need assistance in order to take full advantage of AGOA's benefits. The challenges they face include inadequate infrastructure, lack of technical capacity to meet international product standards (such as sanitary and phytosanitary standards) and technical regulations, and little experience in producing and marketing value-added products for the U.S. market.

That's why we are investing in assistance to help African countries to address these challenges. Last year, the U.S. Government dedicated \$199 million to trade capacity building in sub-Saharan Africa, up 10 percent over FY2004. This aid goes toward activities such as helping African businesses and farmers to meet quality and standards issues, to get more timely market information, and to establish linkages with prospective American partners. Under the auspices of the U.S. Agency for International Development, three regional trade hubs (i.e., resource centers) have been established throughout the region, each with AGOA advisors and trade specialists. A fourth hub, to be located in Dakar, Senegal, is set to open in November.

The President renewed the Administration's commitment to trade-related technical assistance when he announced in July the African Global Competitiveness Initiative (AGCI) with a 5-year funding target of \$200 million. The goals of AGCI are to expand sub-Saharan Africa's trade under AGOA and to improve the region's external competitiveness.

As part of the AGOA Acceleration Act of 2004, the President presented a major report to Congress that identifies sectors with the greatest export potential in each of the 37 AGOA-eligible countries. It also identifies domestic and international barriers and makes recommendations for technical assistance to reduce those barriers. African Trade Ministers have informed us that this study will be an integral part of their strategic planning on how to better take advantage of AGOA.

*Negotiation of an FTA with the Southern African Customs Union (SACU)*

Section 116 of AGOA recommended that the Administration pursue free trade agreement negotiations with sub-Saharan African countries. In mid-2003, we launched negotiations with the five members of the Southern African Customs Union members (Botswana, Lesotho, Namibia, South Africa, and Swaziland). Negotiation of the FTA will move our trade relationship with these countries from one-way preferences to a full two-way reciprocal partnership. In the seven rounds of negotiations to date, we have exchanged information and held detailed discussions on the full range of FTA issues. We have also submitted text on most of the FTA chapters and made progress in establishing some common objectives. Work had been progressing slower than anticipated, but we have recently re-engaged and now have a

framework and schedule for moving forward. Both sides have committed to try to complete the agreement by December 2006.

*Importance of Doha*

Finally, I'd like to make a comment on the important stake African countries have in the successful outcome of the current round of world trade negotiations. A new global trade accord could open up new markets for African goods and—if African countries use the opportunity to continue opening their own markets—could spark new investment flows into the region.

According to the World Bank, the removal of all trade barriers worldwide would increase the income of developing countries by \$539 billion, with 80 percent of that increase coming from increased trade *among* developing countries. This is an important point—since developed country markets are already broadly open to African products, a big part of the trade gains for African countries under a new global trade agreement would come from increased trade with other developing countries, especially big emerging markets like Brazil, India, and China.

*Conclusion*

Thanks to AGOA, and to many Members on this Committee, our trade and investment relationship with sub-Saharan Africa has matured considerably over the past five years. Two-way trade is increasing, African countries are diversifying their exports to the United States, and we are consulting with each other more, both on bilateral and multilateral issues. And in the case of SACU, we are moving forward with the first-ever FTA negotiation with sub-Saharan African countries, a level of engagement we hope to emulate with other African countries. But while we have achieved much under AGOA, significant challenges remain. More needs to be done to diversify Africa's exports under AGOA, and expand the number of countries exporting them. AGOA has created significant opportunities for trade, investment, and partnership and we will continue to work hard to ensure those opportunities are realized.

Mr. SMITH. Ms. Liser, thank you very much for your testimony. Your work is very deeply appreciated by this Subcommittee.

Let me just begin the questioning, if I could. Unlike China, which was mentioned earlier by one of my distinguished colleagues, which is a serious abuser of human rights itself and makes no preconditions on countries with whom it deals with, makes no demands, human rights are nonexistent in the PRC so when they do trade deals, human rights are never something that they are concerned about.

One of the distinguishing factors of AGOA is that it does include some human rights criteria. However, eligible countries such as Burkina Faso, Cameroon, and the Democratic Republic of Congo, were all designated in the 2004 State Department *Human Rights Reports* to have poor human rights records.

My first question would be, how effective has AGOA been with regards to the human rights criteria? I would note, parenthetically, that Robert Baugh, in his testimony which we will be hearing in the second panel, points out that AGOA has failed to deliver on its promises and potential and when it comes to workers' rights, although you mentioned that the labor laws in Uganda are a direct result, and I don't want to paraphrase you incorrectly, but a direct result of AGOA pressure and that is good. Certainly that is to be lauded.

But he points out and he gives a number of examples, in one case where workers are making only about 30 cents an hour, that the government does little to hold employers accountable, that there are blacklists that are commonly used by employers in the textile and apparel sectors and he goes on and on in his testimony.

You know it is worth noting that Solidarity just celebrated its 25 years of existence in Poland and frankly, the entire human rights

equation in Central and Eastern Europe was based on labor rights and the work that Solidarity was able to do in Poland and that began the ripple effect that has had other human rights joining in on the bandwagon, thankfully as a result of Lech Walesa and his work.

I am one of those who believes that labor rights are at the core of reform and very often lead to an expansion of human rights in other areas, which we are all working for.

How would you respond to his criticism, if you could? Let me also ask you, the President recently praised Botswana, Ghana, Mozambique, Namibia, and Niger in a June press release as being good examples of how to have access to American markets by, among other things, showing their commitment to human rights.

I wonder if you might tell us, either now or for the record, what qualitative advances in the area of human rights was the President basing his statement on? Because obviously there had to have been something that led to that statement.

Finally, as mentioned earlier in my opening comments, Swaziland has all the laws and structures on the books to regulate labor standards, but it appears to have neither the will nor the scope to do so effectively, and I wonder if you might tell us how we bridge that gap?

We have seen that before in other continents, in other places. When NAFTA was being considered, most of us who voted against NAFTA freely pointed out that on the books Mexico had great laws but next to no enforcement.

A paper promise is certainly a false hope that is given to people if you don't have adequate law enforcement and labor enforcement. So if you could speak to that too, how we are trying to get them to bridge that gap.

Ms. LISER. Thank you, Mr. Chairman. Perhaps I can answer each of these questions, but I think that we have to preface all of this by actually looking at where Africa has been and how far they have come and where we would like them to go.

I think that essentially all of you are probably Africanists, have studied the continent and know a lot of the history, and so I am not here to lecture you. But I think that we all recognize that with many of them having come out of their colonial situations in the early 1960s, and many of them have struggled in terms of putting in place the kinds of democratic governments and processes, and the kind of transparency, and addressing the human rights and civil rights that I think come along with developing.

In a number of cases, what we note is that today, in 2005, relative to where a number of these countries were a decade ago, 15 years ago, even 5 years ago for some of them, they have been making continual progress.

There are now huge numbers of countries on the continent who have really come a long way. They have established democracies. They put in place rule of law and yes, in a number of cases they still have a ways to go.

They are not like the U.S. yet. They are not like other developed countries yet, but they are not developed countries at this point.

In fairness to the Africans and in fairness to all the policies that I think are in place in the United States, not just AGOA but the

whole range of policies that we have with Africa, I think that we are currently now partners with them in trying to get them from where they are to where they need to be.

I think that AGOA has actually had a very useful role as one of many tools that the U.S. has, not the only tool, and really pushing these countries and supporting them in the kinds of reforms and changes that they are making.

I would just say that in that context, when we then look at countries like Burkina Faso, we remember that Burkina Faso was not eligible for AGOA initially and we felt that Burkina Faso needed to make sure that it had elections, and it was only after they had done that that we actually put in place AGOA eligibility for them.

We have been working closely with other agencies and as a part of that process, we actually gave some specific benchmarks to Burkina Faso that they had to meet. For example, it was thought that they were contributing to an unstable situation in the West Africa region, perhaps involved in diamond trade and some other undermining policies.

We told Burkina Faso that you have to prevent arms shipments coming through to Liberia and Cote d'Ivoire and some of its other neighbors. We told them that they could not be known to be supporting Liberian President Charles Taylor and that they had to continue to support the peace process in Cote d'Ivoire. It was really only after they had shown that they had met those benchmarks that we then made them eligible. That would be the case with Burkina Faso.

On the labor issues, we think that we have actually been able to use AGOA as a platform to actually push both the governments and the companies that are there to provide more of the international labor organization rights, the recognized rights that workers should have.

In the absence of it, what would have been the leverage to get those companies and those countries to really focus on it?

As I said in the case of Uganda, it was specifically because we raised the fact that they may lose their GSP and AGOA eligibility that they have now completely revised their labor laws. There are about four or five labor laws they have revised and put before their Parliament. So we are really pleased that this is happening and we believe it has been happening in others.

Mr. Chairman, I will have to get back to you on Botswana in terms of the statement that was made, but I will say that in June, President Bush hosted an event recognizing and honoring the Presidents of five of the African democracies and again, it is because I think there is a recognition in the Administration that these countries have indeed come a long way and in several of the cases, the countries who were honored at that time, they have democratically-elected heads of state now.

In some cases, in fact, the opposition parties have won. I was just in Mozambique and it was amazing to me, after 16 years of civil war, to be in a country where essentially the people who were in place were voted out. The other people in the opposition came in and it was all peaceful.

These are things that we have to commend in Africa. So again, I think that we are making progress, but we are not claiming that we are all the way there.

I think it is important that we continue to partner with them and in the case of Swaziland, in fact, we recently had a very good report on the progress in them actually improving their labor rights issues in Swaziland. We just had a report about a week or so ago.

We will be coming back to you and providing you with more information about Swaziland as well.

Mr. SMITH. If you could provide us that report as well, that would be great. Let me just conclude with two final questions.

One, when you talk about Uganda changing its labor laws, did we also equally stress that enforcement capabilities and a political will to enforce those laws is the absolute other side of that coin and without it those laws then become meaningless?

Ms. LISER. Right.

Mr. SMITH. Is that something we stressed?

Ms. LISER. Yes, we did and in fact—

Mr. SMITH. And we will be watching?

Ms. LISER [continuing]. We also said to them that they needed to make sure that they had ILO assistance on the ground in helping them to implement and enforce their labor laws. The existing ones and then in the future, the new ones as well.

Mr. SMITH. Finally, do you have any specific recommendations for improving AGOA, especially as it relates to human rights and labor rights?

Ms. LISER. I think that the best thing that we can do is to continue to very carefully, on an annual basis, sit down and look at the criteria.

It is an intense interagency process. Everyone is at the table. We get information that comes in from all of our Embassies on the ground who can tell us exactly what is going on there.

We look at reports. Human rights reports and other reports as well. We take that into account and I think that we have a very deliberative process that looks at not just the human rights issues and the labor rights issues, but looks at the whole range of AGOA eligibility criteria.

I think that based on the actions that have occurred in the past, not just countries who have been made ineligible, but countries who want to be eligible, to whom we continue to say, "No, you have not done enough yet."

That is a part of the process of pushing them and there are countries who are now out, such as Cote d'Ivoire, who have been coming and talking to us about, "What do we have to do to be able to get back in?"

So we think that, again, by being diligent about the implementation of the existing criteria and taking it very seriously as we do, that that is the best thing that we can do in terms of all of the AGOA eligibility criteria.

Mr. SMITH. I appreciate that. I would just add that I would hope that human rights and labor rights would have sufficient weight in those negotiations, because obviously the people least able to speak up for themselves, the disenfranchised, are the poor ones. If that

is not made a major core issue, I mean good governance and all the other issues obviously are part of that, but it seems to me that human rights will make the difference in the lives of the people who need it most. I just would encourage that.

Ms. LISER. Thank you, sir.

Mr. SMITH. Mr. Payne?

Mr. PAYNE. Thank you. Thank you very much for your testimony and the work that you are doing. We appreciate it and we really would like to be supportive here on this side of the aisle and from the Legislative Branch of Government.

For that reason, I do have a question and, too, I would like to also comment that I think that there is progress being made. It is slow, but progress so far as the Labokchia is concerned.

I was a part of the delegation with Assistant Secretary for African Affairs, Dr. Frasier, and President Carter and others, that went to the elections in Liberia last week and the turnout was unbelievable. Maybe 70, 75, 80 percent.

The transparency and the work of IRI and NDI and IFIS and the Carter Center certainly showed that there was a lot of preparation that was done.

We are seeing progress and also will be in a week or 2, and we just hope that Liberia could finally start to move forward and see some progress, and there, too, there is a great potential for agriculture, because it is very, very fertile and so forth.

I kind of concur that there have been progress that has been made. As it relates to AGOA though, as you know, there is what they call Section 13 of the act, of the Acceleration Act. It requires at least 20 full-time personnel to be assigned to sub-Saharan Africa to provide technical assistance to African farmers and exporters.

The statute directs that these personnel are to be assigned and assist African farmers and exporters to understand and properly address United States sanitary and FIDO sanitary requirements.

It is more than a year since this AGOA 3 Acceleration Act was signed into law by the President. I would like to know if you know how many people have been assigned to perform the technical assistance that the act requires, because of course if we don't have the personnel to do the work, then we are not going to see us come close to some of the goals that we would make.

I wonder if you could inform me about how that section is working.

Ms. LISER. All right. Thank you, Congressman Payne, and we appreciate the work that you and others have been doing over quite some time in helping the Africans to advance as well, not just on the economic side but on the political and the governance side.

On the issue of the requirements of the AGOA Acceleration Act and the agricultural workers in Africa, there are a couple of things I just want to say and then I will give you some numbers.

One is that a lot of attention has been paid to them having assistance to meet the sanitary and FIDO sanitary standards and passing what we call pest risk assessments and rightfully so.

One of the things that people have not recognized is that there is a lot of work that has to happen in a country, prior to being able to even put your products on the list for a pest risk assessment, and one of the things that USDA has been doing is providing the

technical assistance that goes to the institutions on the ground in Africa that would allow them to be able themselves to determine: What are the pests? What are the risks? What are the things that they have to do, before they can even then submit that product—whatever it may be—to the U.S. Animal, Plant and Health Inspection people for its own assessment on the U.S. side?

We count the people who do that work as being very critical as well and we have 10 USDA people who are on the ground in Africa who do exactly that kind of work. They do institution building and so forth.

We also have the three AFIS workers who are actually in the three hubs and we anticipate that there would be a fourth one probably in the new hub in Dakar.

But in addition, we also have a number of our commercial and economic officers that are doing a lot of the work on the ground, working with the agricultural ministries, working with a lot of the people who are also providing advice to the farmers, for example, on how to improve their seeds, how to get their yields up for their major crops.

So we have a number of those people on the ground as well; 29 of them as well. We think that between the specific USDA people, the AFIS people, and the people who are actually working with a number of the African countries in terms of their ministries, that we have met pretty much the requirements.

Now we would say also, though, that more needs to be done, but it is not always about having more people there on the continent. There is a lot of work that has to be done. The Africans need to actually have the capacity to do a lot of this work themselves and they have talked to us about that.

We would like to see support from all of you for the kinds of funding that needs to go to USDA and to AFIS and to our foreign agricultural service and other parts of the government that could actually help in helping the Africans to be better prepared themselves to address some of these requirements.

Mr. PAYNE. Thank you very much. I was sort of under the impression that it was not fully staffed, but perhaps we could get together to kind of reconcile the numbers there.

For example, we have been told that there were only three people performing the duties in Africa, as related to the assessment. So we evidently are looking at different information.

We actually were in touch with the Ways and Means staff, and they have some numbers that seemed to be less and also, as related to the Animal, Plant Health Inspection Service in North Carolina, that we were under the opinion that more assistance was needed.

If you feel satisfied, then we would just like to be back in touch. Since the bells are ringing, I assume the other Members would like to ask you a question. I will be very generous, not that generous, but I will be generous and yield the time back to the Chairman so that perhaps other Members might ask the questions.

Mr. SMITH. Ms. Lee?

Ms. LEE. I want to thank our Ranking Member for his generosity and just very briefly in terms of access to drugs and the whole intellectual property rights issue: Written throughout AGOA is lan-

guage that protects intellectual property rights, restricting the ability of African governments to access lifesaving generic drugs for the people and, as you know, we are trying to tackle the growing spread of HIV and AIDS.

Why in the world would we support these kinds of restrictions that hinder the African Government's ability to secure generic drugs and other essential medicines?

Ms. LISER. Yes, this is—

Ms. LEE. I mean really this is a provision that I think we should, Mr. Chairman, go back and repeal.

Ms. LISER. Congressman Lee, I think it has to do with perhaps not completely understanding all of what is actually happening on the ground.

First of all, there are no restrictions on United States drug companies providing medicines to any of the African countries and particularly those that are suffering with high prevalence HIV and AIDS prevalence rates. There is some misconception that that is happening and frankly, you know, we would love to get at the bottom of why people continue to believe that that is the case.

But in any case, on the protection of intellectual property, one of the reasons why this is really critical and it is not just in the drug industry, is because the kinds of investment and research that it takes to actually come up with and develop these products, whatever it may be. If they are not protected, in other words, it is the same thing that happens if China can just take whatever it is that any of us produce, and any intellectual property that you have, and they are doing it in Africa as well.

Then actually it is a way that people have their wealth taken from them. So in terms of this issue, it is really important that we provide some protections for the people who are developing the anti-malarial drugs and the anti-HIV and AIDS drugs. And if we balance those two needs, the access to the medicines, which they have, with the need to protect the intellectual property of those who are actually making those medicines, I think that we can find a good balance.

Ms. LEE. So under AGOA then, African countries can develop their own manufacturing companies—

Ms. LISER. Absolutely.

Ms. LEE [continuing]. Of generic drugs and sell these drugs? Say, South Africa can sell those generics to Botswana?

Ms. LISER. There are certain rules that have to do with how you develop the generics and what has to happen, but basically, yes. Africans are developing their pharmaceutical industries. Kenya is one of the examples. Ghana has a budding pharmaceutical industry.

We are in favor of them developing their own pharmaceutical industries. So—

Ms. LEE. African countries have not resisted?

Ms. LISER. Pardon me?

Ms. LEE. African countries have not resisted this insistence on trips and the language in AGOA, the bill's provisions with regard to generic drugs?

Ms. LISER. I can tell you that from many of the ministers I have spoken to, they support the underlying principles of trips. They have said that they do not want some of these fake drugs that

come in and actually kill African citizens. I have been told that they need some protections.

Ms. LEE. So AGOA's provisions shouldn't be repealed?

Ms. LISER. Should not, no.

Ms. LEE. Okay.

Mr. SMITH. Thank you. We will take a very brief recess. Chairman Royce will be coming back and we will reconvene and then I will come back and Ms. Lee and others. We have two votes, though, and we shouldn't be that long.

Ms. LISER. Okay. Great.

[Recess.]

Mr. ROYCE [presiding]. At the beginning of this year, global textile and apparel quotas were eliminated. This was under a decade-old, multi-fiber agreement and the concern is that now Africa only has the tariff edge in all of this on apparel, which would be about 18 percent in its competition with China and other textile and apparel giants.

There have been dire warnings that orders for African producers will dry up. I have also heard other more positive reports suggesting that Africa is holding on.

I was going to ask you, has African-based apparel production remained competitive? And as an aside, China is now Africa's third largest trading partner. China trades with a different agenda than the rest of the international trading community. For instance, the United States bars companies from doing business with regimes that practice genocide. China in Africa, on the other hand, expresses no qualms about this and China sent, for example, 1 million machetes to the Hutu militia to the consternation of Paul Resses-Begin and other moderate Hutu's who were hoping to calm tensions in Rwanda, but China made its play based on who they thought would succeed there in overtaking the government.

Chinese officials are publicly quoted that they get their contracts by paying bribes to African ministers because "sometimes it is the only way to get things done in Africa," and they explained that they routinely underbid infrastructure projects, because their goal "is to sell military aircraft and commercial aircraft."

So if they underbid the contract, for example, for the communications systems for the airport and such, it puts them in good stead and sets up their opportunities for the military aircraft sale.

Most recently, this is from *Aviation Week & Space Technology*, Sudan has obtained 34 new fighter jets from China and their air force is now equipped with 100 million worth of ShiYang fighter planes, including a dozen supersonic F-7 jets.

The state-owned China National Petroleum Corporation owns the largest share in Sudan's largest oil venture it reports. The Sino-Sudanese oil field project covers 50,000 square miles in the southern non-Muslim African region, indigenous region.

Sudanese Government forces, armed with Chinese weapons, because China is the largest arms supplier to Sudan, have used Chinese facilities as a base from which to attack and dislodge southerners in the vicinity of oil fields. Helicopter gun ships deployed in attacks on civilians are Chinese-made. They are based at air strips controlled by Chinese oil companies.

Chinese oil corporations, roads, and air strips were used to conduct bombing raids on Sudanese villages and hospitals. According to one NGO, China is complicit in scorched earth policies.

I had an opportunity with some of my colleagues to go into Sudan, not with a Visa, but over the border from Chad and to see one of the villages bombed from the air, and I had the opportunity also to talk to a youngster who had lost an arm to the Janjaweed horsemen. They drew me pictures of the attack helicopter planes attacking their village. One of the interesting aspects of China's diplomacy in Africa is it is based principally on selling the idea that we are approaching your government, especially if it is a pariah state, with a different deal than what the rest of the international community offers, because what they are trying to do is leverage human rights reforms toward democracy and toward labor rights.

Now China says, "We respect your way of doing business. We agree with the big man principle. We want one guy to deal with and we are happy to make payments into bank accounts for your ministers in exchange for sole sourcing your raw materials, but we urge you not to set up a court system, not to bring the rule of law. It will look better, it will look better if you resist the pressure from the rest of the international community and instead develop a special relationship to sole source your raw materials into China."

So it is true that China offers an agreement where they say we are not going to try to change your system, but it frequently does that with pariah regimes, the very regimes that we by law, in 1997 as I recall was when we passed the act in Sudan, which we no longer allowed our companies to go in, because of concerns that they would provide the resources to allow the National Islamic Front Government, which had seized control of the country, to participate in their genocidal acts.

That is a far cry from a regime that in fact sells machetes to the Hutu militia or sells attack aircraft and bombers to the Sudanese Government.

In light of these considerations, I thought I would ask you what your thoughts are on these issues, the lifting of quotas and the impact of China's growing commercial activities in Africa? If you could answer that.

Ms. LISER. Thank you, Congressman Royce. We share, I think, in the Administration also concerns about these two issues you have raised, looking very carefully at them.

On the first issue of the end of the multi-fiber arrangement and the impact that that has had on the Africans, it is a mixed story, but it is also a story that is still evolving and I would urge everyone to give it a little time before we conclude which way it has gone.

For example, probably 6 months before the end of the MFA, there were predictions that Africa would have lost all of its orders and that imports into the United States would have plummeted. What we have found actually, is that in fact there have been some declines in their exports of apparel to the U.S., but that some countries have had big increases.

Namibia's exports to the United States are going up, but Marishi's is going down. And then even, for example, in a country like Tanzania, they had two factories that were producing apparel.

One of them has closed down. The assumption you would make with that closure is that Tanzania's exports to the United States of apparel would have also declined, but in fact, it has gone up.

So we have to look very carefully at all of the information so that we can come up with the right answers.

Another thing is, the Minister of Kenya mentioned, for example, that they had factories that had been closing. Apparel factors that had been closing in Kenya, but it actually had nothing to do with the end of the MFA and everything to do with the end of their 10-year tax holiday. They decided that they were not going to re-up the tax holiday and so a number of these businesses moved to other African countries.

So I am just saying that the news is mixed. At the end of 2004, the Africans had 2.7 percent of the United States import apparel market. In the first 6 months of this year, they have 2.4 percent.

It is down slightly, but I think that the thing that we are encouraging, let me just say what we are encouraging, is we are trying to get them to accelerate their vertical integration of their cotton to yarn, to textiles, to the apparel value chain.

We think that their chances of being competitive against China, as well as some of the other Asians, will depend on how well they can vertically integrate their industries. We are looking at that and trying to work with them on that issue.

On the issue of China, apparently China has a range of goals and policies in Africa. Some of them coincide with our own goals and then some of them probably do not, as you were indicating.

But there are also, within China, conflicting signals that go on. On the one hand, they have very strong commercial interests. They are exporting their products to everybody. They are displacing African products, including African textiles within Africa.

At the same time, they are presenting themselves as a friend of Africa. They build roads for them, hospitals. They invest in infrastructure projects that others would not.

I only mention this because I think that if we view this as sort of a cohesive monolithic policy that they have, I think we might miss some of the important nuances of it. And what I am pleased about, frankly, in my discussions with the Africans is that they are sophisticated enough themselves now to see that there is a two-edged sword, maybe it is even more than two edges, but they recognize that while China is investing there and building roads, that China is also the source of some problems that they have.

In terms of the governance issues and so forth, we are ourselves right now undertaking an interagency review of what is actually happening on the ground and we will probably, as we move forward, determine whether or not the United States will have to, itself, develop some policies to counter some of what we are seeing in Africa, vis-a-vis the Chinese.

Mr. ROYCE. We are forging a new relationship with China under Secretary Zowiks and he is leading this. He is, I think, uniquely sensitive to Africans and their viewpoint.

I am wondering, is he considering China's role in Africa as part of that United States-China relationship? The reason I say that is because when we were in Congo, when we were in the Republic of

Congo and in the DRC, we heard from NGOs that China was buying vast tracts of forest.

As you know, I and others were involved in passage of the Congo Based Forest Partnership Act to try to set aside a series of national parks across West Africa.

China is going in and with certain ministers making arrangements and then clearcutting the timber, removing the forests and with it the indigenous species that existed there. I mean the black rhino, the bonobo chimps, certain mountain gorillas are all at risk as a consequence of these policies in which China is not at least expressing the same level of concern that the rest of the international community is.

I thought I would ask you about Zowiks' intent there.

Ms. LISER. I don't actually know Deputy Secretary Zowiks' intent there. I do know that there is indeed an interagency review and discussion of some of these policies that you have mentioned in Africa, vis-a-vis China.

I would also say though that we note, and the Africans have noted, that the Chinese are very much there when it comes to extractive industries, mining, petroleum, and then also some of these larger forestry projects that you are talking about. I think that they are beginning the process of weighing those carefully. The benefits, because there are some benefits to these things, but also weighing those benefits against some of the potential detrimental impacts.

Mr. ROYCE. My last question, would you please respond on the question that we have heard from some of the opening statements that AGOA hasn't aided women?

The reason I ask you is because—

Ms. LISER. Has not?

Mr. ROYCE [continuing]. In Madagascar I remember sitting down with the Peace Corps volunteers there and them expressing to me that for the first time, you know, how empowering it was for the women that they knew that had taken on these jobs in the apparel industry, what a remarkable difference it was in liberating people, and this was from their perspective.

I had heard the same thing across the Continent of Africa, as I talked to Peace Corps volunteers and of course the workers themselves, but what I wanted to get was the perspective the people working, the NGOs working with people in these towns and in these rural areas to see their read on this.

It is kind of a reciprocal of the questions that some of the critics asked. I am sure there are compliance issues that we have got to be diligent about, but at the same time I think the overall assumption is that employment opportunities for women aren't benefitting women in Africa. I wanted to ask you about that.

Ms. LISER. Thank you. I am not sure sort of what the foundation of that is. I know that I personally have been in many of the AGOA-eligible countries, and those which have factories, not just actually apparel factories, but I have been in a number of them as well.

What I see is that there are thousands and thousands of African women who are in these various factories. I mean, you know, in the cut flowers industry in Kenya, if you are looking at the people who

are involved in the vanilla processing in Uganda. It is just across a wide range of sectors. You see a lot of women that are employed.

I gather that what is happening is that women are moving in some cases from the informal sector into the formal sector, so they are in factories and in processing plants and so forth, and perhaps the concerns that have been expressed have to do with more of the labor rights. But the economic benefits, clearly, of being able to have those kinds of jobs and the secondary benefits to their families, their children, women have told me that they have been able to pay the school fees for their children to go to school and only because now they have this employment.

Again, I would just say that given that most of the small businesses in Africa—and they constitute the majority of Africa's businesses—are women-owned, I think I would find it hard to believe that they are not benefitting from increased trade, whether it is trade with us under AGOA or trade with anyone else.

Mr. ROYCE. Thank you. Thank you, Mr. Chairman.

Mr. SMITH. Very briefly, Mr. Sherman, if you could, because we are almost out of time. There is another hearing coming here and we have an excellent panel.

Mr. SHERMAN. Okay. I will try to do less than 5 minutes.

Mr. SMITH. If you—

Mr. SHERMAN. Less than 4 minutes.

Mr. SMITH. If you could just go a minute, if you wouldn't mind.

Mr. SHERMAN. I want to pick up what Mr. Royce said. It is tragic that China has accessed our markets without that being contingent on Chinese behavior.

As a result, there is genocide in Sudan, in part as a result of Chinese behavior. North Korea still has nuclear weapons and is subsidized by China in spite of the press releases that promise that somehow those nuclear weapons are going to be dismantled and, of course, we lose millions and millions of jobs.

The American people are basically asleep. They won't force a change in this policy until there is either an economic catastrophe or a national security catastrophe in the United States.

When that happens, they will learn that there was just too much corporate power demanding the enormous profits that can be obtained by making things for 50 cents an hour and selling them at high prices in the United States.

When the American people wake up, they will know how much of the blame belongs right here in Washington and in Congress.

I was going to ask the Trade Representative about our trade balance with sub-Saharan Africa and what steps you are taking to help American workers get jobs.

Do we have a positive or negative trade balance with sub-Saharan Africa?

Ms. LISER. We have a negative trade balance.

Mr. SHERMAN. How much is that?

Ms. LISER. Let us see.

Mr. SHERMAN. Excuse me.

Ms. LISER. I know the export numbers, but I don't have the actual balance number.

Mr. SHERMAN. You have, in effect, answered my question. We have got a USTR's office that is utterly disinterested in the trade

deficit we have with every part of the world, sub-Saharan Africa just being part of it.

In every other capital, they know how large their surplus or deficit is. And the number one goal of their trade representative is to run a trade surplus with every part of the world.

For us, running a trade surplus or at least eliminating the deficit is a minor consideration. Everybody I have ever talked to at USTR has reinforced that, and that will be why we have the economic catastrophe that I think we will have some time next decade.

I yield back.

Mr. SMITH. I thank my friend for yielding back.

I want to thank Ms. Liser again for your tremendous testimony and for your good work. I look forward to working with you as you go forward.

Ms. LISER. Thank you.

Mr. SMITH. I would now like to ask our second panel to make their way to the witness table, and for purposes of time, without objection, will put your full resumes, which are very distinguished and extensive, into the record.

[The information referred to follows:]

#### WITNESS BIOS

##### *Florizelle (Florie) Liser*

Florie Liser is the Assistant U.S. Trade Representative for Africa in the Office of the United States Trade Representative. In this position, she leads U.S. trade efforts in sub-Saharan Africa, oversees implementation of the African Growth and Opportunity Act (AGOA), and serves as chief U.S. negotiator for a free trade agreement with the five member countries of the Southern African Customs Union. She previously served as Assistant U.S. Trade Representative for Industry, Market Access, and Telecommunications. Previously, Ms. Liser worked at the Department of Transportation and served as senior trade policy advisor to the Secretary in the Office of International Transportation and Trade. In this capacity, Ms. Liser coordinated trade and transportation issues of importance to developing countries, with a particular focus on Africa.

##### *Stephen Hayes*

Stephen Hayes serves as President and CEO of the Corporate Council on Africa. Immediately prior to joining CCA, Mr. Hayes worked with Lugano-based Winnington Limited, a privately owned holding company. During this time, Mr. Hayes also worked with the firm of Cohen & Woods International, Inc. In 1985, with foundation and corporate funding, Mr. Hayes founded the American Center for International Leadership before leading ACIL. Mr. Hayes served as International Program Director for American Field Service International/ Intercultural Programs. Mr. Hayes has received awards numerous including the Ugandan YMCA award for his work with refugees and the humanitarian award from the Transnet Foundation.

##### *Sarah Wykes*

Sarah Wykes is a senior campaigner for Global Witness working on issues of corruption and mismanagement surrounding oil, gas and mining revenues, with a research focus on Sub-Saharan Africa. Prior to joining Global Witness, she worked for the Amnesty International UK Business Group. Before joining AIUK, she worked for Oxfam in the UK and also for the Business and Human Rights Resource Centre. Before entering the NGO world, she worked as an academic at the University of London in the field of Hispanic and French Studies. She has an undergraduate degree from Cambridge University and an MA and PhD from the University of London.

##### *Robert C. Baugh*

In January 2003 Bob Baugh was appointed as the first Executive Director of the AFL-CIO Industrial Union Council. The Council, chaired by AFL-CIO Secretary-Treasurer Richard Trumka. He has been a union organizer, an economist, labor educator and a three term Secretary-Treasurer of the Oregon AFL-CIO. Bob moved to Washington DC in 1993 to work for the AFL-CIO Working for America Institute

where he co-authored guides on Workplace Change, Economic Development and High Road Partnerships. He has worked as a facilitator, consultant and trainer for numerous manufacturing unions, joint labor-management programs and government organizations.

*Dr. Daniel Karanja*

Dr. Daniel Karanja is a Senior Fellow with the Partnership to Cut Hunger and Poverty in Africa. Dr. Karanja is the Partnership's Co-Chair of the Working Group on Capacity Building in Science and Technology and hosts a seminar series for Washington-based African ambassadors on agricultural science, technology and trade. He also leads the Partnership's work on strengthening U.S.-Africa agricultural trade and capacity building, including aspects related to the U.S. Africa Growth and Opportunity Act (AGOA). Prior to joining the Partnership in October 2003, Dr. Karanja worked as an international agriculture policy analyst with Bread for the World Institute, Washington, D.C. Dr. Karanja has also worked with the Kenya Agricultural Research Institute for more than 15 years.

Mr. SMITH. But just for brief introduction purposes, beginning with Stephen Hayes, who serves as President and CEO of the Corporate Council on Africa.

Then Sarah Wykes, who is the Senior Campaigner for Global Witness working on issues of corruption and mismanagement surrounding oil, gas, and mining revenues, with research focus on sub-Saharan Africa. She has worked for Amnesty UK in the past.

Robert Baugh, who is the Executive Director of the AFL-CIO Industrial Union Council and, like our other witnesses, has a very extensive background in this work.

Then Dr. Daniel Karanja, who is a Senior Fellow with the Partnership to Cut Hunger and Poverty in Africa.

I again look forward to your testimonies. Let me begin with Mr. Hayes.

**STATEMENT OF MR. STEVE HAYES, PRESIDENT, CORPORATE COUNCIL ON AFRICA**

Mr. HAYES. Thank you, Mr. Chairman. It is an honor to be with you here today to discuss the progression of the Africa Growth and Opportunity Act (AGOA) and to share views on its future.

I find myself in agreement with Congressman Royce in saying that I think AGOA has been a resounding success to date in many areas, and I also find myself very much in agreement with Congressman Payne and Congressman Meeks and Congresswoman Lee who feel that more needs to be done.

AGOA clearly is critical to growing and improving the United States trade and I would dare say also the political relationship with Africa.

To date AGOA and the Millennium Challenge Account have been the two most important acts passed and signed into law on behalf of our relationship with the nations of Africa. African countries have realized the significant opportunities presented by AGOA and we have given them a great deal of hope.

Over the course of the past 5 years, AGOA has presented real opportunities for both the United States and African businesses. The figures you already know very well. They are accurate, but I think the increase in trade is praiseworthy.

In a sense, it is remarkable that so much has been accomplished over a short period of time. I think in some ways our timelines have been unrealistically short. I think the relationships need to be given much more longer timelines.

However, I think AGOA alone with its market based approach, which I think is excellent, will not be sufficient to address the economic problems faced by a number of African countries.

The early successes of AGOA have created expectations that will be difficult to maintain without a more comprehensive approach. The continent's divergent needs demand a multifaceted approach to trade and development.

For instance, without adequate infrastructure, development and financing, improved social services delivery, skills, capacity-building, and certainly private sector development and governance reforms, I think that African countries will continue to lag behind in the global economy.

We believe that MCA, now getting underway, will compliment AGOA in addressing many of these needs and we also feel strongly that the Millennium Challenge Act is perhaps one of the best foreign policy programs created and deserves far greater support within Congress, as well as within the U.S. business and NGO communities.

I would like to state that any concerns about the full effectiveness of AGOA are in no way a criticism of the U.S. Administration or the crafters of the legislation who worked tirelessly to improve United States-Africa trade.

Rather, it is a testament to AGOA's success and a pivotal force. It is to addressing Africa's trade challenges that we must honestly examine why AGOA has not been as effective in all eligible countries and assess what more can be done to improve the impact of AGOA and other measures to enhance our relationship with Africa.

You have seen the written testimony, but basically we think that trade and investment promotion and diversification is important and needs to be strengthened.

Certainly energy-related products have taken a big part of that. Apparel has taken a big part of that. We need to put far more emphasis on diversification and particularly agriculture.

Every country in Africa cannot produce textiles and apparel. They can produce agriculture and we need to be open for that. We also would praise Senator Lugar's step in calling for a reduction of agricultural subsidies.

We also believe that the improvement of investment climate needs to be taken and that is we simply have not diversified U.S. investment. Ten AGOA-eligible countries or 20 percent of the countries had AGOA exports of less than \$1 million dollars U.S. in 2004.

The apparel export successes of eight countries is threatened by Asian competition, as your colleagues have stated.

We also believe that the Millennium Challenge Act and AGOA can greatly assist particularly groups of countries in raising the current levels of trade in FDI, but especially we are encouraged also that infrastructure and trade capacity are a part of MCA.

We also believe that adopting a multifaceted approach to Africa's developing needs is essential. We need to objectively assess the growth areas of AGOA and work toward helping more countries develop their capacity to better take advantage of AGOA.

We also need to encourage greater domestic awareness of AGOA within the United States. We believe that AGOA could have and

should be an opportunity for investment by U.S. businesses, that they simply have not taken advantage of the opportunities presented by AGOA, and we need to press that more directly, certainly by our own organization as well as by other means.

We believe we can compete with China and we need to have more United States companies invested in Africa. The U.S. Government should continue efforts to support and meet debt relief targets established through GA, and we also believe successful completion of the Doha round of WTO trade negotiations will improve the framework for poor countries.

Specific recommendations for U.S. stakeholders would include: Continuing to support the implementation of global trade policy reform; identifying and implementing more public/private partnerships, we think that government and private sectors can work more closely together in order to be supportive of Africa's needs and ultimately we think that helps our needs; identifying and investing in value-added industries in Africa, including training for these industries and linking United States small businesses in partnership and in training with Africa's emerging entrepreneurs.

No country in the world has greater knowledge of small business development than the United States. Eighty-five percent of our workforce is through small businesses. Why not use that advantage to link what Africa needs most in the development of small businesses? I think there are creative ways that we can build that.

Specific recommendations for African counterparts include: Recruiting investment and promoting trade through good governance, particularly extending governance to integrate community, national, and regional trading systems; focusing on more public/private partnerships to promote economic growth; certainly concentrating on the value-added industries into the supply chains and reducing the amount of red tape and bureaucratic control by government ministries over any new private sector business development, thus giving citizens far greater freedom and opportunity to create new businesses and develop new ideas.

Certainly, in conclusion, the growth in the energy sector is welcome. It increases the amount of foreign exchange available to government. Oversight must be instituted to ensure that this growth is equitably distributed through the African countries benefitting from the current boom in oil.

For our national and global assistance to register a significant effect, we have to focus on harnessing our energies and resources to help develop African manufacturing and human resource capacity, otherwise I think all the fine intentions of our finest laws will fail.

To that extent, if AGOA and programs build partnerships with U.S. businesses, especially small businesses, we strengthen our own economy and our own communities throughout this country.

Over the coming months, the rest of us will face some critical questions on AGOA, such as the third country input benefits, which are to expire in September 2007. I think we need to look at that and the effects it has on countries such as Mauritius.

But the reverberating message is that diversification beyond apparel will be a central factor over the coming 2 years and longer, and I think we really need to work on how we improve that diversification and develop the relationships, strengthen it, because we

feel that Africa is absolutely critical to the success and the future of the United States. We need to put more attention to that relationship.

Thank you, Honorable Chairman and the Subcommittee, for the opportunity to be here. Thank you.

[The prepared statement of Mr. Hayes follows:]

PREPARED STATEMENT OF MR. STEVE HAYES, PRESIDENT, CORPORATE COUNCIL ON AFRICA

Mr. Chairman,  
Distinguished Members of the Committee,  
Distinguished Guests:

INTRODUCTION

It is an honor to be with you today to discuss the progression of the African Growth and Opportunity Act and to share my views on its future. As President of the Corporate Council on Africa, I look forward to sharing some U.S. private sector perspectives on the best ways to use AGOA to help grow and extend the U.S.-Africa trade relationship.

AGOA is a critical to growing and improving the United States' trade relationship with Africa. To date, AGOA and the Millennium Challenge Account (MCA) are the two most important acts ever passed and signed into law on behalf of our relationship with the nations of Africa. African countries realize the tremendous opportunities presented by AGOA and are working to seek ways to use AGOA to grow their trade with the U.S. Over the course of the past five years, AGOA has presented real opportunities for both United States and African businesses. Total AGOA imports were US\$ 26.6 billion in 2004, representing an 88 percent increase from the year before. Excluding petroleum and related products, AGOA imports were valued at US\$ 3.5 billion in 2004, representing a 22 percent increase from 2003. This increase is both significant and praiseworthy.

It is remarkable that so much has been accomplished over such a short period of time; however, AGOA alone with its market-based approach will not be sufficient to address the economic problems faced by a number of African countries. But AGOA is not a panacea. The continent's divergent needs demand a multi-faceted approach to development. Without adequate infrastructure development, improved social services delivery, skills capacity building, private sector development, and governance reforms, African countries will continue to lag behind in the global economy. CCA believes that the MCA, now getting underway, will complement AGOA in addressing many of these needs.

It should be clear that any concerns about the full effectiveness of AGOA are in no way a criticism of any U.S. administration nor of the original crafters of the legislation who worked tirelessly to enact legislation to improve U.S.-Africa trade. It is to the lawmakers' credit that we are able to account for AGOA's successes today. It is, and will remain pivotal to addressing Africa's greater challenges; however, we must honestly examine why AGOA has not been effective for all eligible countries and assess what can be done to improve the impact of the law and enhance Africa's trade opportunities with the United States. To do so we must be as realistic about the challenges to AGOA as some have about the legislation's successes.

OVERVIEW OF KEY AGOA CHALLENGES

*Textile and Apparel Industry*

Despite AGOA and improvements to it, the scope and diversity of the products exported to the U.S. remains limited. The export benefits of AGOA have made apparel investment one of the fastest growing sectors. Unfortunately, the advantage that countries have acquired in apparel production by becoming AGOA eligible is largely disappearing with the January 1, 2005 expiration of the Multi-fiber Agreement (MFA).

The MFA (also known as the Agreement on Textiles and Clothing), which governs textiles and apparel imports to the United States and the European Union through a system of quotas, limited imports to countries where domestic textile and apparel industries were facing serious damage from rapidly growing foreign imports. With the expiration of the MFA, apparel producing states now face stronger competition from large-scale apparel exporting states such as China and India. At the same time, cheap Chinese exports to Africa are also damaging local apparel production.

The positive impact of this new challenge is that it has led both U.S. and African stakeholders back to the drawing board to consider and derive export strategies for eligible African countries which focus on diversification, technical assistance training, more effective exploitation of comparative advantages, and the growth of niche market sectors.

The Office of the United States Trade Representative issued the July 2005 *African Growth and Opportunity Act Competitiveness Report* in part to help to address the challenges to AGOA brought about by the expiration of the MFA. The report is commendable in that it provides a country by country analysis of the sectors that possess the greatest potential for export growth, identifies domestic and international barriers to growth in the targeted sectors, and makes recommendations on how the U.S. government and the private sector can provide technical assistance to assist in dismantling such barriers and promote investment into these sectors.

#### *Trade and Investment Promotion*

CCA believes that in order for AGOA to remain relevant and to continue to drive export-oriented growth in the post-MFA context, there needs to be a concerted push to promote U.S. private sector investment in Africa. U.S. investment has not reached levels that were generally anticipated in 2000. This is in part due to the challenge posed by Africa's negative perception as well as to the reality of poor conditions for doing business in number of African countries. Neither the U.S. nor the countries of Africa will benefit from AGOA to the extent possible until we address these conditions.

CCA's experiences are testament to the significant hurdles that must be overcome if we are to convince U.S. businesses to invest in Africa. In the run-up to the Corporate Council on Africa's 2005 U.S.-Africa Business Summit, CCA sent staff to 28 cities across the United States to promote both the Summit and Africa's innumerable trade and investment opportunities. Our experience has taught us that beyond the Washington, DC, Baltimore, and New York region, there exists little awareness of the opportunities for U.S. business engagement with Africa. This presents a challenge to my own organization's mission of promoting U.S. private sector engagement in Africa and to the United States government mandate of promoting U.S. trade with Africa through AGOA. Compounding this problem, few if any institutions in the governmental or private sector have adequately promoted AGOA as an investment tool in Africa for U.S. businesses. Collectively, we need to work to spread the message and value of AGOA to our own economy.

#### *Improving Investment Climate*

In order to meaningfully address AGOA's challenges it is necessary to segment our analysis of this growth. Ten AGOA eligible countries (or 27 percent of all eligible countries) had AGOA exports of less than US\$ 1 million in 2004, namely Benin (US\$ 215, 000), The Gambia (US\$ 21,000), Guinea (US\$ 89,000), Mali (US\$ 202,000), Niger (US\$ 72,000), Sao Tome and Principe (US\$ 86,000), Senegal (US\$ 518,000), Sierra Leone (US\$ 351, 000), Djibouti (US\$ 63, 000), Rwanda (US\$ 67,000), and Seychelles (US\$ 3,000) and are yet to take full advantage of AGOA benefits.

The apparel export successes of eight countries (or 22 percent of all eligible countries) namely Kenya (US\$ 287 million), Tanzania (US\$ 3.6 million), Botswana (US\$ 20 million), Lesotho (US\$ 448 million), Madagascar (US\$ 317 million), Malawi (US\$ 64 million), Mauritius (US\$ 161 million), Namibia (US\$ 161 million), and Swaziland (US\$ 177 million) is threatened by growing Asian competition. It is therefore no surprise that collectively, these eighteen countries have been the most active in trying to reach out to the U.S. private and public sector communities over the course of the current year.

Summary AGOA growth assessment:

- SSA exports to the U.S. under AGOA plus GSP, have grown by 72 percent over the past three years to US\$ 26.6 billion in 2004
- Energy and related products exports represent the majority of AGOA growth, expanding by 84 percent from 2002–2004 to US\$23 billion
- Non-oil AGOA export growth is more moderate at 27.2 percent over the period 2002–2004, reaching US\$3.5 billion in 2004
- Diversification is a major challenge, with the majority of AGOA export growth centered in resource-extractive industries and apparel
- African countries need assistance to help grow AGOA agriculture products exports to the U.S.
- There has been little diversified U.S. investment into African manufacturing sectors under AGOA

In September 2005, the Corporate Council on Africa hosted meetings for the Presidents of Namibia, Sierra Leone, and Djibouti to help these countries build their connections with the U.S. private sector and to seek out new opportunities for expanding their trade with the U.S. CCA is also planning a series of trade missions to Tunisia and Libya, Mozambique and Tanzania, Botswana and Namibia, Zambia and Malawi, and Cameroon and Equatorial Guinea for the fall of 2005. While we are hopeful that these trade missions will bear fruit, the obstacles to raising U.S. investment in Africa present continuous challenges.

The U.S. Trade Representative office is to be commended as its *African Growth and Opportunity Act Competitiveness Report* addresses a number of these challenges in its technical assistance recommendations which include: developing and implementing sound government policies, improving customs procedures, enforcement and trade facilitation, improving technical standards and regulations, improving commercial law legislation and enforcement, removing trade policy barriers to intraregional trade, developing and improving transportation infrastructure, developing and improving energy and communications infrastructure, improving agricultural trade support infrastructure, improving business management skills, promoting international business linkages, collecting, analyzing, and disseminating market information, strengthening scientific capacity to facilitate economic competitiveness in agriculture, meeting global market standards, strengthening the financial sector, and facilitating access to finance.

While each of these recommendations is essential for improving the African trade and investment climate, they create a challenging working agenda for both United States and African counterparts. We can use the USTR recommendation, by deliberately promoting trade and investment opportunities currently present in Africa and engaging the individual states in the process here at home. CCA proposes greater outreach to state Chambers of Commerce, AGOA-training and education services with interested businesses and business and trade organizations, and the formation of state-specific AGOA coalitions. The specific African countries we are targeting to grow our trade relationship do not necessarily possess the resources and capacity to engage the United States at the national level. African countries can partner with us in this effort by setting up AGOA training and AGOA coalition activities in their individual countries.

The USAID Trade Competitiveness Hubs have begun working with a number of African countries to develop such initiatives. CCA will play its part in this effort by continuing the city and state outreach started in 2005. Clearly, one of our foremost challenges is to get the message out. According to the International Monetary Fund, African countries offer some of the highest returns on investment in the world. The business climate in a number of African countries is improving.

The U.S. government has demonstrated its confidence in the African commitment to undertake economic reform through granting Millennium Challenge Account eligibility to nine African countries. Two of these countries, Madagascar and Cape Verde, have successfully completed Compact Agreements with the MCC. Each of these compacts is worth US\$ 110 million and will greatly assist these countries to improve conditions for trade. It is my hope that the remaining seven eligible African countries will also realize compact agreements with the MCC. African countries clearly possess significant trade and investment opportunities that are currently under-recognized by U.S. private sector companies.

#### *Additional Trade Improvements*

An additional challenge is finding more ways to invest in and grow U.S.-Africa agricultural trade. From reading the USTR *African Growth and Opportunity Act Competitiveness Report*, I am encouraged by the number of countries that have improved their agricultural exports, particularly in fruits, nuts, and floriculture. As a result of recent successes, some countries have achieved new investment in agricultural processing. The greatest sign of U.S. support will be to place our investment dollars into those sectors demonstrating exceptional growth opportunity. At the same time, it is important to remain aware of the nature of capital movement. A U.S. investor, for example, may not be readily willing to invest in a start-up operation to develop a tannery and downstream leather manufacturing facility in Botswana. As a sector in which Botswana has an identified comparative advantage, Botswana is challenged to invest in and grow the sector with or without U.S. investment. Botswana will need to take initiative and seek out its own funding and partners to develop and test the sector's capacity for production for export. Furthermore those investors currently operating in competitive sectors such as fresh cut flowers must have the business tools and economic incentives that will encourage them to maintain and grow their operations.

The U.S. government has a decisive role to play in helping African exporters comprehend and implement United States Department of Agriculture (USDA) Animal and Plant and Health Inspection Service requirements. Continuing to meet this challenge will result in more African agricultural products gaining access to the U.S. market. Almost every eligible African country stands to benefit from such an improvement. While AGOA qualifies an extensive range of processed or value-added agricultural products for export to the U.S. market, African countries do not as yet possess the production capacity and technical preparedness to capitalize on the agricultural products exports listed under AGOA. CCA was encouraged by Agricultural Secretary Mike Johanns' and the Administration's commitment at the 2005 AGOA Ministerial Forum to develop greater U.S. technical assistance support in this vital area. We are also encouraged and thankful for USDA's support for the CCA Agricultural Task Force and hope that we can continue to work towards our goal of improving agricultural trade between the U.S. and Africa.

Summary of key challenges to be addressed by AGOA eligible African countries:

- Implement development-oriented economic and social policies to help grow infrastructure, services (telecommunications, water and sanitation, public health, transportation etc), that will in turn help to grow business and investment
- Address regional stability through support for peace-keeping operations and regional mediation in conflict resolution
- Improve regional market integration, particularly of communications and transportation networks which, currently hinder regional trade efficiencies
- Lower micro-economic costs, such as the costs associated with starting and running a business
- Address issues of corruption and lessen the role of government involvement in the private sector
- Governments and private sector companies should work on developing public-private partnerships to address key issues such as capacity building, infrastructure development, public-health awareness, and skills development and training
- Provision of small business services; training, finance, and development support that will support entrepreneurship and enhance growth

#### THE IMPORTANCE OF CONTINUED PARTNERSHIP

It is imperative for us to keep the communication channels among all the key players and participants open. The Annual AGOA Forum is central to continuing that dialogue. The Private Sector Forum, in turn, is necessary to ensure that U.S. and African private sector needs are heard by public representatives. CCA co-chaired the Fourth Annual AGOA Private Sector Forum in Dakar Senegal, together with the African Business Roundtable, and the National Agency for the Promotion of Investments and Major Projects in Senegal. The Whitaker Group served as this year's Private Sector Forum Secretariat and co-chair. CCA's Board of Directors has not hesitated in the past to support our commitment to AGOA. At the same time, as this year's Private Sector Forum organizers and our fellow co-chairs will recognize, maintaining the attention of the U.S. private sector continues to present a significant challenge.

#### *Private Sector Support*

The U.S. private sector is largely results-driven. One of CCA's immediate challenges is to keep AGOA's development pertinent to its membership. A CCA member conference call following the Dakar forum raised questions of how can AGOA benefits can be made more relevant to U.S. private sector companies. Our common challenge is to address this question. As President of the largest organization representing U.S. private sector interests in Africa, I believe that U.S. private sector investment has a central role to play in growing the U.S. trade relationship with the countries of Africa.

One way that CCA as an organization is taking on this challenge is through our task forces, namely, the Task Force on Finance and Capital Flows, the Agriculture Task Force, and the HIV/Aids Task Force. We will also announce this month the formation of a Small Business Development Task Force. Through the task forces, comprised of not only CCA corporate members, but representatives from the public and intergovernmental sectors as well, we hope to extend our outreach to the private sector community and begin to engage U.S. businesses more robustly on the challenges of improving finance and capital flows to Africa. With our agricultural task force, we hope that we can elevate the importance of the agricultural trade re-

lationship with Africa by placing our human and financial resources behind this important initiative. CCA is challenged to produce results in these areas to justify the investments of our membership. Our small business task force will attempt to link the U.S. small business sector with the development of the small business sector in Africa; for we believe that the development of small business in Africa is essential to Africa's overall economic and social development.

The Corporate Council on Africa remains committed to AGOA's continued success. To that end, we will continue to use those avenues at our disposal to raise awareness of AGOA-related opportunities. At our June 2005 U.S.-Africa Business Summit in Baltimore, roughly 14 of our 51 Summit workshops touched specifically on AGOA. CCA presented a synthesis of the key findings of these workshops to private sector participants in Dakar, Senegal. Recommendations for U.S. stakeholders include:

- continuing to support the implementation of global trade policy reform
- identifying and implementing public-private partnerships
- identifying and investing in value-added industries in Africa, including training for these industries

Recommendations for African counterparts include:

- recruiting investment and promoting trade through good governance, particularly extending governance to integrate community, national, and regional trading systems
- focusing on public-private partnerships to promote economic growth
- building more value-added industries into supply chains

CCA also authored the report on the key findings of the AGOA Private Sector on behalf of the AGOA 3 Action Committee. Our goal was to ensure continuity between the two events. We will continue to use future partnership opportunities to draw attention to these issues.

Summary of key next steps to help grow AGOA:

- Objectively assess the growth areas of AGOA and work towards helping more countries develop the capacity to better take advantage of AGOA
- Encourage greater domestic awareness of AGOA and assist U.S. FDI flows to Africa
- U.S. development assistance initiatives such as the Millennium Challenge Account can greatly assist African countries in improving the domestic conditions for private sector investment
- USTR, USAID, USTDA and related institutions and organizations can greatly enhance technical assistance levels for training and standards compliance, particularly in the agriculture sector
- The U.S. government should continue efforts to support and meet debt relief targets established through the recent G8 meetings
- Enabling African export diversification will help improve the stability of export earnings, reduce the risks surrounding investment, and deepen linkages, skills, and technological capacity, thereby boosting overall African export productivity

#### CONCLUSION

Over the coming months Congress—and the rest of us—will face some critical questions on AGOA. Third country input benefits for lesser developed countries are set to expire in September 2007. Mauritius may likely lose its third-country fabric input benefits. This is a complicated area. There are arguments that Mauritius, for example, will not be able to sustain its apparel competitiveness without the current provisions covering third-country fabric input benefits. At the same time, there is a sense that the lesser developed African countries need to graduate to a level of greater regional self-sufficiency by seeking out opportunities for local fabric and input sourcing to help ensure longer-term sustainability. A short-term solution may be to extend Mauritius' status through to 2007, allowing the country more time to develop and implement greater regional sourcing efficiencies. The reverberating message is that *diversification beyond apparel will be a central factor over the coming two years.*

Greater U.S. investment into the agriculture, finance, information and communications technology, and public health sectors can assist the progression of African countries towards export diversification. The USTR *African Growth and Opportunity Act Competitiveness Report* offers a starting point in that it identifies country-specific sectors for attention and investment. The next step is to follow through on the

recommendations, encourage and support industrial feasibility and assessment analysis through key U.S. organizations such as USTDA and USAID, invest in training support, and stand in as willing partners to those African countries that have demonstrated commitment to meeting the current challenges.

Going forward, it will be important to set milestones. AGOA terms of trade build an important competitive advantage into a variety of African industries. Now that country by country advantages have been identified, the challenge is to spread the message to help ensure that capital begins to flow into these sectors. AGOA is an opportunity. It is an opportunity that the U.S. has presented to the countries of Africa to assist their integration into the U.S. and ultimately, the global market. The opportunity is not exclusive to Africa. There are real opportunities for U.S. businesses. Our common goal is communicating this message more effectively to help the mutual realization of success.

Summary concluding remarks:

- While growth in the energy sector is welcome in that it increases the amount of foreign exchange available to governments, oversight must be instituted to ensure that this growth is equitably distributed throughout the African countries benefiting from the current boom.
- For our (United States) national and global assistance to register a significant effect, we have to focus on harnessing our energies and resources to help develop African manufacturing and human resources capacity.
- CCA will play its part in addressing these challenges by working with the U.S. private and public sectors through the CCA Task Forces on Agriculture, Financing and Capital Flows, Small Business Development, and HIV/Aids
- CCA will also continue to promote the message of U.S. trade and investment opportunities in Africa by sending its staff to meet with chambers of commerce across the United States

Mr. Chairman,

Distinguished Members of the Committee:

CCA will continue to seek out opportunities to expand and grow the U.S.-Africa trade relationship. We will continue to work with our U.S. counterparts in this effort, including the MCC, USAID, and USDA, who have all been valued partners to CCA. We will also work to develop new relationships with strategic organizations such as the World Bank and the African Development Bank, and source their cooperation in helping us to keep Africa at the intersection of U.S. private sector interests. I believe that each of these efforts stand to contribute directly and indirectly to growing the AGOA trade relationship.

I thank the Honorable Chairman of the United States House Committee on International Relations and the Honorable Chairman of the subcommittee on Africa, Global Human Rights and International Operations for affording me the opportunity to address you this afternoon. Thank you all for your attention. I would be happy to answer any questions.

Mr. SMITH. Mr. Hayes, thank you very, very much.

Dr. Wykes.

**STATEMENT OF SARAH WYKES, PH.D., SENIOR CAMPAIGNER,  
GLOBAL WITNESS**

Ms. WYKES. Mr. Chairman, Ranking Member and Members, thank you very much for this opportunity to testify before you on the subject of AGOA.

Global Witness and our partners in the Publish What You Pay Campaign, many of whom are citizens of resource-rich but poor countries in sub-Saharan Africa eligible for trade benefits under AGOA, believe that the high levels of corruption and mismanagement of public revenues for natural resources in these countries are not being given due weight when considering such countries for eligibility under AGOA.

Corruption is a major hindrance to the development of sub-Saharan Africa. It is estimated to cost around 25 percent of Africa's GDP every year and around 20 percent to the cost of goods.

The promotion of stronger institutions can only be beneficial in stimulating investment into the region from the current minimal levels.

AGOA has provided important trade opportunities to African countries, while at the same time establishing a set of eligibility criteria in section 104 that include good governance standards, including a system to combat corruption.

The AGOA Acceleration Act reinforced the good governance provisions in AGOA, including improving transparency, good governance and political accountability. The report further specified that the eligibility criteria should be used to encourage greater transparency with regard to revenues in the natural resource sectors.

Given that natural resource imports comprise at least 85 percent of imports receiving trade benefits under AGOA, it is essential that the eligibility criteria give proper consideration to the serious governance concerns in these sectors.

Promoting natural resource revenue transparency will help to ensure that governments act responsibly in the management of such funds and it would also stimulate the growth of other non-extractive sectors of the economy, such as agriculture, and we believe would reduce poverty. Furthermore, a stable development environment can only be good for U.S. energy security.

We would like to focus in particular, briefly, on two countries that are currently eligible for AGOA, Angola and the Republic of Congo. We believe that their eligibility should be reconsidered, given the extremely poor records of governance, including persistent opacity in the management of natural resource revenues.

According to the 2004 State Department report on Angola, corruption, nontransparent contracting practices, and unfair enforcement of regulatory and tax regimes favored the wealthy and politically influential. Poor governance continued to limit the provision of basic services to many citizens.

The State Department also characterized the government's human rights record as poor and this included unlawful killings, torture, and arbitrary arrest and detention.

In the just published *Corruption Perceptions Index for 2005*, published by Transparency International, Angola is ranked only 151 out of 159 countries surveyed.

Oil is the main source of income for the Angolan Government and with prices at record highs, total revenues for 2005 are estimated at \$6.88 billion. Despite this vast mineral wealth, Angola is one of the world's poorest countries, ranked only 160 out of 177 on the UN's Human Development Index. Most citizens live on less than \$2 per day and at least 45 percent of Angolan children are severely malnourished.

Angola's poor record of governance can clearly be seen in its management of both its oil and diamond wealth. According to IMF reports, between 1997 and 2001, \$8.45 billion dollars of public money was unaccounted for, an average of 23 percent of GDP.

The Angolan Government still has no transparent system for managing its oil money. For example, there is no public information about whether centralization of oil revenues through a central bank has been achieved.

The national oil company, Sonangol, publishes no accounts. There are no published audits, just as no accounts are published to justify budgetary expenditure overall.

At the heart of Angola's poor development record lies the country's huge indebtedness, currently standing at \$9.5 billion or half its GDP. The government continues to seek expensive commercial loans, backed by oil rather than seeking cheaper loans from development banks, which would require a commitment to manage public money more transparently.

The World Bank described the government's oil-backed lending as the core obstacle to the country's development.

The longstanding concerns over transparency and mismanagement in Angola's oil revenue, we think, also extends to the current reconstruction process. We can provide more detail about that.

The Republic of Congo. According to the latest State Department reports, political power remains highly centralized in the Presidency, while the judiciary is subject to political influence, bribery and corruption. The government's human rights record remains poor and the country suffers from impunity and lack of transparency. Congo is ranked 130 out of 159 countries on Transparency International's *Index*.

Oil accounts for around 65 to 70 percent of Congo's income and the country is expected to earn just under \$1.5 billion in oil revenues in 2005, yet Congo remains one of the poorest and most indebted countries in the world. Around 70 percent of the population live under the poverty line and it has an external debt of \$8.57 billion.

The Congolese Government is currently asking the international community for massive debt relief. At the heart of the IMF and World Bank reform programs are measures to bring greater transparency to the management of Congo's oil revenues to ensure they are fully mobilized for sustainable development and poverty reduction.

While we welcome these transparency reforms, analysis of the published data, which Global Witness recently presented to the IMF, reveals little substantive change to the systemic mismanagement and secrecy that has dogged Congo's oil sector to date. In particular, quarterly audits of oil revenue carried out by an independent auditor showed that there was \$300 million of oil revenues more, according to the independent auditors, than appears in Ministry of Finance's own statements for 2004. In short, around one-third of Congo's 2004 oil income appears to be unaccounted for in the budget.

The published data also shows that the national oil company sold Congo's oil for an average of 6 percent below its market value and poor sales terms combined with expensive short-term loans cost the country around 17.5 percent of its income in 2004.

I would just like to mention very briefly that in 2003, \$20 million was lost on below-market-price oil sales to Sphynx UK, which at the time was managed by Mr. Gokana, who was a Special Advisor to the Congolese President and since 2005, he is head of the national oil company and the national oil company continues to sell oils significantly below market prices to Sphynx and other companies managed or controlled by Mr. Gokana.

Despite this clear evidence of serious mismanagement and conflict of interest, the IMF board in August approved the country's progress toward the decision point for major debt relief.

The Publish What You Pay coalition believes that the credibility of multilateral and bilateral donors depends on ensuring that governments' reforms in countries like Congo are properly implemented and result in increased transparency.

Moreover, multilateral donors have a fiduciary responsibility to ensure that the international taxpayers' money supporting their lending is not being channeled to governments whose fiscal systems are characterized by secretiveness and mismanagement.

We believe the U.S. Government bears a similar responsibility toward U.S. taxpayers in terms of ensuring that any form of bilateral non-humanitarian assistance it provides to developing countries, including through preferential trade agreements, promotes good governance and fiscal transparency.

During the next review of AGOA eligibility, we believe that the United States Government should ensure that it is promoting natural resource revenue transparency for the well-being of citizens of African countries, and therefore that resource-rich countries with a clear record of corruption and misappropriation of public revenues should be removed from the list of AGOA-eligible countries.

Thank you very much.

[The prepared statement of Dr. Wykes follows:]

PREPARED STATEMENT OF SARAH WYKES, PH.D., SENIOR CAMPAIGNER, GLOBAL WITNESS

Mr Chairman, Members of the House Committee on International Relations Africa, Global Human Rights and International Operations Subcommittee, thank you for this opportunity to testify before you on the subject of the Africa Growth and Opportunity Act (AGOA).

Global Witness<sup>1</sup> and our partners in the *Publish What You Pay* campaign,<sup>2</sup> many of whom are citizens of resource-rich-but-poor countries in sub-Saharan Africa that are eligible for trade benefits under AGOA, believe that the high levels of corruption and mismanagement of public revenues from natural resources in countries such as Angola, Cameroon, Chad, the Democratic Republic of Congo, Gabon, Guinea Bissau and the Republic of Congo are not being given due weight when considering such countries for eligibility under AGOA.

Corruption is a major hindrance to the development of sub-Saharan Africa. The African Union estimates that corruption costs African economies more than \$148 billion each year, equal to 25% of Africa's GDP, and increases the cost of goods by as much as 20%, to the detriment of investment and development.<sup>3</sup> It would not be costly to the USA to address this problem through its position as a major trading partner,<sup>4</sup> and would have a major effect in spurring the region's development and

<sup>1</sup> Global Witness investigates the links between the exploitation of natural resources and the funding of conflict and corruption. It is non-partisan in all its countries of operation. Global Witness was co-nominated for the 2003 Nobel Peace Prize for its leading work on conflict diamonds and awarded the Gleitsman Foundation prize for international activism in May 2005.

<sup>2</sup> The *Publish What You Pay* campaign was launched in June 2002 and now has more than 270 members worldwide (see [www.publishwhatyoupay.org](http://www.publishwhatyoupay.org)). The coalition believes that revenue transparency is an essential condition for alleviating poverty, promoting just development, improving corporate social responsibility, and reducing corruption in many resource-rich developing countries, and calls for stock market and international accounting rules to require oil, gas and mining companies to disclose their net payments to governments and for all non-humanitarian multilateral and bilateral aid to such countries to be conditional on there being a transparent and functional system of accounting for public revenues.

<sup>3</sup> *Combating Corruption in Africa*, report presented at January 2003 African Union Conference, <http://www.u4.no/helpdesk/helpdesk/queries/queryattach/q44Addisreport.pdf>

<sup>4</sup> See, for instance, *Does Corruption Affect Income Inequality and Poverty?*, by Sanjeev Gupta, Hamid Davoodi and Rosa Alonso-Terme, IMF working paper, 1998.

future stability. The promotion of stronger institutions can only be beneficial in stimulating investment into the region from the current minimal levels.<sup>5</sup>

AGOA has provided important trade opportunities to African countries, while at the same time establishing a set of eligibility criteria in Section 104 of the Act that include good governance standards, including 'a system to combat corruption.' The AGOA Acceleration Act of 2004 reinforced the good governance provisions in AGOA by emphasizing support for the goals of the New Partnership for African Development, 'including improving transparency, good governance, and political accountability.' The report accompanying the AGOA Acceleration Act further specified that the eligibility criteria should be used to 'encourage greater transparency with regard to revenues in the natural resource sectors.'

Given that imports of natural resources comprise at least 85% of imports receiving trade benefits under AGOA, it is essential that the AGOA eligibility criteria give proper consideration to the serious governance concerns in those sectors. In a number of African countries, lack of transparency regarding natural resource revenues facilitates corruption and the misappropriation and misuse of critically needed government funds.

Moreover, promoting natural resource revenue transparency will help to ensure that governments act responsibly in their management of such funds and will create the possibility of open dialogue about the best use of those revenues. In recognition of the fundamental importance of revenue transparency to good governance, the Department of the Treasury recently supported introducing natural resource revenue transparency requirements in World Bank lending to extractive sector projects.

We would like to focus in particular on two countries that are currently eligible for AGOA, Angola and the Republic of Congo. We believe that eligibility for both countries should be reconsidered given their extremely poor records of governance, including persistent opacity in the management of natural resource revenues.

#### ANGOLA

According to the 2004 State Department Report on Angola, '[c]orruption, non-transparent contracting practices, and unfair enforcement of regulatory and tax regimes favored the wealthy and politically influential. Poor governance continued to limit the provision of basic services to most citizens.'<sup>6</sup> The State Department also characterized the government's human rights record as 'poor' and marked by 'serious problems', including unlawful killings, torture, and arbitrary arrest and detention. In its just published Corruption Perceptions Index for 2005, Transparency International ranked Angola only 151 out of 159 countries surveyed.<sup>7</sup>

Oil is the main source of income for the Angolan government and with prices at record highs, total oil revenues for 2005 are estimated at around \$6.88 billion.<sup>8</sup> Despite its vast mineral wealth, Angola remains one of the world's poorest countries, ranked at 160 out of 177 on the UN's Human Development Index.<sup>9</sup> Most Angolan citizens live on less than \$2 per day and at least 45 percent of Angolan children are severely malnourished.<sup>10</sup> Social expenditure has, according to the Economist Intelligence Unit, 'historically [. . .] been shocking low even by regional standards' and in 2005 was set to rise by only 1.5% of GDP.<sup>11</sup>

Angola's poor record of governance can be seen clearly in its management of both oil and diamonds. According to IMF reports, between 1997 and 2001, \$8.45 billion of public money was unaccounted for (an average of 23% of GDP), and the Angolan government still has no transparent system for managing its oil money.<sup>12</sup> For instance, there is no public information about whether centralization of oil revenues through the central bank has been achieved, nor has any audit of the central bank been published, both key recommendations of a study of the upstream oil sector

<sup>5</sup> See 2005 UN World Development Report, <http://www.unctad.org/Templates/webflyer.asp?docid=6087&intItemID=3489&lang=1&mode=downloads>) Africa accounted for under 3% of global FDI inflows, and Sub-Saharan Africa under 2%.

<sup>6</sup> Angola Country Report, 28 February 2005, <http://www.state.gov/g/drl/rls/hrrpt/2004/41587.htm>

<sup>7</sup> See Transparency International Corruption Perceptions Index 2005, [http://www.icgg.org/corruption.cpi\\_2005.html](http://www.icgg.org/corruption.cpi_2005.html)

<sup>8</sup> IMF Country Report for Angola, August 2005, <http://www.imf.org/external/country/cog/index.htm>

<sup>9</sup> See [http://hdr.undp.org/reports/global/2005/pdf/HDR05\\_HDI.pdf](http://hdr.undp.org/reports/global/2005/pdf/HDR05_HDI.pdf)

<sup>10</sup> See IRIN, United Nations News Service, 'Angola: Legacy of war, failed harvests combine to erode security', September 12 2005, [http://www.irinnews.org/report.asp?ReportID=49134&SelectRegion=Southern\\_Africa&SelectCountry=ANGOLA](http://www.irinnews.org/report.asp?ReportID=49134&SelectRegion=Southern_Africa&SelectCountry=ANGOLA)

<sup>11</sup> Economist Intelligence Unit, Angola Country Report, December 2004, p. 18.

<sup>12</sup> See Global Witness, *Time for Transparency*, March 2004, p. 47.

published in 2003, which revealed an overall picture of appalling fiscal laxity.<sup>13</sup> Equally, there are no published audits of the national oil company, Sonangol, nor any publication of Sonangol's accounts, just as no government accounts are produced to justify budgetary expenditure and there is no proper public scrutiny of the expenditure process.

There are similar concerns over lack of transparent and responsible management of Angola's other main source of wealth, diamonds. Despite Angola's membership of the Kimberley Process international diamond certification system, internal controls in the diamond industry in Angola remain extremely weak, providing no assurances of the origin of diamonds mined informally, nor that they are conflict-free. There is also inadequate regular monitoring and auditing of the diamond industry. In addition, according to evidence collected by Angolan and international civil society, government attempts to crack down on the informal sector by forcibly expelling diamond diggers has led to widespread human rights abuses by formal and informal security forces.<sup>14</sup> Accompanying these extensive expulsions is the militarization of the diamond fields in Angola. According to information obtained by Global Witness, large areas are now mined exclusively by the military and their production is systematically smuggled out of the country, bypassing the official Kimberley Process certification system.

At the heart of Angola's poor development record lies the country's huge indebtedness, currently standing at \$9.5bn or half its GDP. The government continues to seek expensive commercial loans backed by oil rather than seeking cheaper loans from development banks which would require a commitment to manage public money more transparently. Oil-backed loans are condemned by the IMF as detrimental to growth and inherently lacking in transparency, since the use of the funds is undisclosed. In the case of Angola, the World Bank has described the government's oil-backed lending as the core obstacle to the country's development.<sup>15</sup>

The long-standing concerns about the lack of fiscal transparency and accountability in Angola now extend to the country's reconstruction process. There has to date been no public scrutiny of either specific reconstruction projects or of the procurement process managed by the National Reconstruction Office, including of projects selected under the terms of the \$2 billion credit line extended to Angola by China. Overall, there has been no public, up-to-date evaluation of Angola's financing needs for reconstruction (estimated at US\$300–500 million in 2002/03 discussions with IMF, Bank and other donors), especially given the huge surplus in both oil production and the oil price increases in 2004, and the over \$4 billion in oil-backed loans arranged during 2004–5.<sup>16</sup>

#### REPUBLIC OF CONGO

According to the latest State Department report on Republic of Congo, political power remains highly centralized in the Presidency while the judiciary is 'subject to political influence, bribery, and corruption'. The report also states that '[t]he Government's human rights record remained poor' and that the country suffers from 'impunity and lack of transparency'.<sup>17</sup>

In terms of corruption, Congo is ranked 130 out of 159 countries by Transparency International.

Oil accounts for around 65–70% of Congo's income and the country is expected to earn just under \$1.5 billion in oil revenues in 2005.<sup>18</sup> Yet Congo is one of the poorest and most indebted countries in the world, with around 70% of the population living under the poverty line and an external debt of \$8.57 billion.<sup>19</sup> The Congolese

<sup>13</sup> See <http://www.angola.org/referenc/reports/oildiagnostic/index.html> and *Time for Transparency*, March 2004.

<sup>14</sup> *Lundas—the stones of death, Angola's deadly diamonds*, by Rafael Marques and Rui Falcao de Campos, March 2005.

<sup>15</sup> See *World Bank Report 29036-AO*, February 16 2005, [http://www-wds.worldbank.org/servlet/WDS\\_IBank\\_Servlet?pcont=details&eid=000090341\\_20050310101310](http://www-wds.worldbank.org/servlet/WDS_IBank_Servlet?pcont=details&eid=000090341_20050310101310)

<sup>16</sup> See Global Witness press release 'Western banks to give huge new loan to Angola in further blow to transparency', 23 September 2005, [http://www.globalwitness.org/press\\_releases/display2.php?id=309](http://www.globalwitness.org/press_releases/display2.php?id=309)

<sup>17</sup> See Republic of Congo Country Report, 28 February 2005, <http://www.state.gov/g/drl/rls/hrrpt/2004/41598.htm>

<sup>18</sup> See *Republic of Congo: Review of Performance Under the Staff-Monitored Program and Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility-Staff Report*, International Monetary Fund, January 10 2005 and [http://www.mefb-cg.org/petrole/certification\\_concordance.htm](http://www.mefb-cg.org/petrole/certification_concordance.htm).

<sup>19</sup> See World Bank Country Report April 2005, <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/CONGOEXTN/0,,menuPK:349223-pagePK:141132-piPK:141107-theSitePK:349199,00.html> and *Republic of*

government is currently asking the international community for massive debt relief. At the heart of the IMF and World Bank reform programme are measures to bring greater transparency to the opaque management of Congo's oil revenues, to ensure that they are fully mobilized for sustainable development and poverty reduction.

Faced with international and domestic pressure to reform, the government has made various declarations of its commitment to increasing oil sector transparency. It has also published a large amount of data on how the national oil company, the Société Nationale des Pétroles du Congo (SNPC), is managing the country's wealth.<sup>20</sup>

*Publish What You Pay* welcomes the oil sector transparency reforms that have been put in place under the IMF/World Bank programme. Yet unfortunately, analysis of the published data which Global Witness recently presented to the IMF reveals little substantive change to the systemic mismanagement and secrecy that has dogged Congo's oil sector to date.<sup>21</sup> In particular, the quarterly audits of oil revenue carried out by an independent auditor appear to show around \$300 million of oil revenues more than the Ministry of Finance's own statements in 2004. In short, around one third of Congo's 2004 oil income appears to be unaccounted for in the budget. Moreover, an independent auditor tasked with reconciling the discrepancies was not given access to bank account information but only to specially prepared statements by the Congolese authorities.<sup>22</sup>

Overall, auditors found SNPC's accounts 'not even auditable', for the third year running, with a significant risk of fraud due to lack of internal controls.<sup>23</sup> The published data also shows that in 2004, the national oil company sold Congo's oil for an average of 6% below its market value. Poor sales terms combined with expensive short-term loans cost Congo \$173 million of its oil revenue (around 17.5%) in 2004.

In 2003, \$20 million was lost on oil sales at below market prices to Sphynx (UK) Ltd. At the time, Sphynx was managed by Denis Gokana, formerly Special Advisor to the Congolese President and since January 2005 Head of the national oil company. Global Witness has seen evidence that sales of oil at significantly below market prices to Sphynx and other companies owned by Gokana continued into 2005.

Despite this clear evidence of serious mismanagement and conflict of interest, in August the IMF Board approved the country's progress towards the decision point for major debt relief by its official creditors (amounting to around two thirds of its total debt).<sup>24</sup> The IMF cited 'a welcome improvement in governance', including 'steps to enhance transparency with regard to oil sector transactions'.<sup>25</sup>

The *Publish What You Pay* Coalition believes that the credibility of multilateral and bilateral donors depends on ensuring that governance reforms in countries like Congo are properly implemented and result in increased transparency: otherwise the public will see donors as involved in mere 'rubberstamp' reform. Moreover, multilateral donors have a fiduciary responsibility to ensure that the international taxpayers' money supporting their lending is not being channelled to governments whose fiscal systems are characterised by secretiveness and mismanagement.

Global Witness and its partners in the US *Publish What You Pay Coalition* believe that the US government bears a similar responsibility towards US taxpayers in terms of ensuring that any form of bilateral non-humanitarian assistance it provides to developing countries, including through preferential trade agreements, promotes good governance and fiscal transparency.

In its annual review of AGOA country eligibility for 2005, the Office of the United States Trade Representative (USTR) had an opportunity to play an important role in addressing the importance of natural resource revenue transparency for good governance in Africa. Angola and the Republic of Congo, plus the other countries men-

*Congo: Review of Performance Under the Staff-Monitored Program and Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility-Staff Report*, International Monetary Fund, January 10 2005.

<sup>20</sup>This includes publication of: quarterly certification of oil revenues by an independent auditor (2003 to Q2 of 2005); annual summaries of financial transactions undertaken by the national oil company (SNPC) on behalf of the government; tables of financial operations by the state; 3 independent audits of SNPC (partial for 1999-2001 and 2002, and complete for 2003); and reconciliations between the quarterly certifications of oil revenue and TOFE by an independent auditor (2003 and 2004). See [http://www.mefb-cg.org/petrole/gouv\\_transp.htm](http://www.mefb-cg.org/petrole/gouv_transp.htm)

<sup>21</sup>Global Witness 'Republic of Congo Transparency Scorecard', 27 July 2005 and Global Witness press release 'Has the IMF dropped the ball on transparency reforms in the Republic of Congo?', 15 August 2005. [http://www.globalwitness.org/press\\_releases/display2.php?id=303](http://www.globalwitness.org/press_releases/display2.php?id=303)

<sup>22</sup>See [http://www.mefb-cg.org/petrole/certification\\_concordance.htm](http://www.mefb-cg.org/petrole/certification_concordance.htm).

<sup>23</sup>See [http://www.mefb-cg.org/petrole/revue\\_etat\\_finsnpc.htm](http://www.mefb-cg.org/petrole/revue_etat_finsnpc.htm)

<sup>24</sup>IMF Heavily Indebted Poor Countries Initiative: Status of Implementation, August 20, 2004, p. 10.

<sup>25</sup>IMF Executive Board Completes First Review Under the Republic of Congo's PRGF Arrangement and Approves US \$11.41 Million Disbursement, IMF Press Release 05/181, 3 August 2005.

tioned above, all of which rank very low on a range of anti-corruption and good governance indices, clearly fail to meet the eligibility criteria established in Section 104 of AGOA and elaborated in the AGOA Acceleration Act. Unfortunately, by allowing Angola and Republic of Congo to remain for another year among those countries that receive benefits under AGOA, USTR enables and appears to condone the corrupt and non-transparent practices of such governments.

During the next review of AGOA eligibility, we believe that the United States government should ensure that it is promoting natural resource revenue transparency for the well-being of the citizens of African countries and therefore that resource rich countries with a clear record of corruption and misappropriation of public revenues should be removed from the list of AGOA eligible countries.

Mr. SMITH. Dr. Wykes, thank you very, very much for your testimony.

Mr. Baugh?

**STATEMENT OF MR. BOB BAUGH, DIRECTOR, INDUSTRIAL UNION COUNCIL, AFL-CIO**

Mr. BAUGH. Thank you, Mr. Chairman. I would like to thank you and the Members of the Subcommittee for the opportunity to testify this morning about the African Growth and Opportunity Act, 5 years into it.

I would also like to say we certainly appreciate the comments of the Chair and Members of the Committee that have really made the important linkage between human rights, labor rights, and the ability to have a sustained economic development that affects the vast majority of the working people in these countries. This is the critical link and element, in our view, toward sustainable economic development.

We recognize the urgency before us and the severity of the challenges faced in sub-Saharan African countries and work closely with our trade union brothers and sisters in Africa to address the intractable poverty, human rights abuses, corruption, and the scourge of HIV/AIDS that they face daily.

Mr. Chairman, I am going to add a couple of comments here that just came last night from our representatives in Africa about Swaziland and I would like to amend this testimony I have submitted to include these, because I think it is very relevant to the discussion we are having here today.

Unfortunately, in our view, AGOA has failed to deliver on its promises and potential. While exports from Africa have grown sharply under AGOA, this increased trade has failed to translate into robust growth, decent jobs and sustainable development for the region.

Meanwhile, widespread unemployment, high poverty rates, low wages and violations of worker rights continue to plague the region and unfortunately, the data from 2005 shows that the concerns we had raised in the past about the likely impact of the phasing out of the textile and apparel quotas were well grounded.

According to a recently released ILO report, Africa has been one of the big losers in the wake of the quota phaseout. Textile and apparel exports to the United States, under AGOA, fell by 25 percent in the first 3 months of 2005, compared to the previous year.

For example, we talked with our unions in Swaziland, and they reported to us that five major employers, Nanex, Welcome Textiles, Taletex, Casumi, Nuli and Konwa, affecting over 10,000 workers, have closed between December 2004 and August 2005.

Other major employers, such as Mistafa Knitwear and Tuntex have partially closed and downsized their workforce.

On the labor front, there is a brand new report from the International Confederation of Free Trade Unions that was just published days ago, the *Annual Survey of Workers' Rights*.

I quote from this report:

“Already crippled by the burden of poverty and the underdevelopment, the African continent carries the added weight of trade union repression. Most African workers struggle to scrape together a living from jobs that generally offer no social protection. The powers that be remain brutal in their repression of trade union rights, responding to attempts to improve to conditions with violent intimidation, arrests and dismissals.

“Collective bargaining continues to be very limited on the continent and the export processing zones developing in the wake of globalism and globalization are simply inflating the scale of exploitation.”

We will make this new report available to the Committee.

One of the things that you made a point of, Mr. Chairman, and a number of the other Members, is that labor rights have to be more than what is written on the paper and they have to be enforceable.

Our representative was in South Africa just the other day and was told by the United States Embassy's regional labor attache that they are going to recommend that the GSP case against Swaziland be dropped.

The reason now and the rationale behind this is Swaziland has adopted a brand new Constitution in July 2005, but the new Constitution is far from being perfect nor is it a protective document for democratic and political and worker rights.

Let me summarize our representative report. It says while King Matswami of Swaziland has signed into law a new national Constitution in July 2005, the document does not protect the rights of the Swazi citizens, nor the rights of workers.

It simply codifies the current practices in Swaziland by rule of royal decree. Although there are provisions in the Constitution which appear to give workers and unions a strong base of rights, trade union leaders have dismissed them as irrelevant so long as the monarch has absolute power to disregard the law, appoint the government, and the authority to declare a state of emergency if there is an action likely to be deemed an endangerment to the public safety.

In the past, the public safety argument has been used over and over and over to suppress the rights of workers in this country.

Why do we say that AGOA has not delivered on its promises? There are three basic reasons and this panel has touched on some of them: (1) AGOA failed to address the underlying impediments of development in the region, particularly the unsustainable debt burdens; (2) AGOA's conditionality creates new strong investor rights, as was noted, but provides only minimal protection for workers' rights, exacerbating unequal bargaining power and speeding the race to the bottom; and (3) AGOA cannot compensate for the threat posed to Africa producers by the phaseout of global textile and ap-

parel quotas earlier this year. When quotas are eliminated, AGOA countries lost a major share of the market and many of those exported jobs were to China.

The AFL–CIO is not opposed to preferential trade access for Africa countries. We want to be clear on this. But this should not be done at the expense of workers in this country or that country or those countries.

Market access should be linked to effective and enforceable adherence to internationally-recognized labor rights. United States policy toward Africa should be judged by its affect on the lives of ordinary working people.

Broadbased development requires that workers have internationally-recognized human rights improvements in fiscal infrastructure, production of basic commodities for national, regional and international markets, promotion of locally-owned enterprise, and sufficient government control, the ability to enforce the laws they put on their books and things that will balance private capital needs with broader societal needs.

We feel AGOA has been falling short in these areas and we urge steps to be taken to improve that.

[The prepared statement of Mr. Baugh follows:]

PREPARED STATEMENT OF MR. BOB BAUGH, DIRECTOR, INDUSTRIAL UNION COUNCIL,  
AFL–CIO

Mr. Chairman, members of the Subcommittee, thank you for this opportunity to present the AFL–CIO’s perspective on the African Growth and Opportunity Act, five years after the program was signed into law. We recognize the urgency and the severity of the challenges faced in many sub-Saharan African countries and have worked closely with our trade union brothers and sisters in Africa to address the intractable poverty, human rights abuses, corruption, and the scourge of HIV/AIDS that they face daily.

Unfortunately, in our view, AGOA has failed to deliver on its promises and potential. While exports from Africa have grown sharply under AGOA, this increased trade has failed to translate into robust growth, decent jobs, and sustainable development for the region. Meanwhile, widespread unemployment, high poverty rates, low wages, and violations of workers’ rights continue to plague the region. And data on apparel trade from 2005 show that the concerns we have expressed about the likely impact of phasing out textile and apparel quotas were well grounded. (According to a recently released ILO report, Africa has been one of the big losers in the wake of the quota phaseout: textile and apparel exports to the United States under AGOA fell by 25% in the first three months of 2005 compared to the previous year. <http://www.icftu.org/survey2005.asp?language=EN>.)

As the International Confederation of Trade Unions (ICFTU) reported in its annual trade union rights report this week:

Already crippled by the burden of poverty and underdevelopment, the African continent carries the added weight of trade union repression. Whilst Africa’s workers struggle to scrape a living wage from jobs that generally offer no social protection, the powers that be remain brutal in their oppression of trade union rights, responding to attempts to improve conditions with violent intimidation, arrests and dismissals. Collective bargaining continues to be very limited on the continent and the export processing zones developing in the wake of globalisation are simply inflating the scale of exploitation (ICFTU Annual Survey of Trade Union Rights Violations, 10/18/05).

Why hasn’t AGOA delivered on its promise? There are three basic reasons:

- 1) AGOA failed to address the underlying impediments to development in the region, particularly countries’ unsustainable debt burdens.
- 2) AGOA’s conditionality creates strong new investor rights but provides only minimal protections for workers’ rights, exacerbating unequal bargaining power and speeding up the race to the bottom.

- 3) AGOA cannot compensate for the threat posed to African producers by the phase-out of global textile and apparel quotas earlier this year. When quotas were eliminated, AGOA countries lost major market share and many export jobs to China.

#### 1) DEBT IN AFRICA

With mounting unsustainable debt burdens and low revenue, many African countries are unable to invest in infrastructure and basic human services like health care and education that are vital for development. External debt burdens stand at more than 50 percent of GDP in sub-Saharan Africa. In Africa as a whole, fourteen cents of every dollar earned on exports goes to debt service payments. Even with growing exports and enhanced international debt relief, Africa's debt burden has continued to grow since AGOA's implementation, and it hit \$275.5 billion in 2001. Unfortunately, AGOA has done little to help find solutions to Africa's debt crisis. As long as governments in the region are forced to send billions of dollars to international creditors each year instead of investing those resources in health care, education, and infrastructure, lasting development in the region will be extremely difficult to achieve.

#### 2) A FAILED DEVELOPMENT MODEL

##### *Workers' Rights Need to Be Strengthened*

AGOA contains conditions protecting investor rights and intellectual property rights that are very similar to conditions that developing countries have refused to add to the agenda of the World Trade Organization and have balked at in bilateral trade negotiations. These conditions further strengthen the bargaining power of transnational corporations investing in Africa, and reduce the scope for public policies designed to help capture some of the benefits of those investments for local economic development. As a result, investors in the region enjoy extremely favorable access—tax holidays, subsidized provision of services like electricity and water, and lax government regulation—while contributing very little to the domestic economy in terms of decent employment, linkages to local small and medium enterprises, and investments in the community.

Thus, while exports are booming, profits are being captured by the very few, and often by transnational companies with few domestic linkages. This perverse model of development perhaps explains some of the disjuncture between the soaring exports under AGOA and disappointing growth in the region overall. Workers are unable to capture their fair share of the wealth they create through rising wages; African businesses are denied contracts in favor of third-country suppliers; and local governments forego tax revenue in order to attract scarce investment. By eroding governments' bargaining power with foreign investors, and failing to build the bargaining power of workers, AGOA has exacerbated an imbalance that allows investors to pit governments against governments, and workers against workers, in a race to the bottom in regulatory standards and working conditions.

While AGOA does contain conditions on workers' rights, these have not been strong enough to ensure that workers' fundamental human rights are actually respected in the region. Lesotho is the third largest AGOA exporter, and its shipments under AGOA have more than doubled since 2001. But, according to an investigation by UNITE researchers (the clothing and textile union), some workers in Lesotho making apparel earn only about 30 cents an hour, less than half of the basic wage needed to support a family of four. Many workers are so desperate to make ends meet that they are forced to borrow money at usurious rates, sometimes from their own supervisors. Workers are subjected to verbal and physical abuse and forced to work unpaid overtime. Though many workers are fighting to unionize their factories, and unions have majority support at some facilities, management refuses to recognize legitimate union representation, and the government does little to hold employers accountable. In addition, the U.S. State Department reports that blacklists are commonly used by employers in the textile and apparel sector.

Violations of workers' rights are not isolated to Lesotho. In Nigeria, all unions must affiliate with the one legally mandated labor federation sanctioned by the government. In Kenya, free trade zone employers are specifically exempted from health and safety laws. In Cameroon, there were reports of trade union leader harassment and failure by the government to enforce existing labor laws.

##### *Ramatex in Namibia*

Many of the problems of AGOA are illustrated by the experience of workers at Ramatex in Namibia. Ramatex, which employs 7,500 workers, is the most important foreign investment in Namibia since independence. The government provided

a \$N 120 million subsidy to Ramatex, a company based in Malaysia, to locate production in Namibia. According to a comprehensive report on Ramatex by the Namibian-based Labour Resource and Research Institute (LRRI):

The financial support that Ramatex received from the Namibian government is equivalent to the salaries of all workers for 34 months—almost 3 years. A huge investment by any standard which can only be justified if Ramatex' operations in Namibia will lead to long-term sustainable jobs of decent quality.

According to the LRRI report, female workers are forced to take pregnancy tests (at their own expense), there have been several strikes because of low pay (approximately \$50 per month), and workers have serious health and safety concerns.

Workers at Ramatex report the following conditions:

*We work the same hours every day. If you are tired you are told to go home and never to come back again. If you miss work on Saturday and Sunday, you are just told to go home or you get fired depending on the number of warnings. If you just miss work on Saturday and Sunday, the moment the Chinese supervisor see you he or she will only talk to the Filipino in the office, they will then tell you, 'go office, sign warning'.*

*I start at seven in the morning. We iron over a hundred items in an hour, and we stand the whole day. The standing is very painful, but there is nothing I can do because it is my work. I leave at 19h30 in the evening, whether it is a weekend or normal weekday. Sunday-to-Sunday. When I started I used to attend night classes but I don't get time anymore and I stopped going to classes, because I have no time*

*We dislike the wages and working on Saturdays and Sundays. We work very hard for this company filling those containers all the time within a few days. They benefit from us but we don't get anything in return.*

The LRRI report concludes:

Ramatex workers experience the daily frustrations of not being able to make ends meet despite working 9–11 hours every day! Unless this situation is redressed in the near future, Ramatex will essentially be contributing to the establishment of a large number of 'working poor'—people in full-time employment, unable to even meet their basic needs. This stands in sharp contrast to the Namibian government's stated objective of promoting decent work in line with ILO standards.

#### *Swaziland*

Perhaps the most striking example of AGOA's failure to protect workers' rights is in Swaziland. The AFL–CIO submitted workers' rights petitions on Swaziland in 1999, 2002, and 2005. Though the Administration accepted the 2005 petition, there has still not been any effective action taken to redress the violations detailed in the petition. Recently, the US Embassy Regional Labor Attache informed labor representatives that the US Embassy in Swaziland is recommending that the GSP case be closed against Swaziland because of the passage of the new Constitution. The new Constitution however is far from being a protective document for democratic, political and worker rights

While King Mswati of Swaziland signed into law a new national constitution in July 2005, the document does not protect the rights of Swazi citizens nor the rights of workers as it simply codifies the current practice in Swaziland of rule by royal decree. Although there are provisions in the Constitution which appear to give workers and unions a strong base of rights, trade union leaders have dismissed them as irrelevant so long as the monarch has the absolute power to disregard the law, appoint most of the Government, and the authority to declare a state of emergency if there is an action likely to "endanger the public safety." In the past, the police have used "public safety" as an excuse for violently breaking up peaceful trade union demonstrations or strikes.

The government of Swaziland is a monarchy that systematically represses trade union rights. Union leaders that helped organize a peaceful demonstration in 2001 were charged with contempt of court, had their passports withdrawn, and were barred from addressing public audiences. Trade unionists who seek to enforce their rights confront a judiciary whose autonomy and authority have been undermined by the King of Swaziland, and which is incapable of establishing rule of law. Decrees from the King have banned free speech and political dissent, further curtailing trade union activities. According to the U.S. State Department, the government continues to turn a blind eye to abuses of workers' rights by multinational employers. Despite these flagrant violations of workers' rights, Swaziland still enjoys its full AGOA benefits and has seen its exports to the U.S. under AGOA jump 143 percent between

2001 and 2004. The current GSP petition on Swaziland has been under review for several years now, with no effective action to ensure that AGOA conditions are being met.

The 2000 Industrial Relations Act (IRA) still does not comply with ILO core labor rights, as laid out in AGOA. These discrepancies with international standards include, but are not limited to, the following:

- Unions must represent at least 50 percent of workers to ensure recognition;
- The procedure for obtaining official approval of a strike is long and complex. Legal strikes are virtually impossible because the law requires a period of 74 days between the announcement of a strike and the strike itself;
- There is no effective protection for trade unions against employer interference.

The Government of Swaziland announced in 2004 that it was introducing new labor legislation. The new labor law remains essentially the same as the previous Act, including both the 74-day notice for strikes and the 50% threshold for union recognition.

There has been some success at some of the factories meeting the high threshold for union recognition. However, violations remain. The Matsapha Knitwear factory continues to deny union recognition to the textile union SMAWU. Violations of fundamental trade union rights have continued in textile factories, including surveillance of trade union activists by hired security staff, bans on workers meeting during breaks, and physical assault by security guards.

The uphill battle for union recognition has also been undermined by the phase out of global quotas at the end of 2004, the quota-free access currently enjoyed by AGOA-beneficiary countries ceased to be a competitive advantage. Indeed, unions in Swaziland have reported that five major employers closed their factories (Nantex, Welcome Textiles, Tai Tex Kasumi, Nubiela and Kangfa) and about 10,000 workers lost their jobs, from December 2004 to August 2005. Other companies, such as Mastapha Knitwear and Tuntex, have partially closed and downsized their workforce. In response to these closures, which the unions see as a direct result of the end of the MFA, unions have been negotiating with employers and utilizing legal avenues, where necessary, to get remuneration for laid-off workers. In some cases, workers have been left without pay for work conducted during the period leading up to the closure of the factory. Unions are also negotiating retrenchment packages from the employers.

#### *Uganda*

The ILO Committee of Experts and Committee on Freedom of Association, the U.S. State Department and trade union activists have repeatedly criticized labor law in Uganda. Onerous restrictions on workers' rights in Ugandan law were enacted as part of the Trade Union Decree of 1976. These provisions severely curtail the ability of workers to form and join unions, bargain with their employers, and exercise the right to strike. Ugandan labor law fails to meet minimum standards on freedom of association and the right to organize and bargain collectively as defined by the ILO.

Two requirements for forming a trade union are that the workforce represented must have 1,000 employees and the union must represent 51 per cent of the workforce. Workers in the private sector are prevented from forming unions because of these requirements. The ILO Committee of Experts in 2004 commented again that the provisions do not promote collective bargaining and where a union did not cover more than 50% of the workforce, collective bargaining rights should be granted to all unions in the unit, at least on behalf of their members.

The U.S. State Department and the ICFTU have both decried the refusal to effectively enforce workers' rights in Uganda. The State Department notes that, in 2004, the government of Uganda "failed to enforce the rights of some employees to join unions in newly privatized industries and factories," "the right to organize was rarely defended by the Government," and "the Government seldom defended" the right to strike.

- The Ministry of Labor fails to enforce uniform legal interpretations protecting workers' rights throughout its agencies. Though the Ministry has stated that restrictive provisions of the Trade Union Decree of 1976 are unconstitutional and thus invalid, the Ministry's own Registrar of Trade Unions has cited those very provisions to deny registration to legitimate trade unions.
- The Industrial Court (IC) is responsible for hearing labor disputes, yet, according to the State Department, it "lacked funds and rarely convened," thus depriving workers of effective recourse when their legal rights are violated.

- The Ministry of Gender, Labor, and Social Development generally refuses to allow a legal strike unless the IC—which is often not in session—finds that onerous legal requirements have been met first.

## CONCLUSION

The AFL–CIO is not opposed to preferential trade access for African countries. But this should not be done at the expense of workers in America or in Africa. Market access should be linked to effective and enforceable adherence to internationally recognized labor rights. U.S. policy toward Africa should be judged by its effect on the lives of ordinary people. Broad-based development requires that workers have internationally recognized human rights, improvements in physical infrastructure, production of basic commodities for national, regional and international markets; promotion of locally owned enterprises; and sufficient government control to balance private capital needs with broader societal needs. AGOA regrettable has fallen short in all these areas.

Mr. SMITH. Mr. Baugh, thank you very much for your testimony and for amending it. Without objection, your written statement which you did provide will show all those edits. We thank you.

I would like to now ask Dr. Karanja if you would provide your testimony.

**STATEMENT OF DANIEL KARANJA, PH.D., SENIOR RESEARCH FELLOW, PARTNERSHIP TO CUT HUNGER AND POVERTY IN AFRICA**

Mr. KARANJA. Mr. Chairman, Members of the Subcommittee, I feel honored and thank you for this opportunity to testify and present comments from the Partnership to Cut Hunger and Poverty in Africa.

Mr. Chairman, as a late addition to the witness list, I respectfully submit a summary statement and request an extension to revise my comments for a complete written record.

Mr. SMITH. Without objection. How much time do you think you might need to do that?

Mr. KARANJA. About a week.

Mr. SMITH. Okay.

Mr. KARANJA. I grew up on a small farm in Kenya and worked for about 15 years in the Kenyan Government developing technologies to improve productivity and incomes of poor, small farmers.

In the course of my work, I earned a scholarship to do my doctoral studies in agricultural economics at Michigan State University, focusing on national and international policies that impact on African agriculture and rural development.

I have lived in rural Africa for many years and personally experienced and studied the critical needs of poor people in the continent, some of which I bring to the table today.

I also now understand the critical role agriculture and rural development can play in improving the lives of millions of these poor people.

On their behalf, I appreciate all the support the U.S. Government and Congress have given and continue to give to promote economic growth and sustainable development in Africa. This support is critical to their future.

A lot has already been said about what AGOA is and its accomplishments over the last 5 years. I will focus my brief remarks on

what it needs to do in the next 5 years to be more productive and effective.

The essence of AGOA was to use trade to promote economic growth and sustainable development in order to ease burdens of hunger and poverty in Africa. It is now clear that AGOA has done only a little bit of that but has potential to do a lot more.

So far, most of the benefits of AGOA have been in sectors with little potential to impact on hunger and poverty and only in a few countries. Even where these benefits have been appropriated by the poor, they are now declining as a result of the end of the WTO multi-fiber agreement.

The question is: What can we do to expand and sustain AGOA's benefits to Africa's poor? The answer, to me, is simple.

As several Members of the Committee have already said, AGOA must actively engage Africa's agriculture sector. This is the sector that drives African economies, supports the livelihood of more than three-quarters of the 700 million people, provides employment and income to 80 percent of the labor force, and accounts for more than one-third of the continent's productive economy.

Unless African agriculture succeeds, nothing else will succeed in Africa. That is common wisdom in Africa and in many countries that are at an early stage of development.

As a little boy, I watched my mother work on our little farm, 1.5-acres land in Nakuru Kenya, using rudimentary technology and hardly getting enough to feed my brothers and I and take us to school and provide healthcare.

Whenever drought struck, we would have much less, and in years of abundant rainfall, we would get plenty, but then producer prices would fall and rural roads would become impassable, blocking our efforts to sell anything in the market.

Either way, we became losers. As a result, every year we lived hand-to-mouth, depending on the weather for sustenance.

This, Mr. Chairman, is a constant reality for most African families and it is this persistent frustration that inspired my career in agriculture.

After many years of studies and work on these issues, I feel more confident now that we can make African agriculture work better, providing food security and more income for Africans.

There are good examples we can learn from and then scale up. One of them is the National Small Holder Farmer's Association of Malawi.

Members of this association have access to credit and farming tools. They have ability to participate better in markets at the local village and in national, regional and international markets, acquiring market information, and deciding when to sell their produce to make higher returns.

As a producer group, they can minimize production and marketing costs, access new technologies and hedge for better prices.

Women members, who make up the bulk of agricultural producers in Africa, have more access to land and productive resources and invest their extra income to their family's health and education.

The result is that during the drought of 2002–03 in Southern Africa, these farmers had surplus food and continued to educate their kids and provide for their health care.

New challenges in Niger and again in Southern Africa show us why we should try and use AGOA to help provide trade incentives, but even besides that work jointly with other United States bilateral and multilateral programs like the MCA to enhance the capacity of small farmers to trade, deal with supply and demand-side constraints facing them, better connect United States and African small- and medium-sized businesses with public and private sector to stimulate trade and increase the benefits to Africa and the United States, and compliment Africa's regional economic integration by creating viable local, national and regional markets. This is where the initial market impetus will come from.

The United States is indeed the greatest trade capacity-building provider in sub-Saharan Africa, but the \$200 million allotted annually to this cause is hardly enough to go around 37 eligible countries.

African governments are committing to provide more public funding to agriculture in rural sectors and it is evident that more United States and other donor funding will also be needed to expand AGOA's benefits to Africa's agricultural sector.

This is the right time, as the world focuses on how to achieve sustainable development in Africa. Besides more funding, quick progress can be made by better rationalizing and coordinating current trade capacity-building efforts, which is currently done by a dozen or so U.S. agencies.

The three regional trade hubs and one coming up in Senegal can play an important role, but they have such a rough job and uncertain mandates with regards to coordinating the different trade capacity-building programs as these different agencies have different mandates, agendas and timelines.

Mr. Chairman, Africa has put together the agricultural priorities under NEPAD's effort and AGOA and other donor efforts need to respond to this.

We must recognize, however, that not all the efforts we make will translate into better United States-Africa trade statistics, but if we can make the likes of my mother, who earn about \$300 a year, earn a little more so they can take better care of their families, provide better food, health care and education to their children, we will have met an important measurable objective.

Mr. Chairman, as we move forward, this is the kind of enablement that AGOA should provide to Africa's poor, an empowerment to participate in local, regional and international markets and to help lift their families out of poverty.

AGOA is beneficial to both the United States and Africa and will continue to be so. Statistics show that as Africans sell more to the United States, they buy more from the United States. In other words, strong African economies are in the best interest of the United States.

Detailed comments and recommendations are available in my written statement. I will stop here and thank you, Mr. Chairman and Members of the Subcommittee.

[The prepared statement of Dr. Karanja follows:]

PREPARED STATEMENT OF DANIEL KARANJA, PH.D., SENIOR RESEARCH FELLOW,  
PARTNERSHIP TO CUT HUNGER AND POVERTY IN AFRICA

*Introduction*

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

I thank you for this opportunity to testify before the Committee and wish to record my appreciation for every support the U.S. government and the Congress has given, and continue to give, towards promoting 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 countries;
- 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 in order to take advantage of AGOA and other initiatives; and
- How we might better use the annual AGOA summits to address real issues.

Mr. Chairman, as a late addition to the witness list, I respectfully submit a summary statement and request your consent to extend and revise my comments for submission as a complete written testimony for the record.

*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 attributed to 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 had 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. These gains are not limited only to Africa. U.S. exports to Africa have significantly increased since AGOA started, with Africans buying more U.S. products 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. This sectoral and country concentration of benefits has changed little since 2001, which may suggest 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-Fibre Agreement lifted the same quotas which 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. It is critical to sustain earnings in this sec-

tor in the short- and medium-term by strengthening the parts of the industry that can compete with Asia, and encouraging vertical integration within the sector. But, in the long-run, Africa should diversify its exports beyond textiles and apparel, and especially in agriculture—where countries have a stronger comparative advantage and where accelerating economic growth can have a dramatic impact on rural poverty.

Given the strong U.S. policy commitment to reducing poverty in Africa through economic growth, and the importance of strengthening trade and markets as a key tool for accomplishing this, then AGOA—as part of the U.S.-Africa trade strategy—should reflect this commitment. To date, a large proportion of Africa's population—equivalent to the U.S. population—is still 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 income of six million Africans above \$1 a day, and that a \$1 investment in agricultural production generates an additional \$2.30 for the economy.

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, as details in my final written testimony will demonstrate, is that countries are increasing the diversity and the value of their agricultural exports to the United States. This shows there is a significant untapped potential for improving this sector, with benefits channeled 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 U.S. contacts, especially among small businesses and producers. It is also true that many small businesses in the U.S. and Africa do not know or understand what AGOA is all about, pointing to a need for education and awareness campaign about the legislation.

Current AGOA legislation identifies the importance of easing these constraints in order to unleash Africa's trade potential, and the President urges increased support for trade capacity building (TCB) in these key areas. The U.S. spent nearly \$200 million in 2003 on a range of activities including 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.

However, these efforts are scattered among a dozen or so U.S. government agencies and not well coordinated. The three African Trade Hubs in West, East and Southern Africa face significant challenges in coordinating the different programs and mandates of the different U.S. agency programs. The Hubs could be very impor-

tant but they have a rough job and uncertain mandate with regard to coordinate the different programs of different agencies. More difficult is that agencies operating in this arena have different mandates. For instance, USAID focuses on development; USDA focuses on expanding U.S. markets; and USTR focuses on getting U.S. advantage from trade negotiations. Some of these agenda can be conflicting. The Regional Trade 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. Hence, the TCB efforts are not as effective as they should or can be. With limited funding available—the Senate Foreign Relations Committee recommending \$214 million for fiscal year 2006—rationalized and better coordinated TCB programs that address priorities set by African national and regional organizations are required.

#### *Strengthening Local and Regional Markets*

Strong local and regional markets stimulate agricultural trade and improve farm incomes dramatically, as experience in countries like Malawi, Kenya and Uganda shows. With a tremendous potential for expanding Africa’s regional markets, African leaders are stepping up and increasingly focused on dismantling trade barriers between neighboring countries and forming viable economic blocs, like ECOWAS in West Africa, COMESA in East and Southern Africa and SADC in Southern Africa.

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 international market. There is need to connect programs that work on export trade and programs that work on building national and regional trade. Currently, these programs often operate in isolation but are strongly complementary.

#### *Moving Forward—AGOA Forums and Federal Funding*

I respectfully wish to bring to your attention a seriously missed opportunity. 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 challenges, and to allow trading partners to chart a common road map based on identifiable benchmarks. However, I attended the most recent AGOA Forum in Dakar, Senegal—and sadly feel there is a lot more that could have been achieved.

To get the most from these meetings, I suggest that all the three sectoral meetings—the ministerial, the private sector and civil sector—continue to be hosted in one location, which is an excellent opportunity for networking and substantive discussions. In addition, I suggest that future AGOA forum organizers:

- Streamline the meeting agenda to maximize interactions among the sectors on topics of common interest and better manage the overall meeting (during the Dakar meeting, groups with similar discussion themes hardly held joint sessions, which could have enriched the discussions and extracted practical solutions to specific challenges;
- Better manage on-site registration to enhance conference participation and schedule;
- Significantly expand analysis and discussion of achievements and constraints of AGOA and develop ideas needed to make AGOA implementation more effective with benchmarks for each year, and evaluation of the progress made in the next consultative forum;
- Manage bilateral side-meetings so that they don’t divert attention from the main sessions; and
- Bolster attendance by the private sector, especially the U.S. and Africa agribusiness sector, as well as individual producers and processors—this year their participation was dismal. Unless the people directly involved with implementing AGOA are present in these discussions, a lot of what is recommended at the end is either impractical or never taken up.

Mr. Chairman, as we move forward it is clear that AGOA holds great potential for further expanding U.S.-Africa trade. But in order to exploit this potential, and expand the opportunities to more African countries and to poor communities in Africa’s rural areas, it is important to mobilize more U.S. and Africa public and private funding and provide capacity building where this is needed most—especially in agriculture and rural sectors.

A recent report by the *Partnership to Cut Hunger and Poverty in Africa and Resources for the Future* reveal that U.S. funding for agricultural development in Africa was stagnant between 2000–2004 in stark contrast with funding for health and education. Funding these social sectors must not lead to a neglect of funding Africa’s

agricultural development. This will likely keep African countries dependent on external assistance for their health and education systems. Agriculture is what drives most African economies and growing these economies will provide the much needed broad-based economic growth from which to finance future social services in a more sustainable manner.

In 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 assistance to U.S. and Africa entrepreneurs, and make AGOA more productive and effective. But for AGOA to work for the poor as originally intended, it must reach back and complement efforts to strengthen local capacity to trade, and help foster nascent local, national and regional markets. AGOA has great potential and should not be allowed to operate in isolation. Rather, it should be part and parcel of a comprehensive effort to promote economic growth in Africa. Strong African economies and poverty elimination will provide enormous benefits to Africans and also to the U.S., as Africa is the greatest untapped market for the future. Thank you.

Mr. SMITH. Thank you very much, Doctor, for your testimony. We have probably another 15 minutes or so. I will submit some additional questions, as will other Members, if you would be so kind to get back to us.

I know Mr. Royce and a number of my Democratic friends and Republican friends have additional questions. So please if you would get back to us.

Let me just ask a couple of questions if I could. Mr. Baugh, you heard Ms. Liser speak earlier about the Kenyan law and you specifically make mention of Kenya. Uganda I should say. I am sorry. Uganda.

The 1976 provisions that were so onerous on workers' rights. Have you been able to review what is going on in Uganda?

Mr. BAUGH. No, Mr. Chairman. In fact, we haven't. I actually had a conversation while we took the break with her about those.

There are apparently four measures. They are in Parliament. They haven't been passed. It was my intention to leave here and contact our folks and get a review of those so that we could be able to respond to you.

Mr. SMITH. I appreciate that. Again, passage doesn't necessarily mean enforcement and I think that is the absolute important test, otherwise people or countries could pass laws every day of the week that are meaningless without enforcement.

Your point on debt in Africa, both Mr. Payne and I were with Abano 2 nights ago and have worked very closely with him and many others in the House and the Senate, and I think President Bush and others have taken a lead in trying to retire the debt to highly indebted countries.

We have introduced H.R. 3191, which seeks to focus on those HIPA countries and also on the multinational lending institutions like the World Bank and the IMF, which have a large portfolio of debt that they are carrying.

So I think your point was very well taken there, and then the issue about workers' rights needing to be strengthened. That is something that I think we need to, you know in terms of where do we go from here, we are 5 years into AGOA and it is about time. We need even more on that and that is what this Subcommittee and I, as Chairman, will seek to do.

I would like to yield to Mr. Payne. I do have other questions, but again I will submit them for the record.

Mr. PAYNE. Thank you. Thank you very much and let me say I appreciate the testimony from all of you and just would like to, maybe Dr. Wykes, you talked about the corruption issue, and I just wonder and maybe any one of the panel might want to respond, how could we go about having a better revenue resource transparency?

How do you think the AGOA legislation could be improved to try to get that as a part of the governance of the countries that are participating in our program?

Ms. WYKES. Thank you very much. I think that basically it would be interesting to have some more information as to how the criteria actually applied.

So how is it assessed? How is it assessed that a country has a system for anticorruption for example? I think it would be interesting to have some more information on that basically.

I mean one idea that we were thinking of is that many of the countries that are eligible for AGOA in sub-Saharan Africa, many of the oil producers have signified interest in participating in an international initiative for more transparency in the extractive sector called EITI for short, which was launched by the UK Government in 2002.

We think, for example, it has minimum criteria, which includes publishing figures, government publishing figures on companies, extractive companies in the country, publishing figures, and then those figures being reconciled.

We think that full implementation, for example, of EITI criteria for those countries that are participating in the initiative who are AGOA-eligible, we would see that as an indicator possibly that those countries are seriously moving forward with anti-corruption, good governance over the anti-corruption/good governance agenda. So that is one particular idea.

But we would like some very clear, much more clear idea of exactly how the eligibility criteria applied.

Mr. PAYNE. I know that the Millennium Challenge organization also has a set of questions and criteria and it might be even good just to see the differences, if there are any, in their recommendations.

I just wonder, Mr. Hayes, if the Corporate Council members find that there is more interest, or have you reached out to small- and middle-sized companies?

We have seen that years ago the main thrust of the council was probably the large extractive companies and so forth, but I know you have been head of the organization now for about 3 or 4 years, and have there been significant changes in that manner?

Mr. HAYES. Yes. Thank you, Congressman. There has been. Actually it is now going on my seventh year. Time goes by.

Mr. PAYNE. That is right.

Mr. HAYES. When I came, there were 86 companies in Corporate Council, of which 90 percent were Fortune 500 companies. We now have approximately 180 to 200 companies, of which 40 percent are small business development.

Also when I came, there was only one African-American company. We now have 35. So the percentage and the change of the

organization in the interest of Africa, it says to me, is growing quite a bit.

In fairness to those statistics, it also says that our greatest turnover was the small business, either if they are not able to establish a relationship with an African business, or they don't have the resources to stay engaged for a long period of time.

I see literally hundreds of small businesses coming to us interested in developing those ties, but until we can set up a mechanism that enhances small business development, which I think is key to development in Africa, we are going to have a lot of people who could make a difference that aren't.

I think there needs to be an examination of how you link and develop the small business communities. I think it could help our inner cities, if we could develop small business relationships with the Africans. I think it would help this country enormously.

Mr. PAYNE. Thank you very much. I agree and I think that is an emphasis that we ought to look at, more of the small businesses. I am glad to see the growth there.

Let me ask Mr. Baugh, just in general, in what countries would you say that the labor movement was the strongest in any country, or is it a sector of a country, that may have a stronger labor movement? And just how have you found industry reaction toward organized labor and the government structure itself?

Mr. BAUGH. Mr. Chairman, Congressman Payne, I am not going to venture a guess at which country has the strongest trade union movement. I would be happy to get an answer for you in writing on that.

I do know we experience resistance and the African trade unions that we talk to, that our people on the ground work with day-in-day-out, know it from the front lines about the resistance they face.

That is why you see a number of the examples that are actually in our testimony around this. There is a problem and it is not just with Africa. You heard these same issues and arguments we raised in the CAFTA debate.

We certainly have them with China and we have been here around these issues. We have been very consistent about our belief and the linkage between strong human rights, labor rights, and sustained economic development in the economies of these countries.

The benefits of the export trade of these extraction industries and the textile industries and the growing industries in these countries will not be shared with the working people, unless they have the rights and enforceable rights to take action to raise their own wages and benefits through organizing and collective bargaining.

We believe it is a fundamental of economic development and there is trouble across the continent in the ability of workers to have the rights to be recognized and organized.

I would certainly say the trade union movement in South Africa is probably a prime example of something that led to the democratization of that country. South African unions are a prime mover and a pivotal democratic institution within that government, aside from the government itself. They play a role in that society in bettering the lives of those working people and playing a democratic role in the institutions of government.

Mr. PAYNE. Thank you very much.

Finally to Dr. Karanja, as you have indicated, much of Africa—and we can take your country in particular in Kenya—that there is tremendous potential for agriculture. Now we know that the subsidies from the developed countries hurt African farm exports, but have you noticed any improvement in farm co-ops or people coming together to sort of try to have larger amounts of commodities to take to the market?

Secondly, in your opinion, are Africans in general becoming more in tune to the environment? As we know, Kenya Empe received a Nobel Peace Prize, which she has been really able to champion the environment, but how do you see environment in general in your country?

Are people becoming more aware or do you see more degradation in general?

Mr. KARANJA. Congressman, thank you for the questions. One, I think increasingly small holder African farmers are realizing the power and potential of working together. In examples like tea and coffee and many of these export products, farmers have really increased their incomes working together, minimizing their costs and being able to market their products farther from their villages.

Small holder farmers, especially subsistent farmers, are starting to organize around women's groups to sell their commodities, to make some products that they can market abroad, and they are seeing that they can achieve better income growth.

So I think it is, in general, an increasing trend in Africa that African governments and donor support might be needed to organize them and help them become sustainable and they have the kind of leadership and training that is required to make them efficient.

On the environment issue, thanks to people like Honorable Wangari Maathai, this issue is receiving much more attention now and not just at the farm level where Professor Wangari Maathai works with women farmers to plant trees and reafforest water catchment areas.

Professor Maathai comes from my village and we have seen tremendous help from her organization and other women's group.

My wife and I recently started a high school in our village to basically help the youth in our community get a better education, but I visited there back in February 2005 and I saw the need to use that school as a center for training farmers, and I encouraged the teachers to start tree nurseries, working with the students and the community to actually plant these trees back in the water catchment areas. So this is something that is really getting a lot more attention.

As much as degradation is concerned, a lot of that has to do with the technology that is used. We still don't have the kind of technologies that would allow for no tillage and so we still have a lot of soil and water erosion when the rain falls. We have a lot of encroachment in forest areas and I believe things like land reform are going to help alleviate that, especially in areas where you have communal land ownership.

Mr. SMITH. Mr. Fortenberry?

Mr. PAYNE. Thank you very much.

Mr. FORTENBERRY. Thank you, Mr. Chairman, for holding this important hearing and thank you all for your insightful comments.

Mr. Baugh, thank you for your thoughtfulness in your last set of comments particularly.

I did want to address a quick question to Dr. Karanja. Thank you for painting that beautiful picture of your upbringing and childhood with your very small micro farm, as we would call it these days. My own great-grandfather raised eight children on 27 acres, and I think we look back at that with some degree of fondness. I assume you do too, even though at times, as you expressed, it was certainly difficult.

Following up on that, I am very interested in the topic of micro financing and empowering entrepreneurial opportunities for those who would not otherwise be able to participate in normal markets, not have the opportunity to possess the means of production, but appropriately micro finance obviously targeting small-scale resources.

If you could talk to that issue, how AGOA is interfacing with those opportunities or not, because again I think it is a critical mechanism by which you socialize, inculturate, and empower persons to use good free market principles for their own well-being, and what can we do to further that again in the context of AGOA?

Mr. KARANJA. Thank you, Mr. Congressman. I cannot emphasize enough the need for these farmers to access new and appropriate technologies, to access good seeds and fertilizer and credit.

The challenge in Africa and many parts of the world where you have these kinds of small holder systems is that the cost of doing business with many small holders is very expensive. And so to service that sector, it is going to take farms, government and private sector firms who are willing to go out and operate in these rural areas.

Number two, we were talking about organizing the farmers so that they hold each other accountable, and as groups of farmers they can be able to access credit better, and I think that is what is happening increasingly.

NASFAM and the likes of NASFAM in Malawi and elsewhere are able to access that because they have improved their credit worthiness.

AGOA provides for these issues, you know, within its provisions for trade capacity-building. Tapping into the small holder sector in Africa will have to come from enabling these small holder farmers to become more engaged in selling to local, national, regional and international markets, and maybe in the course of the transactions, they can be able to access credit and make payments for their purchases.

I believe that is the way to go. Grameen Bank in Asia has done a lot of wonderful things working with farmers around villages and using village groups and committees to hold people accountable to make paybacks.

Robabank Bank is doing a lot more in Latin America and is interested in Africa. Many governments have been talking to commercial banks, especially about lowering their interest rates to small holder farmers.

But this is a big challenge. These challenges have to be faced in order to move forward.

Mr. SMITH. We regrettably are out of time.

Mr. HAYES. I just wanted to reiterate that, especially, financing is one of the most critical needs in Africa. Micro financing especially, but to any business. Businesses can't start without financing and the banking system in Africa, traditionally, has not financed business development.

So we have got to address that. Likewise, United States companies, small businesses cannot invest unless there is financing here on this side willing to support investment in Africa. That is one of the things we are working on in a task force, but I think Dr. Karanja hit a very critical need.

AGOA itself is very important. It can't cover all things and I think that we need to look at the financing issue as well. Thank you.

Mr. SMITH. Thank you. The Subcommittee plans very serious follow-up to today's hearing. Your testimonies are of very great utility and use to us. We look forward to working with you going forward.

I regret there is another hearing coming in at 1:30. So thank you so much and the hearing is adjourned.

[Whereupon, at 1:18 p.m., the Subcommittee was adjourned.]



## A P P E N D I X

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### MATERIAL SUBMITTED FOR THE HEARING RECORD

PREPARED STATEMENT OF THE HONORABLE DIANE E. WATSON, A REPRESENTATIVE IN  
CONGRESS FROM THE STATE OF CALIFORNIA

Thank you Mr. Chairman, for holding this hearing to review the effectiveness of AGOA, the African Growth and Opportunity Act.

Since the passage of AGOA five years ago, there have been remarkable increases in the dollar value of African exports to the United States. Unfortunately, the vast majority of these exports have been raw materials, not value-added products.

Extractive industries, including oil, timber, mineral ores or gemstones, still account for too large a share of the African export economy. The revenues these industries produce is certainly desperately needed for development. But this windfall will not last forever. Oil wells dry up. Forests can be harvested faster than they can be regrown. And it remains unclear whether the windfall from these industries is being used to prepare for Africa's future, by reinvesting in developing the economies and the human capital of African nations.

Too often in Africa's modern history, economic growth has not translated into economic development. African leaders get rich; foreign companies get richer; but Africans themselves do not see improvements in their education, their health, their infrastructure or their opportunities. In short, it seems that in the past five years, we may have gotten African Growth, but it is unclear whether we have expanded African Opportunity.

So how do we refocus our attention on opportunity, on sustainable economic development? Our first efforts must be on transparency and governance. We must help African countries to build their capacity to allocate these profits in ways that benefit all members of their societies. This effort should not just be aimed at strengthening governments, but also at strengthening civil society to demand accountability from their leaders. Each individual African deserves the right to know how the profits from his country's natural resources are being allocated. Those multinational corporations who invest in Africa certainly deserve to collect returns on their investments. But if their efforts are not transparent and equitable, they will not be sustainable over the long term.

Our second effort must be to eliminate the crushing burden of debt that frustrates African's ability to invest in their own future. We have started down this path, but we must complete the job, to completely eliminate African debt. We must also make sure that future lending is done in a sustainable way, so that Africans do not find themselves in the same situation in the future.

Third, we need to rededicate ourselves to provide both trade and development assistance geared toward helping Africans develop value-added industries. Mr. Chairman, I know that you yourself are committed to pushing for a more level playing field in agriculture. No real sustainable economic development is possible in Africa without sustainable agricultural development, and we here in the developed world need to confront the way our agricultural subsidies have distorted the market.

We also need to help Africans create the legal frameworks to develop their intellectual capital. I am proud to represent Hollywood, the home of America's number-one export industry—entertainment. Africa itself has a rich artistic heritage, and more and more Africans are realizing that they need to build a legal infrastructure that permits their artists to profit from their work. Intellectual property protections are not a luxury for Africa—they are a necessity. If African artists can reap the benefits of their art, I have no doubt that the Nigerian film industry or the Ethiopian

music industry can one day rival their American counterparts. Thank you, Mr. Chairman.

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RESPONSES FROM DANIEL KARANJA, PH.D., SENIOR RESEARCH FELLOW, PARTNERSHIP TO CUT HUNGER AND POVERTY IN AFRICA, TO QUESTIONS SUBMITTED FOR THE RECORD BY THE HONORABLE CHRISTOPHER H. SMITH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW JERSEY AND CHAIRMAN, SUBCOMMITTEE ON AFRICA, GLOBAL HUMAN RIGHTS AND INTERNATIONAL OPERATIONS

*Question:*

*How do you account for the weak role of agriculture in US-Africa trade, and do you think that the AGOA legislation's lack of discussion of agricultural trade specifically may have weakened that sector's contribution to current trade levels between the US and Africa?*

*Response:*

Yes, leaving out discussion about US-Africa agriculture may have weakened the sectors' contribution in the current US-Africa trade. Yet this sector is the most important in African economies, often supporting livelihood for three out of every four Africans as majority of the people live and work in the rural areas.

According to statistics from U.S. International Trade Commission, agriculture accounts for about 1% of African exports to the U.S. under AGOA. If the U.S. objective for AGOA was to improve Africa's economic development and reduce hunger and poverty, then the legislation must find ways to increasingly support Africa's agriculture and rural sectors. This need is felt much more now than before because of the adverse effects of the end of the WTO's Multi-Fiber Agreement on Africa's textile/apparel industry, the only other sector that had positive impacts on employment and livelihood of poor people in Africa.

Our experience under AGOA shows that Africa, with appropriate assistance and technical skills, is capable of participating more in global trade. But in order to become more competitive, AGOA and other U.S. development assistance programs must help eliminate both supply and demand-side constraints that keep African producers and farm associations from gaining a foothold in regional and global trade.

The current legislation has good provisions aimed at increasing competitiveness of Africa's agriculture by reducing transport and marketing costs through investing in roads, telecommunication, energy, ports and airports, meeting customs, sanitary and phytosanitary requirements, and connecting U.S.-African businesses. But without funding commensurate with these needs, the goals cannot be realized. The U.S. Congress must work with the Administration to increase bilateral funding and leverage other bilateral and multilateral donors to support African agriculture, particularly in improving the capacity of smallholder farmers to increase their productivity and participation in trade. Africans governments have committed themselves to investing more in their agriculture and rural sector programs, and we shall be working with other organizations to encourage them to meet the commitment.

*Question:*

*How would you characterize the approach of the US to trade with Africa, and how might its efforts be improved?*

*Response:*

Current U.S. trade capacity building (TCB) efforts in Africa are scattered across more than a dozen government agencies. These agencies have different mandates, and translation of their efforts on the ground—especially at the frontline Trade Hubs—sometimes becomes contradictory. There is an urgent need to coordinate these efforts better and make them respond to African priorities. The \$200 million allocated for these TCB activities, even in addition to the \$200 million over 5 years African Global Competitiveness Initiative, is inadequate given the enormous needs for enhancing trade capacity in Africa. But these funds can be used wisely to stimulate additional public and private sector investments in agriculture, thus creating a more sustainable pool of resources available to support economic growth and cut hunger and poverty in Africa.

It is clear that previous and current AGOA efforts have been unable to fuel greater participation by small and medium-sized U.S. businesses, the kinds that would connect better with African small and medium sized producers and agribusinesses. In fact, it has been alleged that AGOA is known only in U.S. and African government circles and capital cities, but nowhere else. There is some truth to that. It is time for a deliberate, expansive campaign to reach out more to private sector—especially small and medium sized ones—within and beyond the capital cities, so more

people and businesses can take advantage of AGOA and expand opportunities for mutually beneficial trade. One way to achieve this is by restructuring the annual AGOA Forums and making them platforms for evaluating progress, strategizing on ways forward, and connecting U.S. and African private businesses and farm producers—not just government policy makers.

*Question:*

*Does the AGOA process adequately provide for effective information systems to enable potential US-Africa economic exchanges to take place?*

*Response:*

Increasingly, global trade is driven by timely and effective communication. The AGOA process has been unable to efficiently provide information about U.S. markets or connecting U.S. and African producers and buyers. The three [soon to be four] Africa Trade Hubs can be key in this process but are currently overwhelmed with demand for information, capacity building on issues such as Pest Risk Assessment and U.S. SPS standards and making business-business contacts.

What is needed is a way of establishing direct U.S.-Africa business linkages and establishing an information database that is readily accessible to US-Africa businesses, including small and medium-sized agribusinesses. Establishing information and communication portals, besides the Trade Hubs, among regional economic organizations, appropriate African government ministries and private sector associations will help disseminate the information further.

Ultimately, investments in information technology will be necessary to connect buyers and sellers in real time, reducing information costs related to buying and selling transactions. Just as cell phones have revolutionized how business is done in Africa, the U.S. can help reduce telecommunication costs further by boosting applications of computers and the internet. I have personal experience about accessing the power of the internet in rural Africa—my wife and I started a high school in rural Kenya—and we have managed to connect it with internet. We now communicate with the school administrator very easily and cheaply via e-mail. Imagine if rural farmers can access market information this way? This is the best way to connect U.S. and African producers and agro-processors—one can even use local schools as information portals, so that the technology is also used to educate students in rural Africa.

*Question:*

*One of the principal goals of the African Growth and Opportunity Act is to help Africa build trade capacity. Can you provide an overview of your recommendations for increasing the effectiveness of the AGOA process in these efforts?*

*Response:*

Enhancing Africa's trade capacity is the key to strengthening its ability to benefit from regional and international trade. AGOA and other U.S. and donor supported capacity building efforts must focus on improving local, regional and international trade potential of African countries, by enhancing local productive, processing and marketing capacity.

Very often Africa trades in raw commodities whose prices have plummeted for quite a while. Improving domestic agro-processing capacity has potential to result in two valuable things: (1) add value to domestic agricultural products so that farmers and processors can get better income margins; and (2) create much-needed employment. With an increasing urban market and regional trade, the initial impetus for agro-processing will come from these markets, spreading into the international markets, depending on levels of competitive advantage.

With a reliable source of electricity and water, good all-weather roads, skilled labor, accessible credit facilities and favorable government policies, it is not inconceivable for the private sector to invest in rural-based agro-industries that will, over time, improve the quality of agro-products, earn better income and provide a more viable market for smallholder farmers in Africa's rural areas. The effect of specialized and booming agro-industries is that the farmers, in turn, will be able to afford better seed and fertilizer, produce more and better quality food, meet their food security needs and get surplus disposable income to keep their children in school and in better health.

But this agro-transformation has to begin with capacity building. That is why what the U.S. government agencies are currently doing need to be focused to resolve priority African agriculture and trade problems. Inviting other donors to pool resources will ensure that efforts are not duplicated and wasteful. The World Bank can focus on providing big investments such as in infrastructure. The U.S. agri-

business community can be encouraged, with credit guarantees from OPIC and EXIM Bank, to invest in Africa's industrial agriculture.

There are many examples of small successes that require scaling-up. There are also many opportunities for diversifying agricultural exports, including new products such as bio-fuels. Such investments in African agriculture and rural sectors are what will make a difference against hunger and poverty as economies become diversified and grow, putting more money in farmers' pockets and cheaper food on the table for net-consumers.

Still, I believe many governments will require help facilitating their participation in international negotiations like the on-going World Trade Organizations' Doha Round, implementing and complying with international treaties or even dismantling trade barriers between neighboring countries, especially Africa-Africa trade that has great untapped potential. But unless there is a demand and supply response to Africa's agricultural products, all the talking will not amount to any more economic progress in these countries. We have to look clearly at the specific constraints and opportunities facing each country, and stimulate appropriate public-private sector partnership and investments to come up with sustainable solutions.

