AGOA: Trade and Investment Performance Overview

Testimony

Katrin Kuhlmann
President, New Markets Lab
Senior Advisor, Corporate Council on Africa
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Good morning Chairman Williamson and members of the Commission. My name is Katrin Kuhlmann, and I am the President of the New Markets Lab and a Senior Advisor at the Corporate Council on Africa. The New Markets Lab is a nonprofit organization that aims to build economic opportunity and improve lives in developing markets through an innovative and inclusive approach to legal and regulatory reform. The Corporate Council on Africa (CCA) is a non-profit, membership-based organization established in 1993 to promote business and investment between the United States and the nations of Africa. Thank you for inviting me here today.

Trade preferences can be powerful tools to promote economic development. In sub-Saharan Africa, the trade benefits under AGOA have had a positive impact, including through job creation, and should be maintained. Yet much has changed since AGOA was enacted, and new approaches will be needed in order to unlock the full potential of these programs.

We have reached an important turning point in our trade and investment relationship with sub-Saharan Africa. Africa's markets have been growing rapidly, one of the most significant goals of AGOA. Six of the world's ten fastest growing economies of the last decade were in sub-Saharan Africa, which highlights the tremendous potential for increased trade and investment with and within Africa.

The global economy is changing as well, becoming more diverse and more interconnected at the same time. Trade is no longer an arm's length transaction but a multi-layered process centered on value chain development. As tariffs have gone down and become less a focus, non-tariff measures are increasingly being used, making strong regulatory and legal institutions particularly important.

To respond to these changing opportunities and challenges and better take advantage of the potential that exists, I propose a shift in approach to our trade relationship with sub-Saharan Africa, focused on real, on-the-ground opportunities and the challenges that stand in their way. While AGOA remains a useful tool, its administration will need to include a more nimble, ongoing process to interact with the private sector and other actors along value chains. Today, I would like to briefly highlight three interconnected aspects of this approach in the context of AGOA's future: (1) Unlocking New Market Potential, (2) Developing Value Chains, and (3) Supporting African Regional Integration.

1. **Unlocking New Market Potential**

As a first step, we will need to carefully consider how to connect untapped potential in the market with the benefits that AGOA offers. This is often a challenge with trade policy, but it is an important gap to address. In addition to looking at nascent entrepreneurial potential and which products and industries should be included in the program, with agriculture as a particular focus, this may involve rethinking other aspects of the program, such as tariff rate quota coverage and administration for agricultural products. The voices of small businesses, including women-led businesses, will also need to be better heard.

Important work will need to be done by African nations to identify and advance their priorities, and the country-specific investment and export strategies called for by the African Diplomatic Community's recommendations on AGOA will be a very critical step forward.

Deeper partnership from outside of Africa will also be needed. It is encouraging to see that the U.S. Government has placed a stronger priority on our relationship with sub-Saharan Africa through initiatives like Trade Africa and Power Africa. This study is also an important step, and I commend the International Trade Commission and Ambassador Froman for initiating this comprehensive review.

Ultimately, however, the private sector, including U.S. and African business associations, will need to be more involved. The private sector knows where the market is and where it is going, yet there is often a disconnect between those active in the market, especially smaller producers, and trade policy. For a variety of reasons, it can be difficult for smaller companies to take advantage of AGOA, and the feedback loop between these smaller producers (and initiatives designed to support them) and policymakers needs to be strengthened. I have seen this firsthand through my work at CCA on the USAID-supported U.S.-Africa Business Center that helps smaller businesses enter markets and through my work with entrepreneurs at the New Markets Lab.

It will also be important to look closely at the climate for doing business and identify the binding constraints that limit potential, especially gaps in law and regulation or lack of implementation and enforcement. My work at the New Markets Lab focuses on how to use legal and regulatory reform to unlock nascent potential in the market, and there is tremendous potential held back by legal and regulatory challenges, many of which can be addressed through trade policy.

2. **Developing Value Chains**

AGOA should also be considered in light of the changing nature of the global economy. As economies around the world become increasingly interconnected, decisions at the local level are closely linked to markets near and far. Value chains are becoming both more comprehensive and more global, generating new opportunities across activities and adding value in the process.

In partnership with other experts, organizations, and institutions, including a group of experts I chair informally called the "Advisory Council on Trade," and partners like the International Fund for Agricultural Development, Global Harvest Initiative, AGree, and others, we have increasingly examined the importance of assessing trade policy from the perspective of global value chains. This perspective will help us use trade more effectively as a tool for food security and equitable development by linking areas of surplus with areas of deficit and creating opportunity at all stages in value chain development.

Addressing practical considerations, like reducing the time and cost of moving a container through a port, reducing the time to obtain licenses, registrations and other documents, or decreasing the number of roadblocks along trade routes will be needed to make this approach work. Improvements in transport, logistics, trade facilitation, and standards will be critical, and robust and diverse service sectors are also now more important than ever before.

A value chain approach is particularly relevant to AGOA's administration. Not only can it lend a practical, concrete map for coordinating the capacity building and technical assistance that will help AGOA realize its potential, but it directly relates to the technical provisions of the program. On the capacity building side, for example the Trade Hubs and the next generation Trade and Investment Centers include a focus on value chain development, which provides a good foundation for which the private sector, government, and other market drivers can build.

This approach has application for some of the more technical aspects of the program as well. For example, AGOA's duration could be viewed from the perspective of how long it will take priority value chains to develop, instead of weighing political considerations most heavily. As we have heard time and time again from industry experts, many value chains take years (and even decades) to develop. Value chains also tend to span borders, and everything from AGOA's cumulation provisions, to rules of origin, to country eligibility will play a role.

3. Supporting African Regional Integration

Ultimately, well-functioning regional markets will create the economies of scale necessary to expand business opportunities, stimulate local supply chain development, foster competitiveness, and connect producers to international markets. As regional trade grows, many countries' futures are inextricably linked to the economic development and trade policies of their neighbors.

Regional markets can create greater benefit for businesses of all sizes, and consistent and fair application of rules and regulations will directly improve the lives of individual entrepreneurs and build rule of law. The World Bank estimates that if global economies followed best practice methods of regulation, entrepreneurs around the world would collectively spend 45.4 million fewer days every year dealing with legal and regulatory barriers.

Considerable progress towards regional integration is evident throughout sub-Saharan Africa, and plans for greater continental harmonization continue to become more serious. While challenges do remain that will need to be addressed, our trade policies can be better used to reinforce Africa's efforts, and we should carefully consider how regional initiatives are being developed, implemented, and linked to needs on the ground.

Using AGOA as a driver to push regional integration was a frequent topic of discussion at the 2013 AGOA Ministerial in Ethiopia and is an aspect that I think deserves particular attention. Our approach will matter. The European Economic

Partnership Agreements (EPAs), for example, have been met with protest from many who feel they do not reflect the realities of African regional markets and institutions. Lessons can be drawn from this as we move forward, and greater cooperation with other trading partners is warranted.

Regions that are further developed will be better positioned to take advantage of the benefits of AGOA, and more competitive economies have an important role to play. South Africa and other more advanced economies can be key partners in pressing for regional harmonization and establishing an enabling environment that will help value chains develop even more robustly. This argues heavily for continued inclusion of South Africa in the program, both as a driver of regional integration and as a linchpin of regional value chains.

Conclusion

More than ever before, trade and open, sustainable markets hold the potential to unlock economic opportunity and spur development. The approach I have briefly presented could open up new opportunities under AGOA, particularly in areas where value can be added locally to generate revenue for rural communities.

In addition to the aspects I have already touched upon, other mechanisms should be better used to leverage AGOA, including the U.S.-EAC Trade and Investment Partnership, the Trade and Investment Framework Agreements, and other programs to support greater trade and investment. Stronger coordination with agencies involved in promoting investment as well as with technical experts in areas like standards will be needed, as will collaboration across sectors, such as agriculture and power. In all cases, deeper business-business engagement, an ongoing dialogue with those active in value chain development, and increased communication between the private sector and government should be consistent, regular, and predictable.

We need a trade policy that is forward-looking, innovative, and inclusive. Trade can and should impact individuals positively, add value economy-wide, and deliver broader economic and development benefits. Adopting an approach rooted in market realities and designed to encourage new market opportunities has the potential to scale the foundation we have built under AGOA and support and sustain equitable growth.

Thank you.