Committee on Ways and Means
U.S. House of Representatives

"U.S. Trade and Investment in Africa"

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I would like to thank the Subcommittee for inviting me to speak at this important hearing today. I am Witney Schneidman, the Senior Advisor for Africa at Covington & Burling, and chair the firm's Africa practice. The views expressed today are my own and do not reflect the views of any organization.

I have been involved with Africa for nearly five decades, starting in January 1971 when during a gap year after high school I found myself in Mbarara, Uganda listening to General Idi Amin announce on the radio that he had taken over the government. My engagement with Africa has been constant since then. I have a master's degree from the University of Dar es Salaam, Tanzania, a Ph.D. from the University of Southern California where I focused on Africa and U.S.-African relations, and I have served in the State Department twice, most recently as deputy Assistant Secretary of State for African affairs under President Clinton where, with my esteemed colleague and fellow witness today, Rosa Whitaker, I was part of the effort that got the African Growth and Opportunity Act passed into law. For the last twenty years, I have worked with many American and other companies in more than thirty African countries to help them align their commercial objectives with the economic development objectives of African governments.

Losing the Africa Market
Mr. Chairman, between 2010 and 2020, bilateral trade between the United States and Africa has fallen from $113 billion to $44 billion. Direct investment from the United States into Africa has declined from a peak of $69 billion in 2014 to $46 billion last year.

Over the last twenty years, China has signed more than 1100 loan agreements worth $153 billion that are largely focused on three sectors: transportation, mining and power. China's trade with Africa was nearly five times of the volume of U.S.-African trade in 2019, prior to the onset of the coronavirus pandemic.

And it is not just China. Fourteen African countries are implementing Economic Partnership Agreements with the European Union that put U.S. goods and services at a tariff disadvantage going into the African market. As USTR's 2021 Foreign Trade Barriers Report reports, the Economic Partnership Agreement with SADC "will lead to greater disparities in tariff levels for U.S. exports." Translated, this means that a tractor made in the United States will face a 18.4 percent tariff going into South Africa. A similar tractor exported from an EU country, will face a 4.5 percent tariff. This discriminates against the American worker as well as the South African consumer. More troubling, is that it is only a matter of time before this is the case across the continent.

Finally, in the 11 months since Brexit became official, the United Kingdom has negotiated free trade agreements 15 African nations including Ghana, Kenya and Zimbabwe. This will also put U.S. goods and services at a tariff disadvantage in key markets on the continent.

There is a lot at stake. Prior to the Covid-19 pandemic, Sub-Saharan Africa was home to some of the fastest growing economies in the world, and we are beginning to see that growth return. The African Continental Free Trade Area agreement (AfCFTA) will become the world's largest free trade area with 1.3 billion consumers who have a combined gross domestic product (GDP) of approximately $3.4 trillion. Within the next 15 years, more than half of the world's new job market entrants will come from Sub-Saharan Africa. By the end of this decade, Africa will account for one-fifth of the world's population, whose median age of 19 makes it the youngest region in the world.

Americans tend to see Africa only as a continent of conflict and crisis, and indeed the challenges are well known. Less well known is that Africa is also a continent of vast opportunity, innovation and inspiration. It is also not well appreciated that the American presence in the African marketplace has been eroding for the last decade and American businesses and exports are in danger of being isolated from this increasingly significant market

A renewed commitment to the region by the Biden administration is essential if the U.S. is to reverse the shrinking American commercial footprint in Africa. Here are several suggestions for beginning that process.

Robust Commercial Diplomacy

The standard for U.S. commercial diplomacy in Africa was set by the late Secretary of Commerce Ron Brown who visited the continent six times in the three years that he led the Commerce Department. In fact, eleven of President Clinton's fourteen cabinet secretaries visit Africa, some on multiple occasions. Another high point in U.S.-Africa commercial relations was the 2014 African Leaders Summit convened by President Obama, which generated $37 billion in new commitments to support trade and investment across the continent.

Since then, the idea of promoting U.S. business in Africa, while a stated priority of the Trump and now the Biden administrations, has not translated into a rejuvenated commercial presence on the continent. In fact, the last commerce secretary to visit Africa was Wilbur Ross who spent just one day on the continent, in Ghana in June 2018, during the course of his four year tenure.

China, in contrast, has held eight ministerial meetings and three summits with African counterparts over the last twenty years, and will convene a fourth summit in Senegal in November. Other nations, such as Japan, the EU, Russia, Turkey, India and Great Britain have all held successive summits designed to deepen commercial and other ties with African nations. Their leaders also travel to the continent. During her time as Chancellor, Angela Merkel has made 13 official visits to Africa and French President Emanuel Macron has made 11 official visits. Turkish President Recep Tayyip Erdogan has visited 30 African countries as premier and president. President Obama's visit to Kenya and Ethiopia in 2015—six years ago—was the last time that an American president was on the continent.

To address this commercial diplomacy deficit, the Biden administration should convene a second U.S.-African leaders summit in 2022 as well as annual U.S.-Africa Business Summits to alternate between Africa and the United States. A trip by President Biden and regular cabinet level visits to the continent are also essential to building key relationships and support for U.S. companies interested to enter and compete in African markets. U.S. companies respond to commercial diplomacy and senior administration leadership.

The Future of AGOA

One of the most immediate issues that this committee, the U.S. Congress, and the Biden Administration has to address is the future of the African Growth and Opportunity Act. AGOA, as it is known, has served as the cornerstone of the U.S.-Africa commercial relationship for the last twenty years.

It is often asked: what has AGOA achieved? On the one hand, there have been important successes. For example, between 2010 and 2020, textile exports to the U.S. under AGOA grew by approximately 64 percent, which has created, conservatively, thousands of jobs.

At the same time, as Ambassador Katherine Tai observed at the recent Virtual AGOA Ministerial, utilization rates need to improve for countries to fully benefit from the program. She is very much on target with this observation.

The utilization rate is defined as the volume of U.S. imports under AGOA, as a share of total U.S. imports from that country.

The reality is that not enough African countries have benefited from AGOA on a level that is sufficient to truly tip the scales when it comes to economic development, growth of commercial opportunities, and job creation. This is in part because the utilization of the program remains low for many beneficiary countries. From 20210 to 2020, nearly half of the benefitting countries had a utilization rate of 2 percent or lower.

Congress sought to address this problem with the reauthorization of AGOA in 2015 by calling for participating countries to develop and publish national "utilization strategies." The idea was to work with beneficiary countries to take full advantage of their preferential access to the U.S. market, thereby increasing AGOA's overall effectiveness.

To date, only 18 out of the 39 beneficiary countries have developed a national utilization strategy for AGOA. These countries include: Botswana, Eswatini, Ethiopia, Ghana, Kenya, Lesotho, Madagascar, Malawi, Mali, Mauritius, Mozambique, Namibia, Rwanda, Senegal, Sierra Leone, Tanzania, Togo, and Zambia.

A review of available trade data suggests that AGOA utilization strategies genuinely assists African governments in their ability to benefit from the program. Out of the 16 countries reporting data since publication of a national AGOA utilization strategy, virtually all saw an increase in exports, and 8 countries saw an increase in exports of more than 100 percent. The export of crude oil has been excluded from this analysis.

These examples indicate that a comprehensive assessment of export strategies can help AGOA beneficiaries target resources to facilitate the improved utilization of AGOA benefits. With four years left under the existing legislation, it is apparent that there is still time for beneficiary countries to achieve greater results under AGOA. A renewal of AGOA for another ten years would provide even more time to make national AGOA strategies as beneficial as possible while further deepening U.S.-Africa commercial ties.

Investment Incentives: In 2006, the Ways and Means Committee considered the Sub-Saharan Africa Economic Activity Credit which would have provided a credit for American companies making investments in certain productive sectors in AGOA eligible countries.

The legislation ultimately did not survive the process but it is time to reconsider investment incentives for those American companies who make productive investments in AGOA countries. Such incentives would lower the risk for American companies and increase the returns. It would also help to reverse the decline in American investment in Africa more generally. Targeted on key sectors such as health, agriculture and manufacturing, a tax credit could be welcome boost for American investment and economic development more broadly across the continent.

Conditionalities: When AGOA was passed in 2000, it was designed to incentivize good governance as well as economic reform, trade, respect for human rights and a number of other objectives.

As we consider the future of AGOA and its renewal, I would recommend a thorough review of how the conditionalities are structured. In particular, we have become more adept at imposing crippling economic sanctions on those who are responsible for human rights abuses and staging coups. If we had used sanctions in 2009 on those responsible for the coup in Madagascar instead of withdrawing AGOA benefits, many of the 50,000 mainly women working in AGOA-dependent jobs, who had nothing to do with the coup, would not have lost their jobs.

We are facing a similar situation in Ethiopia. Appropriately and significantly, the United States has provided several hundred million dollars of assistance to respond to the humanitarian crisis in Tigray. With the withdrawal of Ethiopia's AGOA benefits, now set for January 1, 2022, an estimated 100,000 workers, in the southern part of the country, again mainly women, who are employed in AGOA-dependent jobs and have nothing to do with the conflict in the north are likely to lose their jobs.

The Biden administration has signed an executive order authorizing broad sanctions against those involved in perpetrating the ongoing conflict, including those in the Ethiopian government, the Eritrean government, the Tigray People's Liberation Front, and the Amhara Regional Government. The bipartisan Ethiopia Peace and Democracy Promotion Act 2021, which mandates targeted sanctions against individual actors who undermine, profit from or support any party to the civil war, also needs to be implemented as soon as possible. These should be the sticks that we use to bring parties to the negotiating table, not AGOA.

It should also be noted that the 2015 AGOA reauthorization provides the President with the flexibility to withdraw, suspend, or limit AGOA benefits rather than terminate the country's designation as an AGOA beneficiary. The previous administration took this action in 2018 with respect to Rwanda.

The AfCFTA: At the recent AGOA ministerial, Ambassador Tai observed that a long-term, durable trade and investment relationship between the U.S. and Africa "cannot be achieved through AGOA alone." Encouragingly, Tai expressed strong support for initiatives that could support U.S. trade priorities in the region, focusing in particular on the implementation of the AfCFTA regional trade agreement. Fully realized, the AfCFTA promises to liberalize the flow of goods and services across the African continent, boosting inter-regional trade and investment.

One area on which the U.S. should double-down is trade facilitation. For example, it takes a truck of goods about 17 hours to travel the 1000 miles from Cape Town to Johannesburg. It can take that same truck up to five days to travel the same distance from Johannesburg to Lusaka, Zambia. The U.S. in partnership with AfCFTA Secretariat, the A.U., and the impacted African countries, should undertake a Strategic Corridors Initiative that would help expedite the flow of goods and people on key corridors, such as from Abidjan to Lagos, Kigali to Mombasa, and from Johannesburg to Lusaka.

The U.S.-Kenya FTA: When AGOA was passed into law in 2000, it was envisioned that it would be a stepping stone to a more mature trade relationship. To that end, the Trump Administration launched trade negotiations with Kenya with the intent of concluding the first reciprocal trade agreement with a country in Sub-Saharan Africa. As envisioned, those negotiations and any resulting agreement would serve as a model for future trade policy toward Africa.

The Biden Administration, in contrast, has yet to indicate whether it will move forward with a trade agreement with Kenya. In fact, the omission of any reference to comprehensive trade negotiations in the readout by the White House following President Kenyatta's Oval Office visit with President Biden on October 14 suggests that the administration does not intended to pursue the negotiations, at least in the near term.

I firmly believe that we need to resume these negotiations with Kenya as soon as possible. Perhaps it would make sense to adopt a new approach, given the evident downsides of globalization. There is no question, however, that American products need to be guaranteed equal tariff treatment going into the Kenyan market, compared with goods coming from the EU, the UK and elsewhere. At the same time, Kenya wants to lock in the gains it has achieved under AGOA, which makes sense. I believe that there is a way to establish a reciprocal and predictable trade relationship with Kenya, one of our most important partners in Africa, that goes beyond AGOA and becomes a model for future trade relations with our key commercial partners on the continent. It is also worth noting that a reciprocal agreement with Kenya would not undermine the implementation of the AfCFTA, as the UK's 15 FTAs with African nations demonstrates.

Thank you for the opportunity to speak with you today, and I look forward to answering any questions.