FULL WRITTEN SUBMISSION

U.S. House of Representatives
Ways and Means Committee, Subcommittee on Trade
"Strengthening the US-Africa Trade & Investment Relationship"
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November 17, 2021

Chairman Blumenauer, Ranking Member Buchanan, and members of the Subcommittee on Trade, let me begin by saying how deeply grateful I am for the opportunity to appear before you today.

I was honored to play a role, however modest, in the great bipartisan movement that was birthed in this Subcommittee more than two decades ago.

It is good to be back where AGOA formally began its journey onto the statute books and where the journey to new and even bolder steps must also begin.

When this body mandated the President of the United States to "develop and implement" a U.S. trade policy for Africa, as part of the 1995 Uruguay Round Implementing Agreement, little did we know that a 'mustard seed' would grow to become the cornerstone of U.S. economic engagement with Africa for decades. So great was this inclusive bipartisan movement that AGOA attracted the input and endorsement of all then-48 countries of SSA, along with civil society and business leaders on both sides of the Atlantic.

History bears witness that AGOA was written in the House of Representatives by this Subcommittee. It was totally bipartisan. It also brought the Speaker of the House to testify in favor of the AGOA legislation (before a House Subcommittee). This had never happened before — a sitting speaker coming to this Subcommittee to testify in favor of a Bill.

It was this Subcommittee, with great ambition, which ensured that trade and investment were institutionalized in U.S. policies. The groundbreaking work done here marked a historic shift in how we thought about and worked with sub-Saharan Africa.

Today, AGOA has delivered nearly $75 billion in non-oil duty-free products to the U.S.; millions of jobs, largely for African women; and unquantifiable hope for African people. It is important to note that AGOA has also generated more than 100,000 jobs in the U.S. and helped to turn a U.S. trade deficit with Africa into a surplus. All this done at little to no cost to U.S. taxpayers.

With AGOA set to expire in three years, it is heartening to see a growing consensus that the time has come to break new ground.

Before outlining what I believe should be done, may I first, respectfully, convey what I strongly believe should not be done. Please don't expect USAID to figure out how to promote trade and investment in Africa. USAID is not set up to do that. USAID spent billions to promote trade and investment in Afghanistan. I will leave it there.

So how do we move forward? Permit me to offer four ideas.

One. With AGOA, we stimulated investment and job creation in Africa's export industries. Now we should **open our tax code to incentivize US investment in and sourcing from Africa.** We can establish enterprise zones across eligible African countries with tax incentives that might include:

- development tax credits for sourcing products made in Africa under conditions that support workers and the environment.
- repatriation of profits, tax-free, for US investments in Africa that promote carbon-free growth, access to health care, and the digital economy. Such a program could also be budget-neutral in this time of significant deficits.

The tax code proved to be a powerful mover of the U.S. private sector in South Africa in 1987 when Congressman Charlie Rangel authored an amendment to institute double taxation on U.S. companies doing business in apartheid South Africa. The companies pulled out in response. I believe Rangel's double tax law was the greatest US contribution to ending apartheid.

Since AGOA went into effect, about 90% of exports under AGOA have been oil**.** By allowing U.S. firms to repatriate profits tax free, we can incentivize investments that support carbon-neutral growth and promote "transformative sectors" such as digital infrastructure, agriculture, and health.

- The International Energy Agency's 2019 Africa Energy Outlook reports[1] that "African energy demand is growing twice as fast as the global average and will continue to do so over the next two decades." Without massive investment in alternatives, Africa's only choice will be to meet most of that demand through its abundant reserves of fossil fuels.

- "Africa has the richest solar resources on the planet but has installed only 5 gigawatts of solar photovoltaics (PV), accounting for less than 1% of global capacity. With the right

[1] https://iea.blob.core.windows.net/assets/2f7b6170-d616-4dd7-a7ca-a65a3a332fc1/Africa_Energy_Outlook_2019.pdf

policies and financial support, solar could become one of the continent's top energy sources."[2]

- Today, the share of gas in sub-Saharan Africa's energy mix is among the lowest in the world. But that could be about to change, especially considering the supplies the continent has at its disposal: it is home to more than 40% of global gas discoveries so far this decade."[3]
- 70% of the world's cobalt is found and extracted in the DRC, yet 60% of the world's cobalt is processed in China.[4]—cobalt that is essential for Electrical Vehicles, batteries for smartphones and laptops, and battery storage devices that hold energy from solar, wind and other renewable sources.
- Researchers are looking at manganese as an alternative to cobalt in lithium batteries, due to it being cheaper and mined in more stable regions. Even if sustainable efforts to substitute cobalt with manganese are successful, Africa will still be a major player in the production and supply of this mineral. South Africa is the world's 2nd largest producer of manganese, while Gabon is the world's 4th largest producer of manganese.[5]

It's worth noting that enterprise zones, with a history of bipartisan support, revitalized Harlem and other urban areas crippled by decades of redlining and racial discrimination. I believe enterprise zones, especially for the Green Economy, can achieve similar gains in Africa. Charlie Rangel, Jack Kemp, Ronald Reagan, Bill Clinton, and Paul Ryan all supported various plans to suspend or lower taxes to promote investment in distressed areas in America. China has a dozen or so enterprise zones in Africa. Chinese companies get a 50% reduction on their tax rate derived from those designated areas. Why doesn't the U.S. create its own AGOA enterprise zones? If you open the tax code to provide non-complicated incentives to promote new U.S. private sector investments in Africa — say a zero rate or a 5% rate — instead of 21% rate — that will convince U.S. companies, which are basically scared to invest in Africa — to take the risk. The powerful magnet of better rates of return can offset the fears and misperceptions related to stability and risks in African countries. In my view, very little, motivates U.S. businesses like better rates of return.

I am convinced that these tax incentives would also not cost the US taxpayer a dime. I believe the U.S. Treasury Department and the Joint Tax Committee will confirm that there are zero profits being repatriated from US company investments in the AGOA region.

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[2] https://iea.blob.core.windows.net/assets/2f7b6170-d616-4dd7-a7ca-a65a3a332fc1/Africa_Energy_Outlook_2019.pdf
[3] Ibid
[4] https://iea.blob.core.windows.net/assets/24d5dfbb-a77a-4647-abcc-667867207f74/TheRoleofCriticalMineralsinCleanEnergyTransitions.pdf
[5] https://www.anl.gov/article/researchers-eye-manganese-as-key-to-safer-cheaper-lithiumion-batteries

Two. Leverage the U.S. bond market to offer bond guarantees to support infrastructure development in Africa.

The liquidity of the U.S. bond market is currently on the order of $47 trillion.

Africa has pinned its hopes for the future on integrating and industrializing its economies as a single market under the African Continental Free Trade Agreement (AfCFTA). Realizing this vision will require massive investments in transport, communications, and energy infrastructure, adapted to deal with the exigencies of climate change whose costs the US and other developed nations have pledged to help defray.

Leveraging the strength of the U.S. bond market would help shift the burden of bilateral funding assistance to Africa away from the federal budget.

The Securities Industries and Financial Markets Association (SIFMA) estimates[6] that as of Q4 2020 the global bond market was valued at approximately $123trillion. The US bond market makes up 38.9% of the global bond market, valued at $47trillion.

A bond program for Africa could boost American exports to Africa with a "Buy American" program component that would require eligible African bond recipient countries to dedicate 10-20% of the funds generated by the bonds to source American products and services.

The benefits of helping Africa bridge the infrastructure gaps hindering intra-African trade via the AfCFTA are significant. The AfCFTA[7]

- Is the largest Free Trade area in the world measured by number of countries participating. It connects 1.3 billion people across 55 countries with a combined gross domestic product (GDP) valued at US$3.4 trillion.
- Has the potential to boost Africa's income by $450 billion by 2035 (a gain of 7 percent) while adding $76 billion to the income of the rest of the world.
- Has the potential to increase Africa's exports by $560 billion, mostly in manufacturing.
- Could spur larger wage gains women (10.5%) than for men (9.9%).
- Could boost wages by 10.3% for unskilled workers and 9.8 percent skilled workers.
- Has the potential to lift 30 million people out of extreme poverty.

The objectives of this proposal are aligned with the Biden administration's desire to:

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[6] https://www.sifma.org/resources/research/research-quarterly-fixed-income-issuance-and-trading/

[7] https://www.worldbank.org/en/topic/trade/publication/the-african-continental-free-trade-area

- Increase U.S. strategic influence in Africa
- Address the compelling and urgent need to assist in the funding requirements of the humanitarian and economic crises and dislocations caused by the Covid-19 pandemic,
- Promote a significant expansion in U.S. exports to Africa through the program's built-in trade acceleration initiatives, and thereby
- Meet the related imperative of driving job and enterprise growth in the U.S. during this turbulent era of pandemic-related economic disruptions.

Three. Adopt a sectoral approach to AGOA graduation

The time has come for a more targeted and discerning approach to AGOA's graduation. Madagascar provides a cogent example of what happens to the most vulnerable people when AGOA's benefits end prematurely.

The Congress could extend AGOA while graduating sectors after they reach a certain threshold. Similar to a competitive needs limitation, graduated sectors could then enter into reciprocal US trade arrangements.

Reciprocity should, however, go beyond trade provisions and include reciprocal and mutually beneficial investment opportunities. I believe we can graduate sectors not countries. We can set formula-based thresholds for sectors where AGOA countries are maturing by putting in place limitations. To maintain U.S. market access for these sectors, governments can either enter into mutually beneficial trade arrangements or "FTA-lites" with the U.S. or mutually adopt a competitive needs limitation.

Top non-energy import categories include textiles and apparel ($1.2 billion), transportation equipment ($652 million), agricultural products ($626million), minerals and metals ($332 million), and chemicals ($329million).

Although South Africa is the top supplier of AGOA non-energy imports (exporting cars) its dominance has decreased. Decreasing auto imports from South Africa and increasing apparel imports from other top countries are the main trends underlying this shift.[8]

If we were to graduate South Africa's auto sector under AGOA, the U.S. could enter into an "FTA-lite" agreement with South Africa if South Africa wanted to maintain its trade benefits beyond a threshold. This could be done for the other top non-energy exporters under AGOA (2019 and 2020) such as Kenya, Lesotho, and Madagascar.

[8] https://crsreports.congress.gov/product/pdf/IF/IF10149

Four. **End Tariff Rate Quotas for African Countries**

Why do Latin American countries like Brazil have huge quotas that allow them to ship sugar to the U.S. based on allocations were set a half century ago while there are 25 African countries are not allowed to import a single teaspoon of sugar to the U.S.? There is a huge Domino Sugar mill in Baltimore Harbor. As we watch the ships coming in to unload sugar, we won't see any from Africa. We need to change that.

With greater U.S. market access, West African cotton could be blended with US fiber to help revitalize the U.S. cotton textile industry to produce higher quality yarns that will help the U.S. compete with Asian yarn suppliers. This will help bring back jobs in the U.S. textile and apparel industry. Many of the Asian suppliers are utilizing cotton that is inadmissible to the U.S. because it was produced with forced labor.

Africa could, for example, be quite competitive in cotton if slave labor from other producers was addressed — but only if existing TRQs were ended or modified.

Conclusion

Not one of the world's most pressing challenges can be resolved unless Africa is a full and willing part of the solution -- not climate change and the destruction of the biosphere, not the threat of ongoing pandemics, not destabilizing mass migrations, not the cancer of terrorism that feeds on corruption and failing states, not the potential for economic stagnation as the populations of the industrialized North age out of the workforce. From the UN to the WTO, Africa represents the largest voting bloc and is the swing vote in international fora. In my view, China, because of its economic hegemony in Africa, has significant sway over Africa's positions in these international bodies.

As Covid, climate change and supply chain woes brutally remind us, this is a rapidly shrinking, interdependent planet. A healthy, stable, economically integrated, and self-reliant Africa on a sustainable, carbon neutral path to industrialization is not a nice-to-have. It is a must-have for the sake of our own prosperity and well-being. ###