



Statement of the U.S. Chamber of Commerce

ON: Hearing on “U.S. – Africa Trade Relations: Creating a Platform for Economic Growth”

TO: Joint Hearing of the United States House of Representatives Committee on Energy and Commerce Subcommittee on Commerce, Trade, and Consumer Protection; and the United States House of Representatives Committee on Foreign Affairs Subcommittee on Africa and Global Health

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The Chamber's mission is to advance human progress through an economic, political and social system based on individual freedom, incentive, initiative, opportunity and responsibility.

Thank you Chairman Rush, Chairman Payne, Ranking Member Radanovich, Ranking Member Smith, and the other Members of both Committees. I am Greg Lebedev, Senior Advisor to the President of the United States Chamber of Commerce, and I am also the Chairman of the Center for International Private Enterprise, one of the four core institutes of the National Endowment for Democracy.

The U.S. Chamber of Commerce is grateful for the opportunity to appear before this Subcommittee on a matter of considerable importance to the American business community.

The U.S. Chamber is the world's largest business federation, representing more than three million businesses and organizations of every size, sector, and region. More than 96 percent of the Chamber's members are small businesses with 100 or fewer employees, 70 percent of which have 10 or fewer employees. Yet, virtually all of the nation's largest companies are also active members. The Chamber represents almost every sector of the economy, and has a substantial member base in all 50 states. And, almost every segment of our membership has a well established or growing stake in international trade and investment.

The Chamber has long recognized that worldwide trade provides an invaluable economic opportunity, rather than a threat to domestic prosperity; consequently, the organization's international reach is substantial and unique. In addition to the Chamber's global network of 112 American Chambers of Commerce Abroad (AmChams), another U.S. Chamber affiliate, the Center for International Private Enterprise – one of the four institutes of the National Endowment for Democracy – conducts more than 100 projects in emerging economies, including many countries in Africa, aimed at building private sector capacity and supporting free market institutions. It is this level of global engagement that reinforces the Chamber's efforts to strengthen America's competitiveness and simultaneously oppose isolationism and artificial barriers – be they U.S. or foreign – to international commerce.

It is no longer enough to just advance the general message that business development and investment is good for Africa or that Africa is “open for business.” In today's highly complex and competitive world, the U.S. Chamber strongly believes that it must work to develop specific strategies and mechanisms to promote and facilitate U.S. business engagement in Africa and elsewhere, or risk being left behind as international businesses and investors and even countries make strategic investments in the African market.

U.S. Chamber's Africa Business Initiative

Accordingly, the U.S. Chamber has recently launched a new initiative to support the U.S. business community as it considers its commercial engagement in Africa. The Chamber's Africa Business Initiative (ABI) is charged with assisting U.S. companies on legislative policies that foster foreign direct investment in Africa, facilitating U.S. trade with African countries, and introducing U.S. companies to the continent's vast economic opportunities.

To be sure, the ABI represents an emerging U.S. business interest in Africa – an interest in developing U.S. export and import opportunities, in responding to requests for advice, knowledge and expertise on specific sectors in Africa, and in establishing a cache of knowledge on how best to engage with the African public and private sectors. The ABI will also advance the U.S. Chamber's support for fair and mutually beneficial trade between the U.S. and Africa as well as advancing and promoting policies that reduce the cost of doing business for both U.S. companies in Africa and local African entrepreneurs. This type of initiative is critical to leveling the playing field for U.S. companies in all emerging economies, particularly as major developing economies, like China and India, are increasingly present throughout Africa.

Survey of U.S. Business in Africa

In order to have a constructive conversation about why U.S. companies are or are not investing in Africa, one must first understand the views of those who are close to the market – the companies that are already invested in the region. The U.S. Chamber, in partnership with Baird's CMC, a leading South African communications firm, recently conducted and released a study entitled, "A Conversation Behind Closed Doors: How Corporate America Really Views Africa." This qualitative survey was conducted in late 2008 and early 2009 through a series of off-the-record interviews with senior executives – most from *Fortune* 100 firms – operating in Africa.

Simply said, this study highlighted the complexities and perceptions of doing business in Africa. It probed the conditions, issues, and attitudes which understandably constrain U.S. multinational investments throughout the continent. And, most importantly, it spelled out the specific areas in need of change. For those like the U.S. Chamber that believe in the long-term importance of Africa as a market, this ground-breaking study is a first step to understanding the policy and behavioral changes required to increase U.S. investments in Africa. The study's executive summary is submitted with this testimony for the Subcommittee record.

Investment Risks and Rewards

One frequently noted challenge is that Africa's investment climate is regularly and broadly portrayed by major media as an area marked by chaos and unrest. This is selectively true and irresponsibly generalized. To counteract this negative image and the investment hesitancy it creates, U.S. companies need to be shown the uniquely attractive features of the market and understand where African governments are taking strong steps to create a welcoming environment for business. Investment incentives may include the lure of an untapped market, an environment rich in critical raw materials, high rates of return on investment, or a belief that there is a competitive advantage to early entry into African markets. However, as demonstrated in our survey, many of these legitimately positive factors are overshadowed by either the specter of "unknown risks" or "chronic uncertainty" which is too often found in Africa, or the fact that U.S. companies are simply unaware of a substantial opportunity in their area of expertise.

It must be acknowledged that the U.S. businesses that operate in Africa face generally higher costs of doing business when compared to other developing regions. And, many of the market conditions are well known: weak legal structures and institutions, inadequate physical infrastructure, costly water systems, energy and telecommunications challenges, and the lack of skilled or otherwise healthy labor. Another long-term investment challenge is that the continent does not yet offer a sufficiently large middle class of consumers or sufficiently large markets for local consumption for many goods and services. And, too many barriers to intra-African trade remain.

However, regional integration is progressing and achieving major trade gains through the efforts of the East African Community (EAC), the Common Market of East and Southern Africa (COMESA), Southern African Development Community (SADC), and the Economic Community of West African States (ECOWAS). In fact, trade among the 19 COMESA members increased from \$3.2 billion in 2000 to \$15.2 billion in 2008¹. As the region integrates, the investment case becomes even stronger. The COMESA region alone constitutes a potential common market of 400 million people.

Despite the challenges of incomplete economic integration, insufficient infrastructure and more, a careful evaluation of Africa as a whole clearly shows that the continent is a compelling investment opportunity. For example, the UN Conference on Trade and Development in 2008 released a report showing that Africa had provided the **highest return on foreign direct investment of any region in the world** with an average of 31% for two years straight². Additionally, the success of

some of the world's largest investment firms and the entrepreneurial achievement of companies like CelTel³, an African-founded mobile phone business which now hosts 20 million subscribers in 15 African countries, demonstrates the value of Africa's consumer market and some early mover potential.

The Road Ahead

Notwithstanding the unique advantages which the African market presents, African countries – like all other destinations of trade and investment – must regularly compete with well-developed countries for investment and must regularly make significant efforts to attract scarce global capital.

As we earlier observed, the U.S. Chamber's Africa Business Initiative is working to clarify the negative perceptions about doing business in Africa. We are listening to and learning from U.S. and African business men and women and from African governments about their experiences – good and bad -- with trade and investment throughout the continent. The Chamber is providing a forum for dialogue among our membership and others about how to improve U.S.-Africa commercial relations, and navigate this complicated but unique and invaluable market and destination for investment.

AGOA and Trade Financing

Aside from noteworthy private sector efforts to promote a more enlightened dialogue on investment in Africa, there are some very practical ways which American and African governments are helping to facilitate greater U.S. commercial engagement throughout the continent: political risk insurance, sovereign guarantees, co-investment with international financial institutions, and other risk mitigation tools. These are already critical tools for U.S. investors, but many could be improved to further promote opportunities for both U.S. and African interests. These enhancements could include expanding trade financing for African projects, removing some of the restrictions on OPIC and Ex-Im financing options, and improved coordination of U.S. and multilateral financing and debt-relief programs, and other creative ways to incentivize U.S. investment in Africa.

In the context of overarching trade policy toward Africa, all will agree that the U.S. African Growth and Opportunity Act (AGOA) has been instrumental in creating and promoting a more stable business climate in Africa. U.S. exports to AGOA countries have more than tripled since its enactment in 2000, and even Africa's non-oil exports to the U.S. have seen similar gains⁴. However, AGOA's success is not guaranteed. The current financial crisis has had tremendous impact on U.S.-Africa

trade, with total U.S.-Africa trade declining some 50% in the first quarter this year according to the Department of Commerce⁵. U.S. exports to Africa have been severely impacted in several key export sectors, including vehicles, machinery, and several major agricultural products; and U.S. imports from Africa also saw declines in key African employment sectors, such as agriculture and apparel.

Given the currently challenging and uncertain environment, U.S. and African businesses alike need more certainty about AGOA's future, as the Act currently expires in 2015 and key provisions expire as early as 2012. AGOA's simplicity has been central to enabling more trade between the U.S. and the countries of Africa, but the Act should go further in creating new market opportunities for U.S. and African exporters, and in helping our partners in Africa overcome some of the key challenges hindering greater U.S. trade and investment. Prosperity is the objective for the U.S. and African nations alike, and the only sustainable path is a robust free market where government and business are partners in each other's success.

Conclusion

Let me close by thanking this Subcommittee for this special session and express the Chamber's desire to work with each of you to ensure a robust discussion of U.S.-Africa policy as the Congress examines trade preferences, foreign assistance, and other issues which are critical to U.S.-African economic and political relations. We at the Chamber also look forward to working with our friends and partners in Africa to overcome many of the real and perceived challenges to doing business on the continent and thereby promote greater U.S.-Africa trade and investment.

Periods of economic distress remind us all of the value of open markets and competitive advantage, and the continent of Africa and its diversity of resources represents a virtually untapped marketplace for American goods, services and capital. But, work needs to be done on both sides of the Atlantic to realize these opportunities. American business must see through the haze of negative images and learn to navigate the risk of this opportunity-rich environment. In the same spirit, African countries – and, more specifically, African governments – must make hard decisions about education, infrastructure and rule of law if they are to successfully compete for an increasing share of U.S. trade and investment. The time is right to change the relationship from donor and donee to business partners in key countries and critical sectors throughout the African continent. And, the time is right for the Congress and the U.S. Chamber of Commerce to fashion a partnership which will facilitate free market prosperity for Americans and Africans alike.

Once again, thank you for the opportunity to testify before you today on this very important and timely topic.

¹ COMESA: <http://www.lusakatimes.com/?p=13341>; <http://www.comesa.int/>

² UNCTAD: <http://en.afrik.com/article14576.html>;

<http://www.unctad.org/Templates/WebFlyer.asp?intItemID=4629&lang=1>

³ CNN: http://money.cnn.com/2008/02/13/magazines/fortune/gunther_africa.fortune/index.htm

⁴ U.S. Department of Commerce, International Trade Administration, <http://tse.export.gov/>

⁵ U.S. Department of Commerce, International Trade Administration, Market Access & Compliance/Office of Africa publication: 'U.S. Trade with Sub-Saharan Africa, January-March 2009'.