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AFRICAN GROWTH AND OPPORTUNITY ACT

HEARING

BEFORE THE

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UNITED STATES SENATE

ONE HUNDRED FIFTH CONGRESS

SECOND SESSION

ON

S. 778 and H.R. 1432

JUNE 17, 1998

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AFRICAN GROWTH AND OPPORTUNITY ACT

WEDNESDAY, JUNE 17, 1998

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 10:05 a.m., in room SD–215, Dirksen Senate Office Building, Hon. William V. Roth, Jr. (chairman of the committee) presiding.

Also present: Senators Chafee, Murkowski, Moynihan, Rockefeller, Breaux, Conrad, and Graham.

OPENING STATEMENT OF HON. WILLIAM V. ROTH, JR., A U.S. SENATOR FROM DELAWARE, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. The committee will please be in order.

I sound like Gravel Gertie today, and I apologize for that.

Senator MOYNIHAN. There is a wedding come up, is there not?

The CHAIRMAN. It is not good timing.

As we all know, Africa is in the midst of fundamental political and economic change. We have seen the fall of apartheid in South Africa, and we are now seeing the rise of dynamic free market economies in countries such as Uganda.

A majority of the sub-Saharan African countries have seen free elections in recent years, and a still greater number are in the midst of economic reform. These developments have given all of us a sense of hope of the present and future of that region.

While there are significant reasons for optimism, sub-Saharan Africa faces great challenges. The countries of the region are among the world's poorest. According to the World Bank, the region's Gross National Product, measured on a per capita basis, has declined over the last decade. Per capita income averages only $490 annually.

The region has also seen political instability, scarcity, and violence. It is in the interests of the United States to encourage both stronger democracies in Africa, and the self-reliance that flows from productive free market economies.

The fundamental question before our hearing today, is what tools we will use to serve those interests. I am, as a consequence, looking forward to today's hearing in the hope that it will bear directly on the importance of our relationship with the countries of sub-Saharan Africa, the appropriate tools for encouraging political and economic development int that region, and the terms on which we

should open our market to African exports as an incentive for investment there.

As the level of attention that has been focused on today's hearing demonstrates, these issues arouse a great deal of interest. We are fortunate that we have with us a very impressive list of witnesses to help us explore these issues. I will not review them at this time, but I would put my total statement in the record as if read.

[The prepared statement of Chairman Roth appears in the appendix.]

The CHAIRMAN. Before we call on statements by other members of the panel, as well as those before us, I do want to acknowledge the presence of a very, very significant number of ambassadors from the sub-Saharan African countries that are with us today. I would appreciate it very much if the ambassadors would rise so they could be recognized by the others.

[Applause.]

The CHAIRMAN. Thank you very much for your interest, for your taking the time to be here today. I had the distinct pleasure and privilege, Senator Moynihan, of meeting with them a few days ago.

So at this time I call on my good friend and colleague, Senator Moynihan.

OPENING STATEMENT OF HON. DANIEL PATRICK MOYNIHAN, A U.S. SENATOR FROM NEW YORK

Senator MOYNIHAN. Thank you, Mr. Chairman. We are here, largely because of the efforts of two of our witnesses, Representatives Rangel and Crane. It is a distinct pleasure for them to be here as fellow members of the Ways and Means and Finance Committee consortium, if you will. And, of course, Senator Lugar.

This is an important occasion. It is more important that we hear from them than they hear from us. I will support this legislation. I am proud to be in the company of such distinguished legislators. I have a statement I would put in the record, if I may, sir.

The CHAIRMAN. Without objection.

[The prepared statement of Senator Moynihan appears in the appendix.]

The CHAIRMAN. Senator Murkowski.

OPENING STATEMENT OF HON. FRANK H. MURKOWSKI, A U.S. SENATOR FROM ALASKA

Senator MURKOWSKI. Thank you, Mr. Chairman. As you know, we have a caucus at 10:30, so I will be very brief. But let me congratulate you for focusing in on trade issues for the committee. I think we should pay far more attention to trade, personally. I am pleased to see that our Secretary of State is with us.

I would like to make one specific point. I think the administration is putting in a lot of time and attention to this legislation, which is appropriate. However, regardless of how we feel about this bill, I am really a little upset that the administration is not more aggressive in proceeding with the fast track issue, which I think is important that we pursue with intensity.

I am not comparing the two, other than to indicate the significance and importance of fast-track authority. I think the administration should be pressing, if you will pardon the expression, the

House members to vote on fast track. I think this should be at least our number one trade priority. I grant you that this legislation goes a long way in helping sub-Saharan African economies to get moving.

Obviously, textiles are not a big issue in Alaska. If Somalia were farming salmon, why, that might be something else again. But I would hope that, Mr. Chairman, we could find a common ground for this legislation. Sub-Saharan Africa could become an important market for the United States, if only we stoke the fire a little bit more than we are doing.

But, again, I want to reiterate, I believe the administration has its priorities in the wrong place relative to number one issues. Fast-track negotiating authority should be the number one international trade issue, and the administration should be pushing it. I think diverting attention to other things is a mistaken priority. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Murkowski.

We are going to proceed to the three witnesses before us. I, too, want to congratulate all three of them for their leadership that they have demonstrated on this issue. We do have the Secretary of State here, and I know she is on a very tight schedule. So, I would ask each of you to limit your remarks to 5 minutes and we will include your entire statement as if read.

We are pleased to have you here, and look forward to your comments, Senator Lugar.

STATEMENT OF HON. RICHARD LUGAR, A U.S. SENATOR FROM INDIANA

Senator LUGAR. Thank you very much, Mr. Chairman and members of the committee. It is an honor to be with my colleagues from the House who have had success with this legislation in the House. I appreciate, especially, the opportunity to testify on behalf of H.R. 1432 and S. 778, "The African Growth and Opportunity Act."

I want to express my appreciation to you, Mr. Chairman, especially, for holding the hearing. I know the committee's agenda is very crowded, but you have made a very special effort for this legislation to have a high priority, and I am grateful for that.

Mr. Chairman, I believe for some time the United States' policy towards sub-Saharan Africa should be revised to reflect changing global and regional realities. For several decades, U.S. foreign policy towards Africa has been based largely on a series of bilateral relationships.

Our involvement in Africa was influenced by strategic considerations inherent in the Cold War. Our assistance programs targeted humanitarian crises and natural disasters, and they have helped nurture a variety of important health, nutritional, educational, and agricultural programs.

As important as these programs have been, they have not promoted much economic development, greater self-reliance, or even political stability for the vast majority of people in Africa, nor, I must add, have they benefitted the American economy. For these reasons, it is time for the Congress to reevaluate our policy. That is the purpose of this legislation.

The African Growth and Opportunity Act is the first serious attempt to develop a new American strategy in Africa. It is, in my judgment, a very modest bill that, if adopted and implemented, could bring substantial benefits to both Africa and the United States.

The bill takes a long-term view that the United States can help improve the quality of life in sub-Saharan African societies through mutually beneficial economic ties. It provides a beginning road map for achieving these objectives.

In its essence, the bill would alter our policy toward sub-Sahara Africa by developing mature relationships through trade and investment incentives with those countries undertaking economic and political reforms.

As you know, Mr. Chairman, the African bill was approved this spring as a bipartisan measure in the House by a margin of nearly 50 votes. I introduced S. 778, the original Senate version of the House bill, more than a year ago and regard its enactment as one of my highest foreign policy priorities.

The administration supports the legislation, in part, because it mirrors its own initiatives on Africa. Indeed, President Clinton mentioned the bill in his State of the Union address in January. Secretary Albright, from whom you will hear shortly, included the Africa bill in her list of the top four leadership challenges for 1998.

Virtually all African ambassadors, many of whom are here in the room today, have endorsed the bill. Most, but not all, African American leaders and organizations have also endorsed it. The bill has wide support among the American business community.

Let me outline very briefly, therefore, what the bill seeks to accomplish. First, it urges the President to negotiate free trade agreements with African countries that would lead to the creation of a U.S.-sub-Saharan Africa free trade area. That, unquestionably, is a long-term goal and will require considerable effort over time.

Most important, Congress needs to give the President fast-track authority to negotiate this, and other free trade measures. I believe it is crucial that the Congress vote on fast track this summer. Again, I will introduce legislation in hope of spurring Senate action. For now, this bill is designed to promote freer and more open trade with Africa.

The bill establishes a U.S.-Africa economic cooperation forum to facilitate high-level discussions on trade and investment policies involving the U.S. and Africa. Nothing close to this now exists.

The forum would work with the private sector here and in Africa to develop a long-term trade and investment agenda. Enactment of this initiative will send a signal to the American business community that serious efforts are being made to facilitate doing business with Africa.

As elsewhere around the world, the role of the private sector will be critical because it has the capital, the technology, and the know-how needed to bring about growth and development.

The bill signals to the world community that the United States intends to take Africa seriously. It signals that we want a more mature economic relationship and are willing to formalize high-level discussions.

The bill also establishes, through OPIC, two privately-managed funds to leverage private financing for small- and medium-sized U.S. and African companies, and to promote improved infrastructure development in Africa.

No official appropriations are required. These are privately-financed funds. One, is a $150 million equity fund, the other, a $500 million infrastructure fund. Both are modest in size given the magnitude of the needs to be addressed.

If successful, improvements in African roads, telecommunication, and power plants can do much to accelerate economic activity in Africa. Each of these broad objectives will take time to manifest results. Similar efforts have proven successful in other regions of the world. The initiatives in the bill would bring more immediate economic results.

Let me say, Mr. Chairman, that I would like the rest of my statement to be included in the record. It is, at least, a further analysis of the particulars that I have given you, but the gist of our bill has been in the earlier testimony.

The CHAIRMAN. Well, thank you for your very fine testimony. Your full statement will be included as if read.

Senator LUGAR. Thank you, sir.

[The prepared statement of Senator Lugar appears in the appendix.]

The CHAIRMAN. It is my pleasure to call on Congressman Rangel, who is also the Ranking Member of the Ways and Means Committee.

Congressman RANGEL. Let me yield to my chairman at this time, Chairman Crane.

Congressman CRANE. For a unanimous consent request or to testify?

The CHAIRMAN. Well, it is a pleasure to call on the chairman of the Subcommittee on Trade of the Ways and Means Committee.

Congressman CRANE. The concern I have, is we are not eating into our time through this exchange.

The CHAIRMAN. No. Please proceed. Good to have you.

Congressman CRANE. We do not have those interesting bells over on the House side that you have here. That is entertaining.

Congressman RANGEL. We have trap doors. [Laughter.]

The CHAIRMAN. More effective.

STATEMENT OF HON. PHILIP CRANE, A U.S. REPRESENTATIVE FROM ILLINOIS

Congressman CRANE. Well, I want to thank you, Mr. Chairman, and I want to thank Charlie for his gracious yielding to me, because Charlie played a vital role, as you know, in getting this legislation through the Ways and Means Committee, along with other colleagues on both sides of the aisle.

That is one of the things that is particularly pleasing to me, is the degree of collegiality and bipartisan support that we have enjoyed. That extends over here to the Senate side, too. I congratulate Senator Lugar for having introduced the companion legislation in your chamber.

I think that all of us should be aware that there are pockets of dissent out there, and we are going to encounter some of those. I

think they are probably more profound on the Senate side than on the House side. It is because you are representing a broader area and more interests than we normally do in our Congressional districts.

But I would like to focus a little bit on some of the arguments that have been made. I think that if you go back to our historical relationships with the African continent, we have been providing aid for an extended period of time and it has been helpful, to be sure. But I think there are better ways to realize the objectives of trying to help disadvantaged people. To me, those have always been the expansion of free market opportunities, and those are directly related to trade.

I think that, through this trade approach, especially with the reforms that have been initiated by the countries in sub-Saharan Africa, or by at least 25 to 30 of them already, those reforms that they have taken on their own are moving in the right direction and they should be reinforced in a positive way that trade can help to achieve.

I salute the countries. I want to pay tribute also to all of the ambassadors. I would also like to leave with the committee, letters I have received from the ambassadors in sub-Saharan Africa endorsing this proposal.

Thank you so much.

But I think it is important for us to realize that we are talking about a region with a population of almost 700 million, and we are talking about 48 countries.

I think it is a window of opportunity that you can only reflect back and try and figure out how we missed it all these years, one of those very important portions of the globe, and I am excited about the prospects of what can be achieved through our bipartisan effort here at expanding our trade relations with them.

I will not get into particulars in my statement about some of the objections that have been raised, and it is the textile and apparel industries, to be sure. But we have also input from the International Trade Commission, we have input from Customs, that basically repudiates the arguments that have been advanced thus far from some of those interests.

I know that they have concerns, and their concerns they have expressed repeatedly any time we get into this area of expanded trade relations. But if you want further testimony on that, I will be happy to provide that during our question and answer period, because I know you are under tight time constraints.

With that, I will happily yield back, without using up his 5 minutes, to my distinguished colleague and Ranking Minority Member, Charlie Rangel.

[The prepared statement of Congressman Crane appears in the appendix.]

The CHAIRMAN. Charlie?

STATEMENT OF HON. CHARLES RANGEL, A U.S. REPRESENTATIVE FROM NEW YORK

Congressman RANGEL. Mr. Chairman, I know we are under a severe time restraint. I just cannot tell you how proud I am to be associated with my colleagues on the Ways and Means Committee in

the House of Representatives. Of course, the leadership is being provided today by you, the Senators, and my friend and senior Senator from New York.

We go back home so proud to know that we were here at this point of our great Nation's history to make certain that this great continent, with its wonderful people, have not been ignored as we try to sustain our continued economic growth by building up nations and people so that we can improve the quality of life of all of God's children on this earth.

One of the greatest resources that we have in this Nation of ours is the diversity. While we are proud of all of the European traditions that have led us to this 200th year, what a great waste we have had in not taking advantage of everything we have in this country. I would like to be associated with the testimony of my colleagues.

There is no question that the administration has done a fantastic job in giving hope to our friends in the countries of Africa, and we feel so proud that we have met with the Africans to make certain that we did not draft a feel-good piece of legislation, but something that they felt that they could work with with mutual respect. If there are things that they objected to, we have promised that this is just a beginning and we will continue to work.

Are there people that feel that these adjustments are going to cause them harm? Yes. But we reviewed it. When you take a look at the fears of our markets being penetrated with African textiles, the International Trade Commission has studied this issue.

As of now, less than 1 percent of the imports come from Africa. They have said that, if you transfer as much technology as Africa could consume, it could not reach 2 percent of our market. So, these are the facts, as we see it, even though we have the emotional barrier to overcome, because of NAFTA, because of CBI. Hopefully, CBI parity would take care of some of the problems we face them.

There are some critics that would say that we are putting severe restrictions on the governments of Africa in the sub-Sahara and restricting their ability to make judgments. I would like to remind them that this is not a treaty. This is not a trade agreement. This is only to direct that the President of the United States immediately move in to work out agreements with these sovereign and great nations.

So, while there is a concern about transshipment, I think that we have tried to tighten up those restrictions to remove any preference that countries would receive. If, indeed, their countries were being used for transshipment and if there are any provisions that the Senators would want to place on the bill, to even further tighten it.

I am so pleased to say, it is the representatives of the nations that would say do that, because they do not want their countries to be used. They want jobs, they want to improve the quality of life, they want to have mutual respect, mutual trade.

I am just so lucky to be born at this time to see our great country open up the doors of friendship and mutual respect with these countries in Africa. I look forward to working with you.

I had a great conversation with Leader Lott yesterday, and he is excited about the prospect of this bill. He is concerned about CBI parity. I just know that we need both of those in order to round out what is going to be a sound foreign trade policy.

Thank you so much for your time.

[The prepared statement of Congressman Rangel appears in the appendix.]

The CHAIRMAN. Thank you, Congressman Rangel. Because of the tightness of the schedule, we are going to proceed to the first panel. But we will want to be in contact with you. We appreciate, again, your leadership and look forward to working with you.

Senator MOYNIHAN. Mr. Chairman, may I just note, Mr. Rangel's remarks about transshipment, that is an important measure, and the way you put it was very positive.

The CHAIRMAN. Again, thank you very much.

It is now my great pleasure to welcome Secretary Albright, as well as Secretary Daley and Deputy Secretary Summers. I understand that Ambassador Barshefsky wanted to be here with us, but, unfortunately could not because of her travel plans.

I also understand, Madam Secretary, that you have some conflicts later this morning, so we will be hearing from you. The Senators will have an opportunity to question you before we hear from Secretary Daley and Deputy Secretary Summers. I appreciate their willingness to schedule it this way so that we could meet your morning plans. Secretary Albright?

STATEMENT OF HON. MADELEINE ALBRIGHT, SECRETARY OF STATE, WASHINGTON, DC

Secretary ALBRIGHT. Thank you very much, Mr. Chairman. I also appreciate my colleagues' flexibility on this. I am very glad to be with you to have the opportunity to testify on behalf of one of our top legislative priorities, the African Growth and Opportunity Act.

My focus this morning will be on the foreign policy rationale behind the Act, and that rationale, I believe, is truly powerful because this legislation frames a new U.S. approach to a new Africa.

For a century or more, outsiders have either been telling Africans what to do or manipulating loyalties for geopolitical advantage. We have a chance now, which we must seize, to usher in a better era based on changed attitudes and a changing African reality.

Now, I do not minimize Africa's continuing problems, and I will comment on two of them, briefly, before I take your questions. But it would be a grave error to let problems rooted in Africa's past blind us to the immense possibilities of Africa's future.

Consider that, within the past 10 years, the number of democratically-elected governments in sub-Saharan Africa has more than quadrupled. Consider that, of the 48 nations in that region, no fewer than three dozen have begun economic reforms so that the lost decade of the 1980's is being replaced by the growth decade of the 1990's.

Consider that a new generation of Africans has come of age, raised in the era of independence, liberated from Cold War divisions, ready and increasingly able to assume an equal place at the

world table. Consider that, today, we export fully one-third more to Africa than to all the states of the former Soviet Union.

To those who think that the United States does not have important interests in Africa's success, I say, think again. Already, 100,000 American jobs depend on our trade with Africa. Already, Africa supplies more than 13 percent of our oil, nearly as much as the Middle East, and already there can be no doubt that a stronger, more stable, and prosperous Africa will be a better partner for security and peace and for our efforts to counter global threats, such as drug trafficking, terror, and crime.

In decades past, U.S. policy makers, when they thought of Africa at all, would ask, what can we do for Africa, or what can we do about Africa. Today, the right question is, what can we do with Africa to build real democracies based on open markets and respect for human rights?

By asking this question, we undertake the most fundamental change in our policy towards Africa since the independence movement blossomed on that continent four decades ago. That change is clearly embodied in the African Growth and Opportunity Act.

This legislation was developed on a bipartisan basis and with strong administration support here on Capitol Hill, and it reflects our strategy for placing trade and investment at the forefront of our economic relations with Africa, as they are with other regions around the globe.

The philosophy behind the Act is simple: America stands ready to help those African countries that help themselves. Specifically, the Act would achieve this by providing duty-free access to U.S. markets for many additional African products.

It would provide reform-oriented African countries with special preferential access for textiles and other labor-intensive products, and it would pave the way for hundreds of millions of dollars in new investment through two new OPIC funds, and it would facilitate technical assistance to help Africans take maximum advantage of all of the opportunities inherent in the world economy.

The benefits contained in this bill are not entitlements. They will not be available to every country. Some object to that, but, quite frankly, Mr. Chairman, we would be doing no favor to Africa or to ourselves if we fail to recognized in our laws the strides that African reformers are taking.

This bill is designed to encourage African governments to place their economies on a sound financial footing, to allow private enterprise to function within the rule of law, and to permit outside investment and to liberalize trade.

At the same time, the bill encourages African countries to tend to such development imperatives as poverty reduction, providing adequate health care, creating educational opportunity, and encouraging a new generation of African entrepreneurs.

This last factor is vital, because nothing will contribute more to Africa's future. That is why the legislation specifically supports micro enterprise and improved economic opportunities for women. Those are the smart things for Africa to be doing, and they are the right things for America to be supporting.

I believe one of the most striking arguments for this bill, is that it is supported by many African governments that may not even

qualify initially for its benefits. This reflects the dramatic change in philosophy that has been sweeping Africa. Throughout the continent, this legislation is seen as a catalyst for deepening reform and for opening the door over time to full participation for many African countries in the world economy.

During his visit to that continent this spring, President Clinton heard warm praise for this legislation from most African leaders. As the committee may know, it is ardently supported by Africa's diplomatic corps here in Washington.

Indeed, almost every government in sub-Saharan Africa, including South Africa, is now on record in support of this proposal. Given the diversity of Africa, that really is amazing evidence that the time is right, and the time is now, to enact this legislation.

Mr. Chairman, I do not want to emphasize that, although trade and investment are increasing in importance in our relations with Africa, that does not mean we can ignore the continuing need in many parts of Africa for aid. The Act does not impose new conditions on current assistance.

Instead, this legislation explicitly states that we should continue to provide development assistance to help establish a more receptive environment for trade and investment. Let me stress that we are continuing such aid. During this decade, we have contributed more than $15 billion in assistance to Africa.

Senators, as you know, some have expressed concern that the African Growth and Opportunity Act will lead to a major exodus of American jobs, especially in the area of textiles.

The administration takes concerns of this type seriously because we are committed to strengthening core labor standards around the world, and we do not want to see American workers undercut.

So, it is importance to recognize the limit on the legislation we are now considering. Because of the difference in the size of our economies, its impact will be felt far more in Africa than in the United States.

An International Trade Commission study concluded that, even if all quotas and tariffs on African textiles and apparels were lifted, African imports still would constitute just 1 percent of total U.S. imports in these categories. So, I think it is important to keep things in proportion.

Last year, our domestic textile and apparel production was approximately $160 billion. Our imports of these products from Africa amounted to less than one-four hundredth of that amount. The ITC estimates that the African Growth and Opportunity Act would impact, at most, 700 U.S. jobs and, in the current economy, would create more than 10 times that many jobs every day of the year.

Moreover, American businesses, workers, and farmers will benefit greatly over time as Africa becomes more prosperous and open. The continent is home to two-thirds of a billion potential consumers, as many as Japan and Southeast Asia combined, and yet our exports represent just 7 percent of this vast, untapped market, compared to Europe with more than 40 percent.

Mr. Chairman, in 1965, Nigeria's GNP was equal to Indonesia's, and Ghana's was the same as South Korea's. Over the past three decades, enormous opportunities were lost in Africa, just as they

were seized in Asia. Today we have a chance, with our African partners, to begin to make up for some of that lost time.

If we succeed, we can contribute to our own well-being and to a world that is safer, more prosperous, and more free than otherwise would be. We believe that this is a gift to the future. So, in my judgment, it is very important for the Senate to act positively, and soon, on the African Growth and Opportunity Act.

Mr. Chairman, before closing, I would like to touch on two related subjects. The United States is deeply disturbed by the risk of full-scale war between Ethiopia and Eretrea, and we have participated very actively in diplomatic efforts to find a peaceful solution there.

These are two of the poorest countries on earth with, ironically, two of the most capable leaders in Africa. The war, quite frankly, is madness. We are pleased that the two governments have agreed to a moratorium on air strikes. We urged them to take additional steps soon to restore mutual confidence, end all fighting, and find a peaceful and permanent solution to their dispute.

In Nigeria, a moment of decision has been reached. General Abubaker and his new government have an opportunity to put their nation firmly on the democratic path, which is also the path to prosperity and social progress for the Nigerian people, and we welcome the release of nine political detainees this week and hope for the release of other political prisoners, including Moshood Abiola.

We urge a swift and credible transition to civilian rule in which basic freedoms of speech, press, and assembly are respected. We are prepared to work with Nigeria and the Nigerian people in the context of such progress.

Finally, Mr. Chairman, let me acknowledge that the African Growth and Opportunity Act is sometimes paired with another of our priorities, which is enhanced trade benefits for the Caribbean Basin nations.

While these two bills employ different approaches, the administration supports both and would not object to their being considered together, if that should be the will of this committee and the Senate. Our goal is to see them become law.

Mr. Chairman, that concludes my testimony. I would be very glad to answer your questions. I am sorry that I went beyond the bell.

[The prepared statement of Secretary Albright appears in the appendix.]

The CHAIRMAN. Well, that is fine. Thank you for your statement of hope and promise. Let me ask you a couple of questions dealing with some of the criticisms that are being made of the proposed legislation.

One, is that the bill will only benefit those countries in sub-Saharan Africa that have already achieved a significant level of development at the expense of the poorest and least developed countries.

Secretary ALBRIGHT. Well, Mr. Chairman, we do not believe that. We think that basically what it does, is hold out to countries that are eligible for benefits the possibilities of being partners with us in a trade incentive, and at the same time we are not cutting down our aid assistance, as I pointed out. This is not one at the expense

of the other, but that basically this is a new approach to our dealing with Africa and holding out possibilities for having this more mature and productive relationship with them.

What I find interesting, as I mentioned in my testimony, that even those countries that are not currently eligible for it do believe that this is a good idea because they see it out there as an incentive. As I said, from our perspective it is not a trade-off of one for the other.

The CHAIRMAN. Could you tell me how many sub-Saharan African countries will be able to satisfy the eligibility requirements of the bill?

Secretary ALBRIGHT. We are unclear at this moment as to how many would be, but I think that we will be assessing each of them individually and hope, obviously, that as many as possible.

I think it is important to know that this whole system is based on the Generalized System of Preferences, so it is all part of a building-block approach. We think that the countries themselves understand that it is a step-by-step process. As I also said, it is overwhelmingly supported throughout Africa.

The CHAIRMAN. A question has been raised with respect to President Mandela's support. Does he support the "trade not aid" philosophy?

Secretary ALBRIGHT. Yes, sir. I think that it is very important to understand that this is being supported now, generally, by South Africa. President Mandela and others had expressed some concern about the possible effect of the eligibility criteria. We want to clarify that the criteria assess a country's commitment to reform, not how wealthy or poor it is.

I think that he was concerned that countries would be left out. Application of the criteria will be at the discretion of the President, taking into account the individual circumstances of each country. This would permit even the least developed country to be eligible, so long as it is making progress.

On April 30, the South African ambassador to the U.S. issued a written statement declaring that South Africa supports passage of the bill. I think that part of the problem also was, Mr. Chairman, that President Mandela was addressing some of the problems to a previous iteration of the bill, which would have restricted trade, but the current form of the bill does not have those provisions.

The CHAIRMAN. Finally, how will the unilateral granting of trade preferences contained in the bill overcome the disincentive foreign investors face in some countries in the region as a result of continuing political instability and corruption?

Secretary ALBRIGHT. Well, my feeling about the bill is that, basically, what it does is hold out the promise of being involved in the global economy and, in fact, is a way to overcome exactly the problems that you discussed because a country has to go through a certain set of reform procedures in order to be a part of this.

I think that it is an incentive to get through the problems that you discussed. Plus, it requires transparency and reforms, and I think that that is the best incentive that we have. I see it as a way to overcome the problems that you discussed. I think these may be issues that Secretary Daley and Deputy Secretary Summers may wish to address more specifically.

The CHAIRMAN. Senator Moynihan?
Senator MOYNIHAN. Thank you, Mr. Chairman.
Madam Secretary, we will get you out of here. We are happy to see Secretary Summers here. We thought you were going to be in Japan, or you will be later today.
Deputy Secretary SUMMERS. On my way.
Senator MOYNIHAN. Just a gratuitous comment. The eligibility criteria. Who wrote it? Who thinks you can require such things of sovereign nations on the other side of the world, such as the introduction of appropriate fiscal systems. Such as ours? What is an appropriate fiscal system? Do not answer that, because you cannot. [Laughter.]
One question. Senator Murkowski was here earlier. He had to leave for a Republican caucus. But he did ask this, and I would ask of you the same: have we given up on fast track? I mean, this is important legislation and we would like to see it as part of that. But fast track. We are breaking a half century's tradition that begins with Cordell Hull, your distinguished predecessor. Has the administration just resigned itself to that?
Secretary ALBRIGHT. No, Senator. I think that we are very interested in having fast track, and clearly will work very hard to get it. I agree with you that it is certainly breaking a tradition and that it is hurting us not to have it. I have certainly felt that.
Senator MOYNIHAN. It will hurt Africa a lot more. I do not mean to interrupt you. If we cease opening and negotiating trade agreements, it will do more harm to Africa.
Secretary ALBRIGHT. To answer you specifically, we have not given up and we will come back with it. I think there is some question as to whether this is an appropriate vehicle or not. I think we considered this legislation very important, and want to get it through. But, no, we have not given up on fast track.
Senator MOYNIHAN. Good.
Secretary ALBRIGHT. Could I deal with your rhetorical question and take up another one of my favorite subjects. I think that, basically, we, as you know, are very concerned about all of the various sanctions legislation that is on the books and being proposed.
It is part of what you are saying, is that we, all of a sudden, are making a great many determinations and losing our flexibility in dealing with other countries by really being very determined in terms of the way we think things ought to be run, without understanding enough of the circumstances. The sanctions are very much just a sledgehammer approach to something that needs surgical work.
Senator MOYNIHAN. But you are the ones who are always imposing them.
Secretary ALBRIGHT. No, we are not. We have found that unilateral sanctions do not get us very far, and multilateral sanctions are useful and some are imposed as a result of legislation here. But that is a whole huge subject that I think we will all be spending a lot of time on. I just could not resist.
Senator MOYNIHAN. Good for you, because we are with you up here. Gerald Seib, in the Wall Street Journal this morning, said, "By Congressional reckoning, the U.S. has imposed sanctions 104 times since World War II, and a stunning 61 times since President

Clinton came to office. More than 70 countries, home to more than half the world's populations, are subject to some kind of economic sanction if they engage in behavior we do not like.

Secretary ALBRIGHT. Correct. I think a lot of that is done on the basis of legislation.

Senator MOYNIHAN. That is right.

Secretary ALBRIGHT. So the question is, if it is done, whether there is waiver authority and how much flexibility is in there.

Senator MOYNIHAN. And you have that matter with regard to South Asia in a pressing mode, do you not?

Secretary ALBRIGHT. Yes.

Senator MOYNIHAN. Yes. Thank you, Madam Secretary.

Secretary ALBRIGHT. Thank you.

Senator MOYNIHAN. Good luck to us. [Laughter.]

Secretary ALBRIGHT. Yes. Thank you.

The CHAIRMAN. Senator Breaux.

Senator BREAUX. Thank you, Mr. Chairman. Thank our very distinguished panel of witnesses this morning, and our most distinguished Secretary of State, for being with us on this matter.

Just a very quick comment and a question for the Secretary. I very much want to be for the African trade bill. I mean, we are 4 percent of the world's population and 96 percent of the world's population is somewhere else. If we do not trade and deal with those countries, we will never be a great Nation, and continue to be. So, we cannot build walls around this country so we have to engage other countries of the world in trading areas.

When we look at this particular part of the world, it is also important to add to the fact that this is on the edge of developing nations who are moving into the industrialized world, and they obviously need help and assistance.

My first obligation, however, as a Senator from Louisiana, is sort of for domestic aid. We just lost, around Christmas time, literally thousands of jobs in my State in the apparel industry, basically the stitch and sew industry. They were all terminated right before Christmas. Most of them were women, most of them were mothers and single. Most of them were living right on the edge of poverty. Every single one of them was terminated. Merry Christmas.

So, when I look at legislation that gives unilateral concessions, I want to make sure that we are engaging and not just giving, unless it is a foreign aid program.

What I would like to ask, is if you could sort of try and distinguish between a U.S. foreign aid program and unilateral trade concessions as a way of helping countries. What is the difference, in our opinion, between unilateral trade concessions to help a country and foreign aid designed to help a country?

Secretary ALBRIGHT. Well, first of all, I think that some of it has to do with the level of development of that country and what it is we are trying to accomplish there. I think some of the aid programs have the ability to work with the poorest parts of the population, work on sustainable development, train them so that they can actually be masters of their own lives.

Senator BREAUX. I was looking at it, excuse me, Madam Secretary, from the perspective of the United States. I know the difference in a country that is receiving the trade concessions and the

foreign aid and how they use that differently. But it seems to me that, from a U.S. perspective, the foreign aid program is a national program that everybody participates in.

I am concerned that unilateral trade concessions are helping other countries, but we are targeting specific industries to give up certain things, i.e., jobs, in order to help that country, and is that fair, is my question.

Secretary ALBRIGHT. Well, I think that that may seem to be the effect in a particular place. I do think, though, on the textile issue, as I said in my testimony, that the International Trade Commission has looked at this and that there is a minimal loss of jobs on this and that the textile and apparel imports from Africa project a possible increase of between $100 million and $175 million, while U.S. textile exports to the world might drop less than 1 percent. We believe, according to this analysis, that no more than 650 or 700 jobs would be lost that can be recreated.

Now, I know that if they are your jobs, it is only one job, I agree with that.

Senator BREAUX. I lost 4,000 in 1 month.

Secretary ALBRIGHT. But I think that the issue here is that, in the long run, this is not something that will hurt the American textile industry. I will let Secretary Daley get into this a bit more.

Senator BREAUX. We will get in with Bill. But I was just looking at it from a general standpoint, unilateral trade concessions versus foreign aid. We will get with Bill in just a minute.

Thank you, Madam Secretary.

Secretary ALBRIGHT. Sure.

The CHAIRMAN. Senator Graham.

Senator GRAHAM. Thank you very much, Mr. Chairman. Thank you, Madam Secretary, for your very helpful statement. I would like to make a couple of comments before asking a question. First, on your statement about CBI, I very much appreciate your suggestion of a possible linkage between the Caribbean Basin parity bill and the Africa free trade bill, and I think it is highly appropriate.

The facts are that, in the case of the CBI, the passage of NAFTA has had a very quantifiable adverse effect on our friendly neighbors and allies in the Caribbean and Central America.

As an example, in the period prior to NAFTA, apparel imports from Mexico and the Caribbean Basin to the United States were growing at approximately the same rate. In the 3 years following NAFTA, apparel imports from the CBI countries grew at only 15 percent a year, while imports from Mexico increased to 44 percent a year.

So there has been a clear change in the rate of penetration of our market from Mexico and the CBI countries, to the detriment of the CBI countries. I believe it is imperative that we adopt legislation that will rebalance the playing field.

Second, on the question of fast track. As one who has been a supporter of fast track, it has been my assessment that the principal reason for fast track's political difficulty has been agriculture. In my State, a substantial number of the members of our House of Representatives who voted for NAFTA representing agricultural districts were opposed to fast track.

The reason for that shift was because of concerns relative to the impact of expanding trade on agriculture, particularly issues relating to enforcement of existing trade policies.

So, I think if there is a desire, and there certainly should be, to reopen the debate about fast track, one of the issues that has got to be a major focus of the administration is how to return agriculture to its traditional position of being supportive of free trade.

I think there are some things that can be done to move in that direction, but the seriousness of intention to pass fast track, in my judgment, will be tested by the reality and commitment to those actions necessary to recapture agriculture as a strong supporter for free trade.

Now, coming to the legislation before us, I was struck, in reviewing this legislation, at the difference in treatment of textile and apparel in the African bill from the current CBI bill and the proposed CBI parity bill. In the CBI bill, the basic relationship is that the textile and apparel is produced from U.S. materials, generally is cut in the United States, and then the finishing work is done in a CBI country.

As I read the Africa bill, it allows for more a open African apparel and textile industry than we provide in the Caribbean. Could you explain what the rationale of that difference in treatment is?

Secretary ALBRIGHT. First of all, if I might address the initial point that you made about CBI. I have traveled quite extensively in the Caribbean nations, and also participated in a variety of foreign ministers meetings with them.

I very much support the idea that we must do something for the Caribbean nations. They have suffered as a result of a series of situations internationally, and trade issues, and they should have been part of this a long time ago. I very much believe that we need to do everything we can on this subject.

I also agree with you on fast track. We had talked about the agricultural issues at the time, and we want to be able to work with you on that.

Again, I think that there is a different approach in these two bills. I am afraid that I cannot explain it. I think it is a technical issue that I would like to also ask my colleagues to deal with.

I know that it is something that needs to be handled in a different way and, therefore, the bills, while they should go together, should not have exactly the same approach. But I will leave it to them. I am sorry not to be able to answer that more specifically.

Senator GRAHAM. The final question, and I recognize the time is up, maybe also would be referred to someone else. But, if there is going to be a linkage of CBI parity to this legislation, I would be interested in knowing what your recommendations of that CBI parity bill should be.

In the past, there have been different versions of CBI parity. I would like to be certain and understand what the administration's position is as to which of those versions it believes is most appropriate.

Secretary ALBRIGHT. I think either my colleagues will answer it, or we will get back to you on that.

Senator GRAHAM. Thank you.

The CHAIRMAN. Madam Secretary, I know you have to leave. Let me just make one comment on fast track, as one who is a staunch supporter of fast track. We reported it out of this committee, as you know, almost unanimously, I think, short of one voice vote. But I am bothered by the administration's lack of action. I think that was true last year. They waited too late. My concern is, they talk the talk, but do not walk the walk. I think fast track is critically important and would hope to see action in that area.

Secretary ALBRIGHT. I agree that we need to take action on it, and I sure walked a lot on this. So, I did talk, but I did walk. So, we want to work with you on that.

The CHAIRMAN. Thank you very much for being here. It is always a pleasure.

Secretary ALBRIGHT. Thank you very much. I apologize.

The CHAIRMAN. We now will call on Secretary Daley.

STATEMENT OF HON. WILLIAM DALEY, SECRETARY OF COMMERCE, WASHINGTON, DC

Secretary DALEY. Thank you, Mr. Chairman, members of the committee. It is a pleasure to appear before the committee, which has played such a critical role in advancing American trade policy. I have a longer statement for the record, so I will be brief in my comments.

I join Secretary Albright and Deputy Secretary Summers in support of the African Growth and Opportunity Act. It is an important bill to the Commerce Department because it is important to American businesses and American working men and women.

Let me begin by emphasizing that the Africa of 1998 is a far cry from the Africa of the 1970's and 1980's. That was a time characterized by government-run economies, rampant inflation, corruption, and much of Africa treated as a pawn in the east-west conflict.

Today, African economies, on average, are growing four percent annually, more than double that of the early 1990's. But, even with all of the positive changes, the fact is that American businesses have not yet aggressively pursued this market.

We rank behind France and the United Kingdom, with only a 7 percent share of the African market, a fraction of what, in my opinion, it could be and should be, Mr. Chairman. I know American businesses want to do more. Last year, our exports topped $6 billion for the second year in a row. Our exports to Africa are a third greater than our exports to all of the former Soviet republics combined and this means and translates into thousands of American jobs.

Our companies will not overlook the risks of investing in Africa, but the rewards can be considerable. The average annual return on the book value of our direct investments in Africa is more than double that in Asia, even before the current economic crisis.

Let us also be clear. Much of what we need to do to strengthen our commercial ties is best done by the private sector, not by government. But we in government, in both the executive and legislative branches, must assist those efforts by addressing the remaining barriers to investment and trade.

We need to move forward with the President's Africa initiative, and I urge you to pass the African Growth and Opportunity Act, and to do so as quickly as possible. Much attention has been focused on the provisions in the Act involving textiles.

I am well aware of the concerns of the domestic industry and the unions, but these important provisions are best understood in the context of the legislation and the partnership as a whole.

They are one part of a coordinated approach to help those African countries undertaking reforms to strengthen their own economies, to attract additional investment, and to improve access to their markets for our goods and our services.

When I was with the President in Africa, he asked me to organize a trade mission for later this year. I am pleased to announce that I will be traveling to Africa September 12 through 20, and expect to take officials from approximately 30 U.S. companies to South Africa, Kenya, and Cote d'Ivoire, and hopefully one or two other countries also.

While we are there, we hope to hold regional economic meetings with government and business officials, and we will advocate on behalf of specific U.S. projects. We will investigate new opportunities for both U.S. trade and investment. We will put U.S. firms in direct contact with potential African buyers and commercial partners.

We will focus on the industries with the greatest growth potential that includes: computers, software, telecommunications, other information technologies, agri-business, power generation, health care, financial services, and also environmental technologies. We are determined that this will lead to significant new export opportunities meaning a growth of U.S. jobs.

In less than 3 months since the President's trip, the Commerce Department has moved forward on a number of fronts. We have organized meetings and conferences across the country to expand our outreach to American businesses, especially focusing on small- and medium-sized and also minority-owned businesses.

We are also developing a commercial strategy in a new way for the Department of Commerce. Trade, in our opinion, is more than just displaying products to foreign buyers. We want every agency in every unit at Commerce, from the Weather Service to the Patent Office, to ask, how can we increase our ties to Africa?

We want to make the great diversity of Commerce into our greatest asset, and that is helping nations improve their business climate. I believe that, if sustained over time, this will help create more investment and trade in Africa, that it will produce new opportunities for Africans, and also Americans.

As we prepare for the 21st century, we must focus on bringing parts of the world too often overlooked into this new global economy, and we look forward to continuing to work with the committee, Mr. Chairman, and your Senate colleagues in support of this important goal. Thank you.

[The prepared statement of Secretary Daley appears in the appendix.]

The CHAIRMAN. Mr. Secretary, if we pass this legislation, will the Chicago Bulls buy their uniforms from Africa? [Laughter.]

Secretary DALEY. I do not think it matters where they buy them, I think they are still going to win, Mr. Chairman. [Laughter.]

The CHAIRMAN. Secretary Summers, it is always a pleasure to have you here.

Deputy Secretary SUMMERS. Thank you.

The CHAIRMAN. Do I understand you are not going to be here tomorrow?

Deputy Secretary SUMMERS. Yes. I am going to be going to Japan for some discussions relating to the economic situation in Japan and in Asia, along with Bill McDonough, the president of the New York Federal Reserve, and several colleagues from the State Department. This trip has come up, as I am sure you can appreciate, on very short notice in light of recent developments in markets.

I will be having talks with a range of Japanese officials, and subsequently with a group of officials from a number of Asian countries, as well as our G-7 partners, who will be coming for a meeting of what has been referred to as the Manila Group, the group that has met several times at various junctures to address this very difficult situation. As I say, I very much regret any scheduling problems. This is a trip that came up at very short notice in response to events.

The CHAIRMAN. We will forgive you, if you get action and not just talk.

Deputy Secretary SUMMERS. I will be doing my best, Senator.

The CHAIRMAN. I think the time is long past due, as you well, know. I wish you well.

Deputy Secretary SUMMERS. Thank you very much, Senator.

The CHAIRMAN. Please proceed.

STATEMENT OF HON. LAWRENCE SUMMERS, DEPUTY SECRETARY OF THE TREASURY, WASHINGTON, DC

Deputy Secretary SUMMERS. Mr. Chairman, 700 million people live in Africa today, and that figure will be well over 1 billion a generation from now. In large parts of the continent, it has been the case that a child is more likely to die before the age of five than to learn to read.

But increasingly a new wind is blowing, and, in important ways, Africa may be the last, and conceivably some day the most important, emerging market.

If I might just recount one anecdote. A year ago when I went to Africa, I visited Mozambique, Moputu, the capital of Mozambique, one of the poorest countries of the world with a per capita income below $150.

I met someone at a lunch and I asked him how business was. He said business was not so good; that business was fine now, but he was worried. I said, why are you worried? He said, right now I am the monopoly Internet provider for Mozambique, but there is competition on the way.

I think that says Mozambique grew at 12.8 percent, the fastest growing country in the world, last year. I think that says a great deal about the potential of market forces to unleash economic energy and create opportunity in Africa. That is what this bill is all about, how we can use the tools of U.S. policy to motivate and spur that process more rapidly.

There are four main elements of our strategy. The first, it support for trade. Africa already faces an enormous economic trade

barrier of distance that operates because of high shipping costs and distance as a major disincentive to African exports. It should not be our role to compound that.

That is why this bill contains systematic, comprehensive reductions in extension of GSP preferences for all African countries and selective responses for those countries that are most aggressively pursuing economic reform.

In a sense, Mr. Chairman, I think that Senator Breaux's question may have been responsive to Senator Moynihan's question because those conditions in that bill are about the pace at which countries are pursuing their own trade liberalization, their own process of economic reform, their own steps that, in turn, increase American exports. That is why the selectivity makes this very much a two-way proposition.

The second element contained in the framework that is embodied in this legislation is financial support for investment in Africa through the international financial institutions, and, perhaps most significantly, recently through debt relief.

We have seen a great deal in discussions of what goes on in Asia that, when debts are too large and simply cannot be repaid, they need to be written off. They need to be put in the past, and a framework for new investment needs to be laid. That is what has happened in Africa. With the HIPC framework, with so-called Naples terms. HIPC is the program for Highly-Indebted Poor Countries.

We have mechanisms in place that can remove these debt overhangs and encourage private investment. Already, close to $400 million in Uganda that otherwise would have gone for the sterile purpose of paying back debt has been made available for investments in the future of that country. By supporting these efforts, we lever not just our own debts that will never in any event be collected, but also those of other countries.

Third, we are directly supporting private investment through the expansion of OPIC and Ex-Im efforts, as well as commercial advocacy efforts such as those that Secretary Daley described. These efforts cumulatively should come to more than $500 million.

Finally, and I suspect ultimately most importantly, Mr. Chairman, we are seeking, as Secretary Albright said, to work with Africa and not for Africa. That is why we in the Treasury Department and other agencies have sought to have dialogue counterpart to counterpart, forums between the American finance minister and African finance ministers, the American trade minister and African trade ministers.

Secretary Rubin will be going to the African continent in several weeks to discuss capital market issues and other financial issues in a number of countries, and we look forward to a dialogue in December in Washington between major reforming African countries' cabinet officials and the cabinet officials of our government.

Mr. Chairman, we are convinced that there is enormous opportunity in Africa. Africa, the African people, the African governments, will be the people who will determine whether this opportunity is seized, but it is very much in the long-term economic interests, not even to mention the security interest of this country,

to do everything we can to promote the seizure of that opportunity, and that is what this legislation is all about.

[The prepared statement of Deputy Secretary Summers appears in the appendix.]

The CHAIRMAN. Thank you, Secretary Summers.

Let me ask both of you the question I asked Secretary Albright, and that is the criticism that this bill only helps the more developed countries and not the poorest and least developed.

Secretary Daley?

Secretary DALEY. Well, as the Secretary said, there is no doubt, Mr. Chairman, that those more developed countries are going to be able to take advantage of this more quickly than the least developed. But I think, as you have seen from the support from the lesser development nations, by statements of their government, by their ambassadors, that there is an enthusiasm amongst them for the opportunity.

We have seen tremendous changes and economic reforms in many of these less-developed countries. So, I think I would point to their support of this as the most important statement as to their opportunities, but there is no question that those that are more developed will move more quickly to take advantage of it.

Deputy Secretary SUMMERS. If I might just supplement that answer.

The CHAIRMAN. Please.

Deputy Secretary SUMMERS. I think the first point on which to be clear is that no trade benefit is being removed from any country, and all countries can expect some increase in access.

Second, it is the case that, in the short run, those countries that have greater potential to export will benefit more. That is how we encourage other countries to have exports.

But, of course, that, in a sense, is a natural complement to our aid and relief programs, because our aid and relief programs for those who are not able to generate revenues by exporting are, of course, disproportionately concentrated on the poorest countries in the region.

So, it seems appropriate to have a strategy where we seek to graduate countries from aid and relief as a source of support from concessional finance to generating revenues by participating in global markets.

The CHAIRMAN. Let me ask a follow-up question. One of the purposes of the program, I think, is to try to, in the long term, promote foreign investment, which, of course, I think we all agree is desirable.

But criticism has been made that this unilateral grant of trade preferences will make it very difficult for our companies to gain access to these markets and get the kind of conditions that they feel is necessary to make investments. For example, the problems faced by our pharmaceutical companies in South Africa.

Secretary DALEY. Mr. Chairman, there is nothing in this Act that at all diminishes our abilities to use the existing trade laws, such as those that we enforce, the antidumping and countervailing duty laws, and, of course, the Section 301. I have been in discussions with Ambassador Barshefsky, and we are all committed to making

sure that those trade laws are enforced. There is nothing, again, in the Act.

As far as the pharmaceuticals, there is no question. We have great concern and have expressed it to the South African government, both the Minister of Health and the Minister of Commerce, as to their medicine law that was passed earlier this year.

We are working with the industry. We will continue to stress to the South African government that we believe protection of intellectual property rights, on behalf of the pharmaceutical industry, is important not only to U.S. businesses, but to South African businesses.

So you raise an issue that we have been very involved with, and look forward to continuing to work with you, the industry, and try to convince the South African government that this is to their benefit also to make some changes in those laws.

Deputy Secretary SUMMERS. I might add, Mr. Chairman, that, at least in principle, this legislation provides a possible inducement in this regard because, and I am quoting from the draft legislation, eligibility is based, in part, on appropriate policies such as protection of intellectual property rights, improvements in standard testing, labeling and certification, and government procurement.

At a different point, it recognizes provision of national treatment for foreign investors. So, this legislation can act as an inducement to provide the kind of framework in which investment can flourish.

The CHAIRMAN. One of the things you have heard me say, Larry, is the importance I attach in trying to develop a new consensus for trade. Here in the textile area, we have agreed, I think, in 5 years to eliminate all quotas. But now we are going ahead and making further change. Is this going to help us get some kind of consensus among the workers who are impacted, or how serious do you see this as a problem?

Deputy Secretary SUMMERS. Mr. Chairman, I think you have raised a critical issue and it is one that we have given a lot of thought to. I think, as the International Trade Commission study that Secretary Albright suggests, the African share of U.S. textile imports, let alone U.S. textiles, is sufficiently small that the effect is not likely to be large when weighed against the potential benefits from exports to the larger African market.

What I think is a valid and real concern, and one that has been worked on on the Hill and in the administration in connection with this legislation, is the concern that somehow this could lead to a situation where transshipment could lead to some substantial erosion of U.S. worker interests, which obviously would be catastrophic in a variety of ways.

That is why the bill contains a variety of particular safeguards in that regard, including a mandatory visa system for participating countries, annual review by the Customs Service, explicit suspension of benefits for countries that are found to have transshipped, as well as bilateral agreements on noncircumvention so that we have protection with respect to those countries that are not WTO members.

It is our judgment that, with those safeguards in place, any impact on workers is likely to be very, very small. Of course, it bears emphasis that, insofar as there are increases in trade from Africa,

it is to be expected that, in substantial part, those would not come at the expense of U.S. producers who are probably not the most natural competitors with the kind of production that would go take place in Africa, but would instead take place at the expense of competitors in other developing markets and would operate to put Africa on a more fair footing, given the disadvantages of distance and geography that it faces.

Secretary DALEY. Mr. Chairman, if I could comment on that question also. We agree, obviously, with you as to the need to build a consensus on trade. We have been working with a number of business associations to try to get the message out on the importance of trade and opportunities for American companies.

We look at this Act as an opportunity for American businesses to do business in Africa over the next number of years, therefore, hopefully, creating jobs and strengthening U.S. businesses as we move forward. We do look forward, of course, to working with you on the textile provisions and address any dislocations that may arise, as small as they may be.

The CHAIRMAN. Senator Breaux?

Senator BREAUX. Yes, sir. Well, thank the distinguished panelists and presenters. I just want to get into some discussion. You heard what I said earlier. I mean, it is sort of ironic, from my perspective. I said that I want to be for an African trade bill, I think it is important to help developing countries.

I am concerned that unilateral trade concessions is bad public policy. Foreign aid is good public policy, but when you are giving something in trade you ought to be getting something back.

It is sort of ironic that the thousands and thousands of jobs that have been lost in Louisiana in the apparel industry, in the stitch and sew industry, mostly were African American. Now, they do not take a great deal of comfort when I tell them, well, you have lost your job, but we are helping sub-Saharan Africa. It does not really get them excited because they are still broke and without a job.

So, therefore, my point is, when we help these other nations, which I want to do, let us make sure that unilateral trade concessions, the people who give them, are getting special help and attention back here. That is our first obligation, is back here.

So the point that I want to ask you about, and maybe Secretary Daley is the one to respond, Senator Roth and I worked on CBI the 809 treatment with the CBI countries.

They basically say, these industries that are giving up all quotas and tariffs are going to at least still be encouraged to do fabric here in this country, the bleaching, the dyeing, the weaving, the high-tech stuff, and that we will allow our companies who are going to be giving these unilateral trade concessions to be able to sell this material in bulk form, bolt form, to these countries, send it to them, let them stitch it, cut it, sew it, and then have the right to send it back to us without any duties, quotas, or tariffs.

Now, that seems like a balance. It is a win-win. Our American textile industry can win, the countries overseas can win. We have had a study done, paid for by one of the companies, certainly, Warner International, that looked at the question of how that recommendation would help these sub-Saharan countries as opposed to China and Thailand. I think that the summary findings are

pretty significant. I do not know if you had a chance to see it, but I want to make it available.

But if we had a situation where fabric would be made in the United States, but cut and assembled in these sub-Saharan countries of Africa, that the garments being imported into the United States would come in duty-free and quota-free and would still have a substantial advantage over the Asian countries which would be producing the fabric, doing the cutting, stitching, sewing, and then importing it over here.

Now, I do not think I can support a bill that is not a two-way street with trade. This would help make it a two-way street. Without it, I mean, I cannot tell my people back home that I am going to do something that is going to put all of you out of work, and most of the were African Americans. It just does not cut it politically, economically, or from a standpoint of fairness, which is the most important criteria.

So, I guess, Bill, my question is, what about this type of ingredient that would help our companies while helping other countries at the same time?

Secretary DALEY. Let me just respond quickly, Senator. First of all, I have not had the chance to see that study that was done. Obviously, the jobs and people that were laid off before Christmas, my understanding is those jobs went to the Caribbean.

There is a question as to whether the African companies could be as competitive based upon the cost of transportation, competitive with the Caribbean and Mexico, obviously, where the costs of shipment are much less, and whether they really would benefit by such an action, as you have stated.

It is something that we are reviewing. We do want to continue to work with you on this legislation to see how to address it. We have the same concerns about the movement of jobs. At the same time, there are benefits that we believe will come.

We want to address the textile questions, but in other areas and opportunities for American businesses that, by virtue of this Act, will cause strengthening of our economy and cause the creation of jobs in a whole host of sectors, in our opinion, as the African economies strengthen and grow, and that will present opportunities for American companies.

Senator BREAUX. I agree with that. As they become stronger, they buy more American products. I mean, that is a given. But, at the same time, I am concerned that we could have a win-win situation and it does not have to be right off the American textile industry in order to help another country.

Now, you make a good point on transportation, but then again we say, all right, we are not going to help the CBI countries because they are closer and they will have a transportation advantage?

It may be that one way to try and balance that out, is to give the sub-Saharan African nations some type of a transportation subsidy or some type of working with them in what we give them that would bring them closer, from a transportation standpoint, to the advantages of the CBI nations. But do not just pile it all on the back of the American textile worker.

I mean, I will tell you, I really want to be for it but I cannot do it. Unilateral trade concessions is bad public policy. I think, when you put this on paper—and I wish Charlene was here—from a trade negotiating standpoint, the answer is, what do we get? We have a good feeling that we are helping nations that need help, and that is important.

But, from a trade standpoint, the only thing we are getting is that they will be getting stronger, and in the future, maybe, will be able to buy more of our products. That is not quite enough when I have people who are losing jobs by the thousands. From a philosophy or a trade standpoint, what is wrong with an 809 type of treatment with the African nations with regard to the Roth-Breaux bill?

Secretary DALEY. Well, I think we would like to work with you, Senator, and see if we can develop, obviously, a way to address this textile issue. As I have stated, I do think there is concern by many as to whether or not the transportation costs and other costs would make it economically unviable for those companies to compete with the Caribbean or Mexico at this time.

Senator BREAUX. The study I have here includes landed cost. It includes transportation from the African nations and the transportation costs from the CBI nations. It clearly concludes with that that we are better off than certainly China and Thailand and the Asian nations.

Now, the CBI nations, of course, are closer and that is another factor, but then we are picking winners and losers. We do not want the CBI nations to win because they are close? I mean, is that our job?

Secretary DALEY. No, not at all. We want CBI countries to win also. That is why we are interested in getting the CBI.

Senator BREAUX. Okay. If we have CBI winning and we have got Africa winning, I would like the folks that I represent to win, too.

Secretary DALEY. We have the same feeling, Senator, to have those people win. And they are winning in this economy, but we feel as strongly as you about the need to help those people.

Senator BREAUX. Lawrence?

Deputy Secretary SUMMERS. Senator Breaux, if I might just make three points. Obviously, the concern you raise is a critical one. First, in this whole equation of textile trade, Africa is very small. This is big relative to Africa, but small relative to America.

Senator BREAUX. Today.

Deputy Secretary SUMMERS. Exports from Africa are one-twentieth of exports from the Caribbean countries, which are themselves small compared to exports from Asia. It is to be expected that the impact of this legislation would principally be to offset the competitive disadvantage of transportation that Africa faces, so any gains from Africa would come much more from producers with similar capacities in other developing countries rather than at the expense of American jobs.

Senator BREAUX. All right. n that point, according to the International Trade Commission, the ITC, "the removal of both quotas and tariffs would increase U.S. imports of apparel from sub-Saharan Africa by somewhere between 26 and 46 percent."

In addition, the ITC report, however, holds factors such as investment and productivity constant in making those estimates,

which really challenge that high figure. It should be higher than that.

If you look at increased productivity in companies moving over there, it is very small today. But, if you remove all the quotas, tariffs, and restrictions, you are going to see an outpouring of people moving over there and opening up shops.

Deputy Secretary SUMMERS. I think, in fairness, Senator Breaux, if there is an increase in imports from Africa, you have to ask the question, in assessing U.S. impact, if an African export displaces a Thai export, American workers are not placed at a competitive disadvantage. I think the question one has to ask is, what is the extent to which the African production is taking the place of American production.

I think that the available—and I am no expert on this—evidence would tend to suggest that we are looking more at competition between different countries where there is low-wage labor and competition among them for market share rather than the total share of imports into the United States.

The other point I would make, is that the program is based on, as I suggested in my testimony, selective trade benefits for those countries that are making adequate progress in their own liberalization. In that sense, it is not really a unilateral trade restriction program, but is a condition.

Senator BREAUX. They give up almost nothing. There are no restrictions now in selling most of our products over there. What do you mean liberalizing? It is as liberal as it can get.

Deputy Secretary SUMMERS. Well, I think that most American producers who try to do business there do find a variety of barriers. Some of those barriers in Africa are tariff and quota barriers, which are much larger in Africa than they are here. Some of the barriers are barriers on foreign investment. Some of the barriers are barriers posed by corruption.

I just wanted to make the argument, and this is why I think the selectivity aspect of the legislation is very important, because it does reduce the unilateral aspect that I think you rightly criticized.

Senator BREAUX. Well, that is a fine statement. I disagree with it, factually, on the apparel industry. There are no conditions. I mean, you talked about corruption and other things, and I am not sure that this is going to get at that. This is a much bigger deal.

There are no conditions placed on quota fee treatments according to the sub-Saharan countries under this bill. They are not going to give up anything on the quotas and restrictions.

Your man, if he is saying any different, come sit at the table and talk to me about it. He is shaking his head. It is going to break his neck. Come back to me about it. You in the red tie, come on up. I am sorry. I am trying to make the point, it is a unilateral trade concession.

I want to help you, I want to be for it, but I am not going to be for it unless we address the thousands of people in this country, many of which are African Americans who are on the edge of poverty who have lost their jobs. And I am going to go back and say, we are going to liberalize trade with sub-Saharan Africa? That is good, but I have to find something that I can say to Louisianians that I am going to help them as well. I would suggest that the

Roth-Breaux 809 approach is a minimum that needs to be done. Thank you.

The CHAIRMAN. Senator Rockefeller.

Senator ROCKEFELLER. That is about as intense as I have seen John Breaux in about five or 6 years, so for his constituency, which varies somewhat from mine but which is in many ways very similar, and with some textiles at stake in my State also, those few that are left, I would suggest listening closely to him.

Secretary Summers, I truly wish you good luck on your trip to Japan. I just think that that is how one gets into their mentality to get under that 250 years of absolute isolation they had up until about 104 years ago. They shut themselves off from the world. How they are going to change, I do not know, but I am glad you are going over there because I think you are going over there on a mission, a real mission.

As to the Growth and Opportunity Act for Africa, I guess I would say that, and I imagine John Breaux said at the beginning that he likes to be able to vote for these things, both Mr. Secretaries, and I do, too. But this business about taking care of your people at home is real.

I voted against NAFTA, but I voted for the enabling process, fast track. I expect there was a full two percent of the people of my State that agreed with my vote, and none of the other delegation, I think, followed my vote on that. So I want to help, too.

But, as Charlene Barshefsky knows very well, and she is going to be going with the President to China so I will have a chance to talk with her again on this, but we have a metals problem. We have a metals problem, and it is a very serious one to us. It has to do with rule of origin, Section 9(b).

I will not go into it at great length now. We have a temporary preferential advantage problem and these are things that I think Charlene can solve. She indicates in letters to me that she believes that she can solve them.

But I have to say, in Louisiana they produce a variety of things, and in West Virginia we produce coal, steel, and chemicals. And, yes, we are diversifying our economy as fast as we possibly can, intellectually, into aviation, all kinds of things. We are working very hard at it.

But it is hard to do in a State which is landlocked in the mountains where we have, at the present time, one jet airplane which comes out of Pittsburgh a couple of times a day, goes to Charleston, and goes back. Everything else is propeller. It is tough.

Therefore, trade agreements go to our heart and soul because we have to understand how it is a fair deal. I want to be able to help on this, but some of our metals companies are at a tremendous disadvantage because of sections that are not yet worked through that are still in play.

So, Mr. Chairman, I would simply say to you that this is one where I want to be helpful, too. A lot of the time I have spent in West Virginia has been in trying to help people understand. Mr. Secretary, you have been kind enough to come to West Virginia, to talk about the globalization of the economy.

People do not necessarily want to hear about that, but they are hearing about it from me and they have been hearing about it from

me for a dozen years and people are beginning to accept it. That has helped, particularly as other countries are accepting our products and investing. But our metals problem is real. I want to say that that is something that needs to be worked out, and I believe can be worked out.

I want to see America trade and I want to see America with an attitude, we can take anybody on, anywhere. Our steel industry is more cost competitive than any in the world, and it is all done without a dime from the Federal Government. No Hanbo Steels from South Korea in the American steel industry.

So I want to be able to be helpful, but there are some adjustments that need to be made. Not a question, just a statement. I respect you both greatly and appreciate the opportunity to say this.

Deputy Secretary SUMMERS. Thank you.

Secretary DALEY. Thank you.

The CHAIRMAN. Well, this brings us, I think, to the end of the questions. I would say that you have to include Delaware in that group too, because the textile workers have been impacted there as well. So, this is a serious problem that must be addressed.

Deputy Secretary SUMMERS. I would just say that we are very mindful of the need for open trade to be fair trade in each of these areas, and will look very seriously at the right ways to address the specific concerns that are raised.

I would emphasize that this bill is not about charity. This bill is about providing support that is conditioned on, and is measured, with respect to the steps that other countries are taking to open their economies up, to create opportunities for our exports, and for our products to be marketed.

That is why many of us have regarded the element of selectivity so that these benefits can be extended based on whether countries are taking steps to reform their economies and open those economies up as a crucial and integral part of this approach, precisely because we do not believe in doing this as a charity project. I think we certainly look forward to working on what the best ways of carrying it out are, but I want to make clear that emphasis on selectivity.

Senator BREAUX. Mr. Chairman, may I just ask one question for him to respond back.

The CHAIRMAN. Yes.

Senator BREAUX. Can you go back to the staff and find out any condition on the sub-Saharan African nations that they have to meet in order to get elimination of quotas on apparel and textiles?

Deputy Secretary SUMMERS. We can get you an answer.

Senator BREAUX. I may be wrong, but at this point it is clear to me that, on the elimination of quotas for apparel and textiles, all of these conditions are not required.

On a lot of other things, yes, but the conditions on not engaging in gross violations of any internationally recognized human rights, making continued progress towards a market-based economy, is not part of the apparel- and textile-free quotas.

Deputy Secretary SUMMERS. Senator Breaux, I think it is best for us to get you an answer to that in writing. My understanding was, but it may well have been inaccurate, that the certification that would make that possible required a certification that was based

on the country's progress in a number of areas that included opening markets.

Senator BREAUX. For apparel and textiles.

Deputy Secretary SUMMERS. We will get you an answer laying out the accurate situation in writing.

The CHAIRMAN. I would urge you to make that available to the committee.

Deputy Secretary SUMMERS. Absolutely.

The CHAIRMAN. Senator Moynihan?

Senator MOYNIHAN. Yes. Good luck in Japan.

Deputy Secretary SUMMERS. Thank you.

The CHAIRMAN. Thank you, gentlemen. We all join in wishing you well on your trip to the Far East.

It is now my pleasure to introduce our last panel, which contains four representatives of the business and labor community. Our first witness is Mr. Patrick Danahy, the president of the American Textile Manufacturing Institute and chief executive of Cone Mills. He will be followed by Dr. Mark Levinson, the chief economist of UNITE, the Union of Needletrades Industrial and Textile Employees.

Our third witness is Mr. Robert Johnson, the president and chief executive officer of Black Entertainment Television. Our final witness is Ms. Karen Fedorko, the executive vice president and general manager of Mast Industries.

We look forward to hearing the testimony of this very distinguished panel, and we will start with you, Mr. Danahy.

STATEMENT OF J. PATRICK DANAHY, PRESIDENT, AMERICAN TEXTILE MANUFACTURERS INSTITUTE, WASHINGTON, DC

Mr. DANAHY. Thank you, Senator.

Let me state up front that the U.S. textile industry is not opposed to helping sub-Saharan Africa. The U.S. textile industry, which employs nearly 150,000 African Americans, is sympathetic to the plight of the region.

What we do oppose wholeheartedly, is bad legislation, and make no mistake about it, this is bad legislation. It will permit Asian producers to export massive volumes of textile and apparel products to the United States through sub-Saharan Africa by taking advantage of a weak and ineffective rule of origin without creating meaningful jobs for African workers.

The bill will also cause a huge surge in illegal imports into the United States, as countries transship goods made in Asia through the sub-Sahara to evade the duties and quotas.

These imports will threaten the livelihoods of hundreds of thousands of U.S. workers employed in cotton farming, wool growing, in petrochemical and cellulosic fiber production, and in textile manufacturing and garment making.

The legislation is bad trade policy for several additional reasons. It violates key principles of the World Trade Organization and will require a waiver, and most likely some degree of compensation, to overcome other countries' objections, all at the cost of U.S. jobs and production.

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Second, it will harm the rapidly growing textile and apparel trade among the NAFTA partners and between the U.S. and Caribbean region, again causing the loss of U.S. jobs and production.

Finally, the bill has an inadequate safeguard provision to deal with imports from sub-Saharan Africa that damage U.S. jobs and productions. For these reasons, the ATMI board of directors have voted unanimously to oppose this legislation.

Let me go into a little more detail about our concerns. Under this bill's rule of origin, companies will be able to sew garments in Asia, but will leave one or two operations undone, such as attaching a collar or sleeve, because the only requirement for the item to gain sub-Saharan origin is that an important assembly or manufacturing process has occurred. The last bit of sewing is all that will be done in sub-Saharan Africa.

Turning to our concerns regarding illegal textile and apparel transshipments. First, by turning the sub-Saharan region into a vast duty-free zone, the bill gives textile and apparel producers outside the region, China and India, an enormous inducement to use the zone to cheat by not making products in the region, but instead transshipping them with labels indicating they were made in a sub-Saharan nation.

Second, by not including effective measures to prevent the cheating, the bill virtually ensures that it will occur on a massive scale because the bill essentially makes it easier to cheat than actually do business in sub-Saharan Africa. The bill siphons away most of the benefits from Africa and gives them to Asian textile and apparel manufacturers.

This bill takes what is already a serious transshipment problem and makes it many times worse. In 1993, the Acting Deputy Commissioner of Customs declared that a $2 billion estimate for annual worldwide illegal transshipments was probably conservative, and it has grown.

Today, the problem, even though it is large and growing, is isolated to a few Asian countries that actually fill their quotas. This bill adds a huge monetary incentive, avoiding billions of dollars of duties owed to the United States into that equation. By doing so, it turns every unscrupulous Asian textile and apparel manufacturer into a potential transshipper.

What measures did the bill sponsors come up with for countering this threat? To those of us who do business every day in the international textile and apparel sector, the answer is profoundly disturbing.

As a weapon to deter transshipments, the bill proposes to use a mechanism known as the visa system. However, its purpose is not, and has never been, to stop illegal transshipments.

The committee should understand that this proposed visa system merely requires a stamp signifying the product category and the amount shipped. It was designed by the U.S. Government more than 20 years ago to help foreign governments count shipments, not stop illegal transshipments.

This bill also designates the Custom agencies of sub-Saharan Africa as the primary enforcement agencies for preventing transshipments. Keep in mind that the U.S. Customs Service has already identified eight sub-Saharan African countries as illegal

transshipment routes. I call your attention to the exhibit of the trade patterns in my testimony.

So, Mr. Chairman, we see this bill turning sub-Saharan Africa, not into a new international garment producing region, but into a transshipment super highway. This is obviously not what the bill sponsors want, but it will be the end result.

Prior to closing, I would like to comment, briefly, on the report of the International Trade Commission on this bill. The report contends that the impact of the bill on U.S. industry and workers will be minor. That has been alluded to.

What the committee may not know, is the ITC essentially ignored the issue of transshipments and did not even examine the question of whether duty-free status could serve as an incentive for new transshipments.

In addition, the ITC did not consider the precedent offered by the Northern Marianas Islands. Apparel exports from the Marianas Islands has exploded, from $300 million in 1993, to more than $1.2 billion expected in 1998. This incredible growth was fueled by duty-free and quota-free entry into the U.S. market.

Yet, the people of the Northern Marianas Island have not benefitted. The local unemployment rate is 14 percent. Instead, Chinese entrepreneurs have imported thousands of Chinese workers, installing them in huge labor camps under inhumane working conditions. These imported workers are using foreign yarns and fabrics to produce clothes solely to export to the U.S. market.

In closing, I would like to emphasize once again, the industry does not oppose help for sub-Saharan Africa. This legislation is not the answer. It will produce a result contrary to what is intended.

It will permit a flood of illegal imports, to the detriment of both African and U.S. workers. It will create a transshipment highway, and the bill is bad trade policy. From cotton producers, to wool growers, to garment makers, the committee should not allow this bill to be considered further. Thank you.

The CHAIRMAN. Thank you.

[The prepared statement of Mr. Danahy appears in the appendix.]

The CHAIRMAN. Dr. Levinson, it is a pleasure to welcome you.

STATEMENT OF MARK LEVINSON, CHIEF ECONOMIST, UNION OF NEEDLETRADES, INDUSTRIAL AND TEXTILE EMPLOYEES, NEW YORK, NY

Dr. LEVINSON. Thank you. My name is Mark Levinson. I am the chief economist at UNITE, which represents 250,000 workers in textile, apparel, and other related industries. Jay Mazer, president of UNITE, wanted to be here today, but he had a general executive board meeting that required his presence in New York.

UNITE supports the goal of the African Growth and Opportunity Act to promote stable and sustainable economic growth and development in sub-Saharan Africa. We believe, however, that many provisions of the bill work directly counter to that goal.

The bill's most glaring omission is its failure to include labor rights as a precondition for countries to gain eligibility for expanded trade. In the absence of core labor rights, there is nothing

to ensure that the wealth generated by increased trade is shared by the workers in Africa.

Consider the situation of South Africa, Lesotho, and Swaziland. Lesotho and Swaziland each lie entirely within South Africa's borders. They are small countries and each is considerably poorer than South Africa. Each country has an apparel and textile industry, and in each country workers' rights are not respected.

Most of the investment in the Lesotho textile and apparel sector comes from South Africa and Taiwan. According to the International Confederation of Free Trade Unions, this investment has taken place on the basis of a guarantee that companies would be able to disregard labor legislation.

The U.S. State Department has noted in its annual human rights report that "no legally sanctioned strike has occurred in Lesotho since independence in 1966," and that "employees are often threatened with expulsion from the country and loss of employment if they join unions."

Observance of workers' human rights in Swaziland is even more rare than in Lesotho. There, an official of a trade union federation who calls a strike can be punished by a fine or a maximum of 5 years' imprisonment, or both, and subsequently can be banned for 5 years from holding trade union office. Police intimidation and violence against trade union demonstrations and strikes are ruthless.

Lesotho and Swaziland have one-half of 1 percent of the population of sub-Saharan Africa, but account for fully 23 percent of the region's apparel exports to the United States. And, while these countries have seven percent of the population of South Africa, their apparel exports to the U.S. are 42 percent greater than South Africa's.

The current bill before the Senate would create a situation in which South African apparel workers face the reality of investment shifting to these countries where labor costs are lower because of human rights abuses. Is this not a race to the bottom?

There are other provisions in the bill that lead me to question whether it is in the interest of most Africans. The bill requires countries to adopt market-oriented policy changes analogous to those imposed under the structural adjustment programs of the World Bank and the International Monetary Fund: government spending cuts, reduced corporate taxes, wholesale privatization, removal of trade barriers, and diminished protection for national industries.

Our sister union in South Africa, the South African Clothing and Textile Workers Union, has informed us that they are strongly opposed to the conditionalities in the bill. They see the bill as "an attempt to protect and advance the interest of corporations and will not advance the interests of Africa's poor."

I agree with what Mr. Danahy said about transshipment, so I will not repeat that. Let me just say, we are also concerned about what we would call legal transshipment under this bill. That is, if 15 percent of the value of the garment comes from American inputs, the Africa Growth and Opportunity Act requires that only 20 percent of the value of the garment needs to be of African origin in order to qualify for duty- and quota-free treatment.

This means that an American importer can ship plastic bags, hangers, thread, buttons, shoulder pads, et cetera, valued at 15 percent of the finished item to an African factory. A Chinese manufacturer, for example, could cut Chinese fabric, sew it into a garment, and ship it to Africa.

The African factory could sew in a Made In Africa label, inspect the garment, trim loose threads, do any necessary repairs, press the garment, package it, and if that is valued at 20 percent of the finished item, ship it to the U.S. duty free and quota free. Is this it the best way to encourage a legitimate apparel industry in Africa or is it a way for importers to get around quotas and duties in other countries?

The bill states that it will be very difficult for textile and apparel exporters to the United States from sub-Saharan Africa to increase from less than 1 percent of total U.S. imports to 3 percent of total imports. We have heard a lot today about the ITC study that claims the Africa Growth and Opportunity Act will cause only "minor increase of imports and negligible job loss."

We ask, can these predictions be taken seriously? In 1986, after the passage of CBI, the U.S. International Trade Commission reassuringly claimed, in almost identical words, "Caribbean countries played a relatively minor role in U.S. imports of textiles and apparel, supplying $500 million, or 3 percent of the total, in 1984." Last year, imports from the Caribbean totaled $7.8 billion, more than 13 percent of the total market.

The ITC made similar inaccurate claims about the effect of NAFTA after NAFTA was passed. So, perhaps the committee will understand if we have little confidence in the studies by the ITC which predict little harm to the domestic industry.

There is nothing wrong with African countries having access to the U.S. markets, but this should not be done at the expense of workers in America, or in Africa. Market access should be linked to adherence to internationally recognized labor rights. As an incentive to promote labor rights, apparel and textile quota should be transferred from countries that do not respect labor rights to those that do.

U.S. policy towards 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 infrastructure, production of basic commodities for national and international markets, promotion of locally-owned enterprises, and sufficient government control to balance private capital needs with broader societal needs. This bill falls short in all these areas.

The CHAIRMAN. Thank you, Dr. Levinson.

[The prepared statement of Dr. Levinson appears in the appendix.]

The CHAIRMAN. Mr. Johnson, it is a pleasure to welcome you.

STATEMENT OF ROBERT JOHNSON, PRESIDENT AND CEO, BLACK ENTERTAINMENT TELEVISION, WASHINGTON, DC

Mr. JOHNSON. Thank you. Good morning, Mr. Chairman. I am Robert Johnson, the chairman and CEO of Black Entertainment Television. Our company was established in 1980 as the first cable

television company providing quality programming targeted towards African Americans. In 1991, we became the first African American-owned company to be publicly traded on the New York Stock Exchange.

We currently distribute programming to over 54 million U.S. homes in 13 countries worldwide, and have a market value in excess of $1.2 billion, and we employ over 500 people.

I had the privilege to accompany President Clinton on his trip to sub-Saharan Africa and I can tell this committee that Africa needs this bill, S. 778, more than anything it needs from the United States at this particular time.

I do not want to carry this analogy too far, but we in the African-American community have always felt that we wanted more investment by large major white corporations in our neighborhoods and less welfare and less government subsidy.

I think the analogy says the same thing for the African countries. They are looking to be full-scale economic partners with the United States, not recipients of continual aid and continual subsidy.

My company was started on a half a million dollar investment from a major white company owned by a company called TCI. I returned that investment many times fold, because they now own 35 percent of a $1.2 billion company. This was a mutually beneficial relationship, and I think that relationship can be established with many African countries.

The African leaders and business people I met look to the United States to provide the kind of incentive, not only in terms of economic investment, but the moral leadership to help them deal with the problems.

They are dealing with those problems of bringing in minority groups into the government, solving ethnic tensions, providing for a court system and fair laws and fair regulations. These are the kinds of things that a business person looks to when we decide to invest in a business or in a country, and this is happening every day in Africa.

I agree with Senator Moynihan, it is very difficult for us in the United States, after our historic relations with African countries, going all the way back, obviously, to the slave trade, going through the Cold War when we treated Africa as a pawn, to our most recent omission of not getting ourselves involved in the brutal killings in Ruwanda.

For us now to sit back and dictate to sovereign nations that their policies should be A, B, and C in order to be a part of an economic mainstream, I think, is wrong. I think these countries would reject that. But I believe, and I know that these countries are willing to work towards economic reform, they are willing to work towards free markets.

I was in Uganda, where I met with an Indian national who had come back to Uganda after his family had been kicked out by Idi Amin. He has been welcomed by President Musevini. He is now a major business executive, providing literally hundreds of jobs in Uganda. This is the kind of atmosphere that is happening in those countries.

So, as an African American, and I agree wholeheartedly with you, Senator Breaux, when you talk about the impact of some of the economic policies of this country on African-American communities. But, in all fairness, I would say that if African Americans had the right to decide where some of their dollars are going, I think they would pick a lot of countries more than sub-Saharan African countries where they would consider they would like to see these dollars not go.

So I think we have some difficult issues in this bill that we have to address, and I think we are looking for a win-win situation. But, as an African-American businessman with the potential to do business in Africa, and with an African American who has, I guess, a moral and personal identity with the needs of the African people, the United States owes it to Africa, we owe it to American citizens, to move aggressively to provide an incentive and encouragement for Africa to become a part of the economic mainstream.

I think the long-term benefits of this will not only be felt in Uganda, but will be felt in places like Louisiana, will be felt in places like Delaware, and in New York.

I know, if we are successful in the efforts that we are undertaking to invest in a television network for the entire sub-Saharan African continent, it will be felt throughout the country. Thank you very much.

The CHAIRMAN. Thank you very much, Mr. Johnson.

[The prepared statement of Mr. Johnson appears in the appendix.]

The CHAIRMAN. And now, Ms. Fedorko?

STATEMENT OF KAREN FEDORKO, EXECUTIVE VICE PRESIDENT AND GENERAL MANAGER, MAST INDUSTRIES, INC., ANDOVER, MA

Ms. FEDORKO. Mr. Chairman, thank you for the opportunity to appear today. I will be offering an abbreviated form of my testimony.

The CHAIRMAN. Your full statement, all of your full statements, will be included as if read.

Ms. FEDORKO. Thank you.

[The prepared statement of Ms. Fedorko appears in the appendix.]

Ms. FEDORKO. My comments today reflect the views of Mast Industries, Inc., on behalf of itself and The Limited, Inc. Mast is a global contract manufacturer of casual clothing as is a subsidiary of The Limited, Inc., the largest specialty apparel retailer in the world.

As a business person deeply involved in international trade and clothing, I was delighted with the passage of the Africa Growth and Opportunity Act in the House of Representatives earlier this year.

One sentence summarizes the point I would like to make today. The bill will help people in Africa and it will not harm American workers.

This morning, I would like to address two basic questions: first, will the bill really make a difference in expanding trade and investment with Africa; and second, would the bill have the same pro-

trade effect if the current textile trade provisions are made more narrow?

For retail companies like ours, providing quota and duty advantages for textiles and apparel made in Africa simply makes good sense. These provisions will help African countries begin to rely on trade instead of aid.

These are the elements of the legislation that will have the most direct impact in strengthening trade and investment ties between companies in the U.S. and Africa, and they will not have a negative impact on textile and clothing workers in this country.

I have worked in this industry for 22 years, including in the U.S. domestic garment industry. I know many of the people who coordinate international trade for U.S. retailers. I can assure you that new orders will be placed with African suppliers very soon after this bill is enacted. My own company is already exploring the possibilities, and I know that others are as well.

Mr. Chairman, if the purpose of this bill is to expand trade between the United States and Africa, then the textile provisions of the bill will achieve that goal.

I need to add, however, that the goal of expanded trade will only be achieved if the current textile-related provisions are preserved.

Some have argued that the trade benefits provided in this bill should only apply to garments which are sewn together in Africa from fabric which is formed and cut in the United States. In our business, this is known as 807(a) trade.

I want to be very direct about this. From the perspective of retail companies, the addition of a U.S. fabric-only restriction to this legislation would effectively gut the objective of building stronger commercial ties between companies like mine and garment producers in Africa.

807(a) works very well in the Caribbean, since distances are short and turnaround times can be quick. But shipping individual U.S.-cut garment pieces to Africa for assembly and subsequent reshipment back to the United States is too costly and much too slow, particularly in a business like ours where the whims of fashion require us to move in hours or days, not weeks or months.

I took a look at the timing in the transportation from the United States to Africa in comparison with the same from the United States to the Caribbean. The timing involved from shipping fabric to Africa and garments back is about 80 days.

If I ship fabric from the U.S. to the Dominican Republic, it takes 10 days. That is 70 days more, almost two and a half months. The cost of that process is about 55 cents a kilo to the Caribbean, and it is about $1.43 to Africa, which is three times the cost to ship goods to Africa.

We have informally canvassed members of our industry on this question. Not a single company we have encountered has indicated that it would place orders in Africa under a U.S. fabric only rule.

So, I urge the committee to preserve the integrity of the current language with respect to textile and apparel trade. The bill, as currently written, makes a lot of sense for our industry. Anything more restrictively defined very likely would not.

Finally, I want to address the argument that the trade provisions in the bill might hurt the textile and apparel industry and its

workers in this country. First of all, this is just not realistic. We have to recognize that the production capacity on the African continent is extremely low, and the range of products we could expect to source in Africa would probably be quite narrow. Let us not lose sight of the fact that, in 1997, imports from sub-Sahara Africa accounted for only 1 percent of global U.S. imports.

Speaking from my own company, I cannot personally think of a single instance in which orders we might place with African suppliers would displace any production which we are currently contracting with manufacturers here in the U.S.

We depend on our American suppliers to provide us with the kind of specialized kind of technology-intensive textile production that the American workers do better than anyone else. We would be looking to Africa for much more simple products, so I see little prospect of head-to-head competition with U.S. producers.

I do, however, see a possibility for some displacement with respect to imports from Asia. In fact, when I do the numbers for our company under a scenario of the bill passed by the House, 100 percent of the new orders we would consider placing in Africa are currently placed in East Asia.

Put another way, the House-passed bill makes Africa more competitive vis-a-vis Asia, without imposing a threat to the U.S. industry. Let me state this very clearly. We are major customers of this country's domestic textile and apparel industry. Thousands of UNITE members manufacture clothing for our brands. I have an example here to show you. These type of products are currently in our stores, produced by UNITE members.

Millions of dollars worth of Cone Mill's denim and other American fabrics are contained in a wide range of products sold in our stores today. I have another example of the products that are currently in our stores.

As a retailer, it is in our best interests to have as many high-quality suppliers of apparel as possible, both domestic and foreign. I am convinced that nothing in the bill we are discussing today would harm our friends in the domestic industry.

Mr. Chairman, the African Growth and Opportunity Act is the right thing to do, for Africa, for American foreign policy interests, and for workers and families in this country.

I want to thank you for the opportunity to appear today and for your efforts to advance this most important piece of legislation. Thank you.

The CHAIRMAN. Well, thank you, Ms. Fedorko. I will turn to you, Senator Moynihan.

Senator MOYNIHAN. Thank you, Mr. Chairman. You should be careful. For those who do not know it, I will just announce because you will find it out anyway, there is a marriage coming up in the Roth family just a few days from now, and we want you to be on hand and in good spirits.

The CHAIRMAN. I had better be. [Laughter.]

Senator MOYNIHAN. I thought we have had excellent testimony. It goes both ways and we are going to have to think about it. I have to say, I have just been struck by Dr. Levinson, in the best tradition of the ILG and Amalgamated, which I used to work with,

and the long-term textile agreement in 1963. Two of your distinguished predecessors were there.

That citation from Mahmood Mamdani, who is at Cape Town, I believe, that "the eligibility criteria tilt the balance of reform away from choice to external imposition," I sense that, and I think, Mr. Johnson, you may sense that. I have never seen a list of things of what you have got to be like in order to take part.

You have to have the establishment and enforcement of appropriate policies relating to the protection of intellectual property rights and improvement in government procurement. Now, how do you stipulate improvement in government procurement? I mean, are we the authorities on that matter?

I suspect Ms. Fedorko's company might be pretty good at procurement. I do not know how good or bad. What do we know about that, what are the rules? I do not think there are any that sound good. We might want to think about that.

I would like to say to Dr. Levinson, and to the whole company, that just now you mentioned the bill's most glaring omission is its failure to include labor rights as a precondition for countries to gain eligibility for expanded trade. You mentioned the absence of core labor rights as defined by the International Labor Organization.

Just this moment, the International Labor Conference is meeting in Geneva, and they have adopted four core labor standards and assert that, if you have signed the charter of the ILO and the Philadelphia Declaration of 1944, you have, in effect, endorsed those core labor standards.

The thought, Mr. Chairman, and some of us were in Geneva in January to talk about this, is that labor standards ought to be the province of the ILO, which has been there since 1919, which had its first meeting at the Pan American Union down on Constitution Avenue. There are core labor standards that have been agreed to, and they have been around for the better part of a century, or half a century.

The head of the World Trade Organization has said, it is not for trade agreements to have labor standards, it is for the ILO to set them and for there to be monitoring mechanisms to see if countries are abiding by these rules.

If we can get that kind of parallel development, we may do a lot for labor standards. Absent that, we are not going to get anywhere with expanding trade, it is very clear. I do not blame any of you for thinking about that.

Secretary Herman is just back, but was very active in Geneva. We may be on the verge of a new moment of life in the ILO, which has been sort of quiescent in recent decades. It might solve some of our problems with fast track, because it seems to me that, as much as I support this legislation, and I do, it cannot be a substitute for continuing to open the world trade system, which effort the United States has led from 1934 on.

Right now, for the first time since 1934, we are saying no to further trade expansion. That is a strange thing to be doing at this moment in our economy, in the history of the world, in the history of the expansion of trade.

I am very much aware of the concerns of the needletrades and UNITE, and we ought to try to address them, as we can. But we have a major piece of legislation here, Mr. Chairman, and the sooner we get into the back room and start looking at the language, the better.

I want to thank this panel, which has been exceedingly helpful. Mr. Danahy, I know your concerns and they are legitimate ones. I do not want to seem too ancient, but I was one of the three persons who negotiated the long-term cotton textile agreement in Geneva in 1962. That was a precondition for getting the Trade Expansion Act of that year, which began the Kennedy Round and began the post-war sequence of large trade agreements.

You had legitimate concerns then, and the textile manufacturers and garment workers were combined in asking for the protections, which they did receive, although it was meant to be a 5-year arrangement and that was 35 years ago. But, well, those things happen.

I thank you, Mr. Johnson and, you, Ms. Fedorko.That is an impressive operation you run. The fourteenth largest retail organization in the country. I congratulate you and thank you all.

The CHAIRMAN. Senator Breaux?

Senator BREAUX. I think, Mr. Chairman, the question before the committee is not whether we should have an interest in helping sub-Saharan African countries that are developing. I mean, that is a given. Yes, it is in our National interests to do that. The real question is, how do we do it without creating welfare conditions here at home.

I mean, the 4,000 people that lost their jobs in Louisiana right before Christmas, many of them became welfare recipients. It is not sufficient for me to tell them that that is good public policy because we are helping a country somewhere else. We have to be smart enough to figure out how to do both, otherwise this will go, I think, almost nowhere.

Ms. Fedorko, you talked about 807. No one is talking about an 807 fix on the African trade bill, it is an 809 fix. My question to you is, given the choice between no African trade bill and an African trade bill with an 809 fix which would allow the cutting and the stitching and sewing being done in those countries from U.S. fabric manufactured in this country, given that choice, what would your choice be?

Ms. FEDORKO. It would not work, in practice, in the business.

Senator BREAUX. So you want it all or nothing.

Ms. FEDORKO. The problem is the timing involved. I mean, it is the same timing whether you ship cut pieces or whether you ship fabric. I mean, it is 40 days to ship from the U.S. to Africa, and that is too long. We cannot work under those restrictions.

Senator BREAUX. That would still be cheaper than having it come from Thailand or coming from Thailand.

Ms. FEDORKO. Price is not necessarily always the issue.

Senator BREAUX. Well, I guarantee you, the African trade bill will be great for The Limited, but I am not sure how great it would be for the workers in my State. Unless and until we are smart enough to figure out how to help both, you are not likely to get anything. Thank you.

The CHAIRMAN. Well, you have been an excellent panel. I think it has been very helpful. I appreciate your being here. We will undoubtedly have further questions. The record will stay open until 5:00 tonight.

The committee is in recess.

[Whereupon, at 12:22 p.m., the hearing was concluded.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

PREPARED STATEMENT OF HON. MADELEINE K. ALBRIGHT

Good morning, Mr. Chairman and Members of the Committee. I am delighted to be here to testify on behalf of one of our top legislative priorities, the African Growth and Opportunity Act.

My focus this morning will be on the foreign policy rationale behind the Act. And that rationale is truly powerful. For this legislation frames a new U.S. approach to a new Africa.

For a century or more, outsiders have either been telling Africans what to do, or manipulating loyalties for geopolitical advantage. We have a chance now—which we must seize—to usher in a better era based on changed attitudes and a changing African reality.

I do not minimize Africa's continuing problems. And I will comment on two of them briefly before I take your questions.

But it would be a grave error to let problems rooted in Africa's past blind us to the immense possibilities in Africa's future.

Consider that within the past ten years, the number of democratically-elected governments in sub-Saharan Africa has more than quadrupled.

Consider that of the 48 nations in that region, no fewer than three dozen have begun economic reforms—so that the lost decade of the 1980s is being replaced by the growth decade of the 1990s.

Consider that a new generation of Africans has come of age, raised in the era of independence, liberated from Cold War divisions, ready and increasingly able to assume an equal place at the world table.

And consider that today, we export fully one-third more to Africa than to all the states of the former Soviet Union.

To those who think the United States does not have important interests in Africa's success, I say—think again. Already, 100,000 American jobs depend on our trade with Africa. Already Africa supplies more than 13 percent of our oil—nearly as much as the Middle East. And already there can be no doubt that a stronger, more stable and prosperous Africa will be a better partner for security and peace—and for our efforts to counter global threats such as drug trafficking, terror and crime.

In decades past, U.S. policymakers, when they thought of Africa at all, would ask: What can we do *for* Africa, or, What can we do *about* Africa? Today, the right question is: What can we do *with* Africa—to build real democracies based on open markets and respect for human rights?

By asking this question, we undertake the most fundamental change in our policy towards Africa since the independence movement blossomed on that continent four decades ago. And that change is clearly embodied in the African Growth and Opportunity Act.

This legislation was developed, on a bipartisan basis and with strong Administration support, here on Capitol Hill. It reflects our strategy for placing trade and investment at the forefront of our economic relations with Africa, as they are with other regions around the globe.

The philosophy behind the Act is simple. America stands ready to help those African countries that help themselves.

Specifically, the Act would achieve this by providing duty-free access to U.S. markets for many additional African products.

It would provide reform-oriented African countries with special preferential access for textiles and other labor-intensive products.

It would pave the way for hundreds of millions of dollars in new investment, through two new OPIC funds.

And it would facilitate technical assistance—to help Africans take maximum advantage of all the opportunities inherent in the world economy.

The benefits contained in this bill are not entitlements. They will not be available to every country. Some object to that. But, quite frankly, Mr. Chairman, we would be doing no favor to Africa or to ourselves if we failed to recognize in our laws the strides that African reformers are taking.

This bill is designed to encourage African governments to place their economies on a sound financial footing, to allow private enterprise to function within the rule of law; to permit outside investment; and to liberalize trade.

At the same time, the bill encourages African countries to tend to such development imperatives as poverty reduction, providing adequate health care, creating educational opportunity and encouraging a new generation of African entrepreneurs.

This last factor is vital, because nothing will contribute more to Africa's future. That's why the legislation specifically supports micro-enterprise and "improved economic opportunities for women." Those are the smart things for Africa to be doing. And they are the right things for America to be supporting.

I believe one of the most striking arguments for this bill is that it is supported by many African governments that may not even qualify initially for its benefits. This reflects the dramatic change in philosophy that has been sweeping Africa.

Throughout the continent, this legislation is seen as a catalyst for deepening reform and for opening the door over time to full participation for many African countries in the world economy.

During his visit to that continent this spring, President Clinton heard warm praise for this legislation from most African leaders. And as the Committee may know, it is ardently supported by Africa's diplomatic corps here in Washington. Indeed, almost every government in sub-Saharan Africa—including South Africa—is now on record in support of this proposal. Given the diversity of Africa, that is amazing evidence that the time is right, the time is now, to enact this legislation.

Mr. Chairman, I do want to emphasize that, although trade and investment are increasing in importance in our relations with Africa, that does not mean we can ignore the continuing need in many parts of Africa for aid. The Act does not impose new conditions on current assistance.

Instead, this legislation explicitly states that we should continue to provide development assistance to help establish a more receptive environment for trade and investment. And let me stress that we are continuing such aid. During this decade we have contributed more than $15 billion in assistance to Africa.

Senators, as you know, some have expressed concern that the African Growth and Opportunity Act will lead to a major exodus of American jobs, especially in the area of textiles. The Administration takes concerns of this type seriously, because we are committed to strengthening core labor standards around the world—and we do not want to see American workers undercut.

So it is important to recognize a limit on the legislation we are now considering. Because of the difference in the size of our economies, its impact will be felt far more in Africa than in the United States.

An International Trade Commission (ITC) study concluded that even if all quotas and tariffs on African textiles and apparel were lifted, African imports still would constitute just 1 percent of total U.S. imports in these categories.

So let's keep things in proportion. Last year, our domestic textile and apparel production was approximately $160 billion. Our imports of these products from Africa amounted to less than one four-hundredth of that amount. The ITC estimates that the African Growth and Opportunity Act could impact, at most, 700 U.S. jobs. In the current economy, we create more than ten times that many jobs every day of the year.

Moreover, American businesses, workers and farmers will benefit greatly over time as Africa becomes more prosperous and open. The continent is home to two-thirds of a billion potential consumers—as many as Japan and Southeast Asia combined. Yet our exports represent just 7 percent of this vast untapped market, compared to Europe, with more than 40 percent.

Mr. Chairman, in 1965, Nigeria's GNP was equal to Indonesia's—and Ghana's was the same as South Korea's. Over the past three decades, enormous opportunities were lost in Africa, just as they were seized in Asia. Today, we have a chance, with our African partners, to begin to make up some of that lost time. If we succeed, we can contribute to our own well-being, and to a world that is safer, more prosperous and more free than it otherwise would be.

That would be a great gift to the future. And it is ample reason, in my judgment, for the Senate to act positively and soon to approve the African Growth and Opportunity Act.

Before closing, Mr. Chairman, I would like to touch very briefly on two related subjects.

The United States is deeply disturbed by the risk of full-scale war between Ethiopia and Eritrea, and we have participated very actively in diplomatic efforts to find a peaceful solution. These are two of the poorest countries on Earth with, ironically two of the most capable leaders in Africa. The war, quite frankly, is madness. We are pleased the two governments have agreed to a moratorium on air strikes. We urge them to take additional steps, soon, to restore mutual confidence, end all fighting, and find a peaceful and permanent solution to their dispute.

In Nigeria, a moment of decision has been reached. General Abubakar and his new government have an opportunity to put their nation firmly on the democratic path, which is also the path to prosperity and social progress for the Nigerian people. We welcome the release of nine political detainees this week, and hope for the release of other political prisoners, including Moshood Abiola. We urge a swift and credible transition to civilian rule, in which basic freedoms of speech, press and assembly are respected. And we are prepared to work with Nigeria and the Nigerian people in the context of such progress.

Finally, Mr. Chairman, let me acknowledge that the African Growth and Opportunity Act is sometimes paired with another of our priorities, which is enhanced trade benefits to Caribbean Basin nations. While these two bills employ different approaches, the Administration supports both and would not object to their being considered together, if that should be the will of this Committee and the Senate. Our goal is to see them become law.

Mr. Chairman, that concludes my testimony. I would be pleased to respond to your questions.

RESPONSES OF HON. MADELEINE ALBRIGHT TO QUESTIONS FROM SENATOR CHAFEE

Question: Many of the Sub-Saharan African nations have undergone traumatic civil strife that has taken a terrible toll on their people and economy. One example is Liberia (a nation in which I have a particular interest since Rhode Island is home to the U.S.'s largest population of Liberians). I met with Ambassador Diggs of Liberia yesterday, and she told me this bill will help stabilize their war-torn economy and promote growth, for the benefit of all Liberians. Do those African nations who are recovering from civil war also believe this legislation will help them rebuild?

Answer: As you know, the Ambassadors of 45 Sub-Saharan African countries have expressed their support for this legislation. It must be stressed, however, that some of these countries are in a better position than others to take advantage of the bill's provisions. Countries at a more advanced stage of development and with a greater capacity to export will stand a better chance of benefiting from the bill's trade preferences. Also, countries that have taken steps towards democratization and free-market economies are more likely to meet the bill's eligibility criteria. Some of the countries that are emerging from periods of civil strife have not yet reached this stage of development or reform. Nonetheless, the opportunities offered by the bill will help stabilize regions as well as individual countries, and some benefits will accrue to every GSP—eligible country. And, of course, we will continue to provide other forms of development and humanitarian assistance. We hope that the countries that do benefit from the bill's provisions will serve as a positive example for the poorer, strife-torn nations as they strive to stabilize their economies and promote economic reforms conductive to trade and investment.

Question: Some critics have said that this bill is "mainly aimed at benefiting large foreign private investors and multinational corporations at the expense of true and equitable African development." Another group says the bill would "impose harsh new economic conditions on Sub-Saharan Africa, opening the region to exploitation by multinational resource corporations." These are strong statements. Yet I received a June 12 letter from 45 of the Sub-Saharan African ambassadors that expresses "complete support" for the bill. What is your understanding of the views of the African nations involved? Are they likely to support efforts to allow exploitation of their nation?

Answer: As you noted, the overwhelming majority of Sub-Saharan African nations have already expressed their complete support for the African Growth and Opportunity Act. They do so because they realize that this bill is not a "neo-colonial" effort to exploit African nations for the benefit of multinational corporations. Rather, by encouraging reforms, supporting investment, and increasing opportunities for trade, the bill will stimulate the growth of African countries' private sectors and allow

them to compete with other developing regions in global markets. Numerous governments in Africa, including that of South Africa, have issued separate formal statements in favor of the bill. They have done so because they realize that participation in the bill's provisions is strictly voluntary.

Many African nations have already adopted reforms that include the type of eligibility parameters in the bill. These reforms include promoting the free movement of goods and services, maintaining a fair judicial system, protecting property rights, providing national treatment for foreign investors, promoting investment, and developing regional markets and regional integration. These reforms are difficult to sustain politically and economically until they begin paying the long-term dividends of greater investment, employment, and opportunity. The bill recognizes this and provides incentives to those nations that have chosen this difficult, but potentially very beneficial, course of action.

RESPONSES OF HON. MADELEINE ALBRIGHT TO QUESTIONS FROM SENATOR BOB GRAHAM

Question: I was pleased that you ended your testimony by indicating the Administration's support for both the African Growth and Opportunity act and for a Caribbean Basin trade "parity" bill (CBI parity), and that you would not object to the joint consideration of these bills. In the past, numerous approaches to achieve CBI parity have advocated by different interest. For example, there has been significant discussion on the appropriate textile provisions of CBI parity legislation. Could you elaborate on your statement of support for CBI parity legislation? Specifically, which textile provisions will the Administration support, and which, if any, will it oppose?

Answer: The Administration seeks to advance economic progress and promote regional cooperation in Africa and throughout the Caribbean. As part of this we support legislation that would provide enhanced trade preferences to countries in the CBI region. Such legislation would affect certain products that are currently not eligible for references under the CBI, particularly textiles and apparel. While there are differences over the textile and apparel provisions of the bill the Administration will continue to support Congressional efforts to pass both appropriate CBI enhancement legislation and the Africa Growth and Opportunity Act. We look forward to working closely with the Senate to enact these important pieces of trade legislation.

Question: The agriculture sector, especially in the State of Florida, has voiced its opposition to fast-track legislation based upon the belief that past trade agreements, and the inability to enforce these agreements, has had a significant negative impact on their ability to compete in the global marketplace. In response to my initial question on this issue, you agreed that the Administration should work to build more support for its trade policies within the agricultural community. How exactly will the administration build this support, and what plans do you have to involve the agriculture sector in trade negotiations in the near- and long-term future?

Answer: I can assure you that the Administration will continue its efforts to ensure full enforcement of existing and future trade agreements. The President is committed to eliminating all unfair barriers to our agricultural exports, inducing bogus health and safety regulations which restrict the entry of U.S. products. I, and other administration officials, have repeatedly weighed in with foreign officials to insist on fair access for American farm products. Our existing trade agreements have helped expand markets for agriculture, as evidenced by $58 billion in U.S. agricultural exports in 1997. The President offered to host the next World Trade Organization ministerial meeting, which will kick off the next round of negotiations, to ensure that agriculture will get the focus it deserves in those negotiations. As we prepare for the WTO and other upcoming trade negotiations, the Administration will continue to consult intensively with the agricultural community to ensure that its interests are fully represented in our policy. The State Department last year initiated an ongoing series of meetings with agricultural trade associations to seek their direct input on opportunities and obstacles abroad.

PREPARED STATEMENT OF HON. PHILIP M. CRANE

Thank you, Mr. Chairman, for holding this hearing and for the opportunity to testify today on the merits of H.R. 1432, the African Growth and Opportunity Act. As you are aware, the House of Representatives passed this bill on March 11, 1998, with broad bipartisan support. It is important that we enact this historic legislation before the end of this Congressional session, and I urge you to act formally on the bill as quickly as possible.

H.R. 1432 and the Senate companion legislation, S. 778, introduced by Senator Lugar, represent the culmination of more than three years of bipartisan work to develop a trade and investment policy toward the 48 countries in sub-Saharan Africa. I have been pleased to work with a number of my Colleagues on both sides of the aisle on this important legislation because I believe that it comes at a time of great hope and opportunity for sub-Saharan Africa. In recent years, the region has undergone a persistent evolution toward democracy and free markets. Since 1990, 25 of the 48 countries in sub-Saharan African have held democratic elections, and 30 have embarked on significant economic reforms including tightening their fiscal discipline, the privatization of state enterprises, and the liberalization of trade and investment regimes. As a result of these reform efforts, the pace of African economic growth is increasing, and U.S.-Africa trade has grown at nearly 20 percent a year for the past two years. In the words of one African diplomat at the Ways and Means Committee mark up of this bill, "Africa is open for business."

U.S. policy should seek to support and reinforce the choices that Africans themselves have made about their future in embracing democracy and free markets. H.R. 1432 adds a trade component to our African policy, which has historically focused almost exclusively on foreign aid. In particular, the bill promotes mutually beneficial trade partnerships with those countries in the region committed to economic and political reform.

While this legislation offers many important benefits for sub-Saharan Africa, the bill also furthers important policy goals of the United States. Fundamentally, a stronger, more stable and prosperous Africa will be better equipped to work with us for security and peace in the region and will be a better ally in our mutual fight against narcotics trafficking, international crime, terrorism, the spread of disease and environmental degradation.

Sub-Saharan Africa constitutes a combined market of *nearly 700 million people*—more than Japan and all of the ASEAN nations combined. Already, U.S. exports to the region are 27% greater than our exports to all of the former Soviet Union. And yet, our exports, which were valued at $6.2 billion in 1997, have just begun to tap into Africa's rapidly growing markets. As countries in the region continue to benefit from their own decisions to embrace free market principles, U.S. firms and workers will benefit by higher levels of U.S. exports.

It is important that we hear the voices of Africans themselves about what they believe H.R. 1432 means for their future. I ask to insert in the hearing record two letters I received from members of the African diplomatic corps expressing their support for the passage of H.R. 1432. I have met with numerous African ambassadors and government representatives, all of whom have told me that this legislation complements decisions they have made for their own future. They agree that the bill does not seek to dictate policies to countries in the region but rather offers to engage countries in a mutually beneficial partnership.

As the African Growth and Opportunity Act has moved through the legislative process, the bill's provisions in the textile and apparel sector have received considerable attention. I believe these provisions, as contained in the House-passed bill, are absolutely essential to the fundamental goals of this initiative due to the important role that this particular industry has played as a starting point in manufacturing in developing countries around the world.

Some questions have been raised about the level of textile and apparel imports that would likely come to the United States under H.R. 1432. While the value of these benefits to sub-Saharan African economies would be significant, there is no evidence to suggest that the benefits in the bill would lead to a flood of imports coming from the region. In fact, a September 1997 study released by the International Trade Commission (ITC) found that only seven of the 48 countries in the region are current suppliers of textile and apparel products to the United States and that only nine more had the potential to become suppliers in the future. Furthermore, the report stated that U.S. imports of textiles and apparel from the region accounted for less than one percent of all such imports in 1996. If the benefits proposed in H.R. 1432 were enacted into law, the ITC found that U.S. imports in this sector would grow to represent *less than two percent* of total projected U.S. imports of these products. The ITC, therefore, concluded that the bill would have a "negligible" impact on the U.S. textile and apparel industry.

Opponents suggest that the bill will lead to widespread transshipment. However, the facts show otherwise. At the outset, the quota benefits would only apply after the U.S. Customs Service was satisfied that the visa systems instituted by eligible countries would guard against unlawful transshipment and the use of counterfeit documents. Customs would continue to have full authority to deny entry to all imports of these products based on any suspicion of transshipment and to sanction the violating country by reducing its quota by up to three times the amount of the

transshipped goods. H.R. 1432 states that existing laws on rules of origin and substantial transformation would continue to apply under the bill to insure that products coming to the United States from sub-Saharan Africa are actually produced there. In addition, we added a provision during Ways and Means Committee consideration of the bill to deny benefits for two years to any company involved in illegal transshipment. In all, the measures in this bill on transshipment represent the *strongest language ever proposed* on this issue.

In any event, transshipment is a global issue, and sub-Saharan Africa only plays a minor role. The U.S. Customs Service reports that instances of transshipment through sub-Saharan Africa have been minor in relation to other areas of the world, and the isolated cases involving African countries in the past few years have all been resolved. The ITC study has demonstrated that the potential for growth in this sector in Africa is not large, and thus any significant upturn in shipments coming from the sub-Saharan Africa will be apparent to Customs in its enforcement of U.S. laws. In short, I believe that denying trade benefits to sub-Saharan African countries is *not* the solution to the problem of transshipment. Removing the textile provision or gutting it through a U.S. content requirement would take away the few trade benefits we are able to provide these countries. These benefits would be highly meaningful to sub-Saharan Africa but would have a *negligible* impact on our companies and workers.

I urge you to take swift action to enact this historic bipartisan legislation, including the House-passed textile provisions, before the end of the 105th Congress. Thank you for this opportunity to testify before you today.

PREPARED STATEMENT OF WILLIAM M. DALEY

I am pleased to be joining Secretary Albright and Deputy Secretary Summers at this morning's hearing to discuss an issue of great importance to the Clinton Administration, the Department of Commerce, and U.S. businesses and workers. It is a pleasure to appear before the Committee on Finance, which has played such a critical role in advancing American trade policy.

I very much appreciate this opportunity to testify concerning the African Growth and Opportunity Act and, more broadly, what we at the Commerce Department are doing to advance the President's Partnership Initiative with Africa. This is a particularly exciting time for the U.S.—African relationship. With the President's historic trip in March, Africa has become the focus of attention as never before at the highest of the U.S. Government. Africa is important to the United States for a variety of reasons. It is the ancestral land of more than 33 million Americans. It is the home of more than ten percent of the world's population. Its abundant human and natural resources remain largely underdeveloped.

While the challenges Africa faces are still quite substantial today Africa also provides a wealth of opportunities—as more and more Africans enjoy the benefits of democracy, enhanced respect for basic human rights, and greater economic prosperity based on open markets. The Africa of 1998 is a far cry from that of the 1970s and 1980s—a period characterized by statist economic policies, rampant inflation and corruption, and a continent treated to a significant degree as a pawn in the all-consuming East-West conflict.

The economic progress can be seen in the rate of real GDP growth—which, at over four percent in each of the past two years (and projected growth exceeding five percent this year), is more than double that of the early 1990s. Moreover, the people of Africa are eager for closer ties with the United States, as I saw firsthand during the President's trip. From the half a million people gathered in the sweltering heat of Accra, Ghana to see the President and First Lady to the schoolchildren we met in Uganda, we witnessed a tremendous enthusiasm for the visit and the opportunities it affords for a stronger, mutually beneficial economic relationship.

Yet despite its important ties to this country, Africa remains a market that, by and large, has not been pursued aggressively by the United States. The figures confirm that we have a great deal to accomplish: despite recent growth in our exports to the continent, the United States still ranks a distant third as a supplier to Africa—with only a seven percent share of the market there, compared with the European Union members' over 40 percent share.

The good news is that the U.S. business community is stepping up its trade and investment efforts—and realizing increased commercial success in Africa. Last year, U.S. exports topped $6 billion for the second year in a row. Our exports to Africa are nearly one-third greater than those to Russia and all of the former Soviet republics combined. And while the risks of investing in Africa should not be overlooked,

the rewards can be considerable—with an average annual return for U.S. investors more than double that in Asia, even before the current economic crisis there.

We now need to build on that solid foundation by moving forward with the President's Africa Initiate and by passing the African Growth and Opportunity Act. Let me be clear: much of what we need to do to strengthen our commercial ties with Africa can best be accomplished through the leadership of our private sector. But we in government—in both the executive and the legislative branches—have the responsibility to assist those efforts by addressing some of the remaining barriers to trade and investment. And, to implement those changes that require legislative action, we are here this morning to urge your support for the African Growth and Opportunity Act.

Much of the attention on this legislation has centered on the provisions that would afford enhanced market access for those sub-Saharan African countries pursuing needed reforms, including by authorizing the President to grant duty free treatment for certain products presently excluded from the Generalized System of Preferences (GSP) program and by eliminating the existing quotas on our imports of textiles and apparel from Kenya and Mauritius. I am certainly aware of the concerns that have been raised by industry and union organizations about these and certain other provisions.

But these provisions need to be understood in the context of the legislation—and the President's Partnership Initiative, *as a whole*: as one essential part of a coordinated approach to help those African countries that are undertaking the reforms that are needed to strengthen their own economies, to attract additional investment, and to improve access to their markets for our goods ant service providers.

The Department of Commerce serves as the main catalyst for engaging the U.S. business community on Africa, while also working closely with other departments and agencies, including through the Trade Promotion Coordinating Committee process. We are currently formulating a broad-based Africa Commercial Strategy to bring together the Department's diverse expertise on Africa in new, creative, and more focused ways. We are preparing to expand the presence of our Foreign Commercial Service in Africa. We will increase the involvement of Commerce Department experts in a wide range of areas—from technical standards to commercial law issues, from assisting their African counterparts on intellectual property protection and data collection to using better weather forecasting to improve land use patterns and, as a result, agricultural output.

To cite just one example of this effort, Commerce is spearheading an initiative to build insurance markets in emerging economies, including in Africa. The International Insurance Technical Assistance Partnership is a joint effort between the Federal Government and the U.S. insurance industry to promote the development of open and competitive insurance markets. The establishment of sound regulatory and supervisory insurance mechanisms is a key element in building the structural foundation necessary for sustained economic growth. This Partnership can provide African countries with the technical assistance needed to develop such structures.

Beyond the specific initiatives of many of the Department's bureaus, we are engaged in the effort to promote greater regional economic cooperation on the African continent. For example, last year Commerce joined the Agency for International Development in sponsoring a two-day forum in Washington for trade ministers of the 12-nation Southern Africa Development Community (SADC)—an event that helped speed the process of economic integration among those countries. On a somewhat smaller scale, I was encouraged by my discussions in March, during the President's visit to Uganda, with the economic ministers of the East African Cooperation forum, a regional organization consisting of Kenya, Uganda, and Tanzania.

In the less than three months since the President's trip, Commerce has moved forward on a number of fronts that demonstrate the increased importance we are placing on Africa. For example, we have organized a series of meetings across the country to expand our outreach to American businesses, including small- and medium-sized and minority-owned firms. We have highlighted the importance of the African market with our District Export Council representatives, including at a meeting with them earlier this month. We hosted a tour of U.S. Ambassadors and Senior Commercial Officers to several U.S. cities to increase awareness of new business opportunities in Africa. An April conference in New Orleans on U.S. Trade and Investment in Africa, cosponsored with the State Department and Corporate Council for Africa, drew an overflow crowd. And last month, Deputy Secretary Robert Mallett addressed the World Economic Forum's Southern Africa Conference in Namibia, as part of a trip that also took him to South Africa ant Cote d'Ivoire for meetings with business and government leaders and visits with "ordinary" Africans as well.

This week, I am announcing my plans to lead a Commercial Development Mission to Africa in mid-September. I expect to take officials from approximately 30 U.S. companies to South Africa, Kenya, and Cote d'Ivoire, and hopefully 1–2 other countries, for meetings with government and business officials, to advocate on behalf of specific U.S. projects, and to investigate new opportunities for U.S. trade and investment in different parts of the continent. I intend to focus considerable attention on exploring regional economic initiatiates—including through meetings with the SADC and East Africa Cooperation ministers to discuss mutually beneficial business opportunities in countries other than those we have the chance to visit.

I am confident that my September mission will demonstrate the tangible benefits of open markets by putting U.S. firms in direct contact with potential African buyers and commercial partners—while conveying the critically important message that the United States is ready to be a full partner in Africa's efforts to build prosperity based on free enterprise. We will be concentrating on the industry sectors that have some of the greatest growth potential, including computers and software, telecommunications, other information technologies, agribusiness, power generation, health care, financial services, and environmental technologies. U.S. firms are world leaders in these areas—and in other sectors critical to the development of Africa's infrastructure—and I am determined that the September mission will-lead to significant new export opportunities, meaning new U.S. jobs as well as greater prosperity for the African people.

As this week's Mission Statement describing the September trip states, the mission "will demonstrate the tangible benefits of open markets by putting U.S. firms in direct contact with potential buyers and joint venture partners, while conveying the message that the United States is ready to be a full partner in Africa's economic development efforts." As we prepare for the 21st century, we must focus increasingly on how to bring those parts of the world too often overlooked over the past several decades more fully into the international economic system. The African Growth and Opportunity Act is a key component of this strategy, demonstrating the United States' commitment to help African countries even as we help ourselves by fostering closer, sustainable, mutually beneficial economic ties.

Thank you again for the opportunity to testify this morning in support of the African Growth and Opportunity Act and, more generally, in support of a stronger commercial relationship between the United States and Africa. I look forward to working with Members of this Committee, and your Senate colleagues, in support of this critically important objective.

PREPARED STATEMENT OF J. PATRICK DANAHY

My name is Pat Danahy. I am the current President of the American Textile Manufacturers Institute (ATMI), the national association of the textile mill products industry. I am also the Chief Executive Officer of Cone Mills Corporation, a textile company headquartered in Greensboro, North Carolina. It is on ATMI's behalf that I am speaking today. ATMI's members collectively account for more than three-quarters of the textile fibers processed in the United States and are engaged in the manufacture and marketing of every kind of textile product.

ATMI welcomes this opportunity to highlight the serious flaws contained in the African Growth and Opportunity Act. Reflecting the unanimous view of our board of directors, ATMI is strongly opposed to the African Growth and Opportunity Act because it will threaten the livelihoods of hundreds of thousands of U.S. workers employed in cotton farming and wool growing, petrochemical and cellulosic fiber production, textile manufacturing and garment making. This opposition is based on the following factors:

(1) It will permit companies to exploit an ineffective rule of origin to gain the benefits of the bill by doing very little actual manufacturing in Sub-Saharan Africa. As a result, the bill will mostly benefit Asian manufacturers, not African workers.

(2) It is an open invitation to massive customs fraud and will turn Sub-Saharan Africa into a transshipment superhighway.

(3) It is illegal within the framework of the World Trade Organization: the United States will require a waiver and could be required to give compensation to non-Sub-Saharan nations.

(4) It will damage trade which has developed under NAFTA and with the Caribbean and Central America under the 807a Program.

(5) It is bad trade policy: it unilaterally opens up the U.S. market without providing any benefits to U.S. workers.

(6) It contravenes commitments made to the U.S. textile industry and the Congress by the Administration regarding the Uruguay Round.

(7) It relies on a flawed study by the International Trade Commission that ignores the reality of textile and apparel trade.

I would like to note before I go into more detail that we have attached a paper that goes into greater depth on a number of these points.

(1) It will permit companies to exploit an ineffective rule of origin to gain the benefits of the bill by doing very little actual manufacturing in Sub-Saharan Africa.

Of the many unfortunate aspects of this bill, perhaps the most ironic is the fact that the very people it purports to help—African workers—will end up getting little or no benefit from the bill.

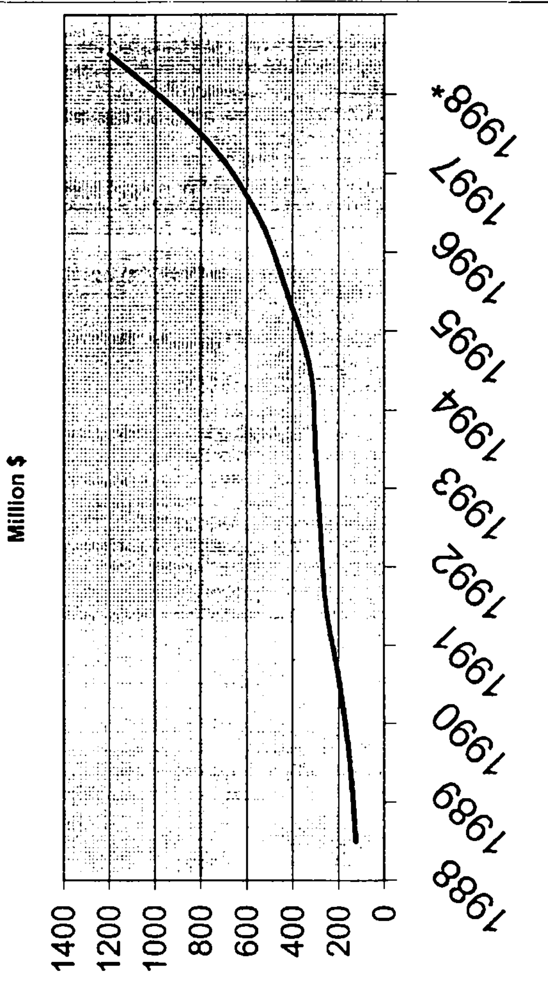
The bill's rule of origin, which stipulates how much of the item must actually be made in Sub-Saharan Africa in order to receive duty and quota benefits, is weak and ineffective. As a result, it will ensure that African participation in the anticipated windfall will be minimal. Under this rule of origin, only 35 percent of the appraised value of the good must be added in a Sub-Saharan country for African origin to be claimed.

While 35 percent may sound as though it will require significant input by Sub-Saharan producers, that need not be the case. For example, using multi-country assembly of garments based on U.S. Customs rulings and permitted under the bill, most of the sewing can (and probably will) be done in Asia. The only requirement for the item to have Sub-Saharan origin is that "an important assembly or manufacturing process has occurred." The truth of the matter is that one could qualify for origin under this bill by doing only one or two sewing operations—for example, attaching the sleeves or collar to a shirt that has already been sewn in Asia—actually occurring in Sub-Saharan Africa. (In fact, given the lack of effective anti-fraud measures, it will be easy just to claim that the 35 percent value-added requirement has been met.)

There is yet another loophole concerning who actually makes the goods—one that is being used right now by Asian manufacturers. It is important for the Committee to keep in mind that most of the garment export business in Sub-Saharan Africa is controlled by non-Africans, typically Hong Kong and Indian companies. There is nothing in this bill to prevent these businessmen from using imported foreign labor—labor from China, India, Bangladesh or any other country with a surplus of low-wage workers—which is often cheaper and more highly trained. They already have done this throughout the Middle East: in the United Arab Emirates, Bahrain, Qatar and Oman. And, according to a January 1998 report by TransAfrica, Inc., they have already started to do so in Mauritius, where expatriate Chinese and Vietnamese workers have already been imported to work in the local apparel industry.

Perhaps the most significant example of such a practice is the Northern Mariana Islands—a situation that presents a real-life example of the problems that an ill-designed free trade agreement can cause. These islands, which in area are only one-quarter the size of Jacksonville, Florida and which are situated much farther from the continental United States than Africa, are a U.S. trust territory and as such, have been granted quota-free and duty-free access to the U.S. market.

During the last five years, the Northern Marianas have been "rediscovered" by Chinese apparel entrepreneurs who have transported tens of thousands of Chinese laborers to work in labor camps to produce apparel solely for export to the United States. Using Chinese yarns and fabrics, these "entrepreneurs" have turned the Northern Mariana Islands into the fastest growing U.S. source for imported apparel in the world. In 1998, $1.2 billion dollars worth of apparel is expected to be exported from the Northern Mariana Islands to the United States.



Source: U.S Department of Commerce

* 1998 Imports Estimated.

To make matters worse, the people of the Northern Marianas are not benefiting. The Chinese owners have bypassed native workers to bring in cheaper, more highly trained Chinese workers—and consequently, the unemployment rate in the Marianas for indigenous workers is 14 percent. Nor has local industry benefited because everything comes from offshore—the yarns, sewing thread, buttons, zippers, trims as well as the fabric, the packaging, the boxes—everything is shipped in. And that is not all—widespread labor violations, unsanitary living conditions, forced abortion, customs fraud and massive illegal transshipment have been alleged by U.S. government investigators. I would ask the Committee to note that the incentives that exist for the Northern Mariana Islands to illegally transship and to exploit foreign workers—duty-free, quota-free access with no safeguards—are identical to those that would result from enactment of the Sub-Saharan bill.

(2) It is an Open Invitation to Massive Customs Fraud and Will Turn Sub-Saharan Africa into a Transshipment Superhighway

As you may know, the on-going illegal transshipment of textile and apparel products by Asian manufacturers to avoid quotas has been a long-standing concern of

this industry. To be able to ship through a country or countries that are exempt from quota has proven to be a powerful incentive to cheat—and Asian manufacturers have a history of cheating that goes back more than 15 years. According to U.S. Customs figures, the illegal transshipment problem has grown from $450 million in 1983 to an estimate of at least $2 billion in 1993—a figure that Acting Deputy Commissioner of Customs Sam Banks described as "pretty conservative." And it should be a cautionary note to all concerned that U.S. Customs has previously identified eight countries in Sub-Saharan Africa as "major transshipment routes" that have been used by Asian textile and apparel manufacturers.

This legislation takes the illegal transshipment problem we already have and threatens to make it many times worse. By reducing duties from 18 percent to zero for products that claim to be made in "Sub-Saharan Africa," it is practically begging unscrupulous Asian exporters to cheat. And the temptation, Mr. Chairman, should not be underestimated. Last year, Asian textile and apparel manufacturers paid billions of dollars in duties to the U.S. Treasury to get access to the U.S. market. In the competitive world of textile and apparel trade, where pennies on the dollar make the sale, many exporters will seek to escape the 18 percent average duty into the United States by moving goods through Sub-Saharan Africa.

So the end result is that, under this bill, we essentially go from a large transshipment problem which was isolated to a relatively small number of countries that filled their quotas to a massive one where anyone who currently pays U.S. duties now has an incentive to cheat. The question therefore is not whether there will be transshipments, but how big they will be and how many U.S. jobs they will take away.

EXHIBIT

US CUSTOMS REPORTS ON TRANSSHIPMENT ACTIVITY

1983—Customs estimates textile transshipments at $450 million. [1]

—Customs launches "Operation Blitz" regarding widespread use of counterfeit visas in Taiwan.

—"Operation Tripwire" report on transshipment activity states "Substantial evidence indicates that much of the (textile and wearing apparel) merchandise is entering the United States through fraudulent schemes" and that "conspiracies to circumvent import requirements have now reached epidemic proportions." [2]

1985—Visa system covers 20 foreign countries.

1992—Customs reports that of 694 overseas factories inspected during the "Q-Tip" investigation, 553 (80%) were found to be transshipping. [3]

—Commissioner Hallet states that Chinese transshipments are estimated at "at least $2 billion." [4]

1993—Sam Banks, Acting Deputy Commissioner: "We have gone into . . . 32 countries and in 27 we have found huge (transshipment) problems . .. we can say straight-faced that the $2 billion (transshipment) figure is probably a conservative estimate." [5]

—US Customs in Hong Kong estimates that actual transshipment figure may be as high as $4 billion. [6]

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[1] "Federal Enforcement of Textile and Apparel Import Quotas", Committee on Government Operations, House Report 99–305, p. 11.

[2] Operation Tripwire Report, US Customs, 9/30/83, p. 6–7.

[3] Speech by Peter Nunez, Asst. Secretary of Enforcement, Dept. of Treasury, 5/28/92.

[4] Commissioner Hallet, press briefing, Operation Q-tip, 5/6/92.

[5] Oversight of US Customs Service and Textile Transshipment", Committee on Government Operations, House of Representatives, Oct. 5, 1993, p. 115–6.

[6] Ibid. p. 115.

1994—Customs reports that China cannot account for up to $10.8 billion in worldwide apparel exports.[7]

1996—Custom establishes single bond entry requirements on ten apparel categories representing $400 million being exported from Hong Kong after it determines that true origin of the products cannot be verified.

1997—Customs reports that jump teams in Macau & Hong Kong find transshipment rates of 20–25% or higher in all targeted apparel categories. Some categories in Macau are reported to contain 90% transshipments.[8]

1998—Hong Kong Customs, after a review of 2,200 apparel factories (one-third of total), finds transshipment rate of 20–25%.[9]

Unfortunately, the primary "anti-transshipment" device the legislation proposes—a visa system—has nothing to do with curbing transshipments. In point of fact, the proposed system, which is already in use throughout the Far East, was never designed to stop transshipments. Its primary function has always been quite the opposite—it helps foreign governments count exports so that they will not overship their quotas. And as such it is merely a stamp on an export document detailing the category the product belongs to and the size of the shipment—no plant visits, no inspections, no verifications of any kind are required. Under the proposed system, every shipment might carry an authentic visa and yet still contain a false origin label because it really originated in another country. The Committee should note that Hong Kong, which has used this very same visa system since 1976, is, even today, a major illegal transshipment point for Chinese goods. Using a visa system to stop transshipments is like using a weather report to stop a hurricane. The report tells you how bad the storm will be but does nothing to stop it from happening.

The other proposed anti-transshipment measures—the annual "review," the removal of companies found guilty of transshipments, and bilateral consultations—have all been used in the past and have proven themselves woefully inadequate in stopping illegal transshipments.

This is not the way trade legislation has been written by Congress in the past. When duty reductions for textile and apparel imports have been given to specific countries or regions, the incentive to cheat has been recognized and effective counter-measures included. The US-Canada FTA, the NAFTA Agreement and the 807A program with the Caribbean have all contained additional safeguards that have proven effective. None of these safeguards are included in this legislation. In fact, the European Union, which has a duty-free, quota-free agreement for textiles and apparel called the Lome Pact with a number of developing countries has also recognized the same danger. The rule of origin for Lome countries is a "double transformation" rule, which is much stricter than the one contained in this bill. It essentially requires that the fabric manufacturer and the garment producer must both certify origin for benefits to be granted.

I would like to note that we are not alone in our feelings on the problems concerning the bill's anti-transshipment measures. At the request of the House Ways and Means Committee, U.S. Customs reviewed our analysis, pointed out several minor technical issues, but found no fault with our conclusion that the anti-transshipment measures in the bill are ineffective.

The Committee should also be aware, that, despite its many anti-transshipment initiatives and efforts, U.S. Customs is able to catch less than one percent of all the textile and apparel products that are estimated to be illegally transshipped into the United States each year. This is a reflection of both the many other responsibilities that U.S. Customs is burdened with and the lack of effective anti-transshipment measures that are in place for most countries. Certainly one percent is not a record that we feel demonstrates a proven ability to stop the illegal transshipments that will occur if this bill passes. In addition, among the 48 Sub-Saharan countries, U.S. Customs has a presence in only one—South Africa—and that is in Pretoria, which is hundreds of miles away from the closest port.

One additional point. The primary enforcement authority under this bill is not even U.S. Customs—the primary enforcers will be the customs agencies of the 48 Sub-Saharan African countries. These are the agencies that will administer the visa

[7] "Unraveling the Mystery, Following the Thread of PRC Apparel Exports", US Customs, 12/94.

[8] Briefing to ATMI Officers by US Customs, November 1996.

[9] Briefing to ATMI Officers by US Customs, February 1998. Using Hong Kong apparel exports in 1997 of approx. $9.6 billion, worldwide Hong Kong transshipments could total as much as $2.4 billion (ATMI analysis).

system and they will also have primary responsibility for making sure that products are made in Africa, not Asia.

Mr. Chairman, we have spent a good deal of time investigating this very important question. The information we have to relate to you is sobering. First of all, as we all know, the potential area encompassed in the bill is very large—over nine million square miles, about three times the size of the United States. In addition, the large number of countries involved and the many major ports of call—more than 75 in the Sub-Saharan region—make detection of illegal activity a difficult prospect even under the best of conditions. Unfortunately, conditions are hardly ideal. The region has had more than its share of neglectful and—to be frank—corrupt regimes. And, as we have discovered, the problem of abuse extends almost inevitably to their customs agencies. The U.S. Agency for International Development (US AID), the World Customs Organization, Transparency International and some of the countries themselves—including South Africa—have all testified to the fact that customs corruption is one of the region's most difficult and pervasive problems.

In our attachment, we include numerous citations regarding Sub-Saharan customs fraud and corruption and we hope the Committee will review them closely. We ask that the Committee take particular note of the section detailing the ongoing problem of widespread smuggling of Asian textile and apparel goods into South Africa, Namibia, Zambia and the Congo. For the purposes of this hearing, we will merely quote from a statement made just two weeks ago before the House Subcommittee on Africa by our own government. During that hearing, the U.S. AID Administrator for Africa noted that in Africa "systemic corruption typically occurs . . . in customs and the justice system" and that the problem is "often fostered and encouraged by non-Africans."

Mr. Chairman, I think we have demonstrated that if this bill has a single worst flaw, it is that its terms are unenforceable. There is simply little or no chance that anyone who cheats will ever get caught. This bill is the closest thing to a written invitation to steal—to steal U.S. jobs and production and to steal duties from the U.S. Treasury—that I have ever seen.

(3) It is Illegal Under the WTO and Could Require a Waiver and Probably Compensation to be Paid

To extend the benefits of the legislation, the United States will have to apply for a waiver from the World Trade Organization (WTO) because such unilateral trade benefits violate WTO rules. While we might expect the WTO to grant such a waiver (for purely political reasons, if no other), it would do so only with the loud objections of exporting nations such as India, Pakistan and Indonesia that will not receive the benefits given to Sub-Saharan Africa. These countries will demand to be compensated by the United States by having their own quotas increased or even removed. In short, this bill could completely unravel the delicate balance of concessions contained in the Uruguay Round Agreements Act approved by the U.S. Congress with the result being increased imports from many other countries and a corresponding loss of jobs and production in the United States.

(4) It Will Damage Trade Which Has Developed Under NAFTA and with the Caribbean and Central America Under the 807a Program

Today, more than 50,000 US textile workers produce goods because of preferential trade programs in place with Mexico, Canada, the Caribbean and Central America. These jobs, as well as countless more assembly jobs in Mexico, the Caribbean and Central America, will be jeopardized if this bill passes. Because the bill contains ineffective anti-transshipment measures, and because it offers large inducements for Asian textile and apparel manufacturers to either transship through Africa or to use Africa as a minor assembly platform, low-priced, subsidized Asian exports will take away jobs and production which have developed since these programs have been implemented in the Western Hemisphere. As a previous point notes, imports from the Northern Mariana Islands, which already enjoy the same duty-free, quota-free benefits that this bill proposes, are growing faster than any country in the world—including Mexico, the Caribbean and Central America. The North American Textile Council—a joint industry group which represents the textile manufacturing sectors from the United States, Mexico and Canada—has warned of severe job losses in the North American textile and apparel complex if this bill passes.

(5) It is Bad Trade Policy

With regard to the question of trade policy, Finance Committee members have been or will be told that ATMI's position is simply knee-jerk protectionism and that trade liberalization is anathema to the American textile industry. This is not true. ATMI supported the U.S.-Canada Free Trade Agreement (FTA), the Special Regime program with Mexico, and the 807A program with the Caribbean, and we supported

and worked hard for the passage of the North American Free Trade Agreement (NAFTA). ATMI also supports Caribbean parity legislation that has been approved by your committee and, in fact, is referred to as the Roth CBI bill. Clearly, ATMI supports trade liberalization when it is beneficial to all parties concerned. The African Growth and Opportunity Act, however, clearly does not meet that test.

The Act lowers tariffs from an average of 18 percent to zero on more than 2,000 textile and apparel U.S. tariff lines . . . but it does not require that any of the 48 Sub-Saharan countries lower their tariffs by even a single percentage point on even a single tariff line. For example, it allows countries like Nigeria (assuming that Nigeria meets the bill's other conditions) to continue its ban on the importation of textile products from the United States. In fact, the bill contains no penalties in the event that other countries erect new barriers against U.S. exports. I don't think any of the committee members will disagree that trade legislation should benefit U.S. workers—but this legislation is far from being beneficial. It is a terrible way to conduct trade policy and sets a bad precedent for trade agreements down the road.

The bill is also bad trade policy because it contains an inadequate safeguard against imports that damage the U.S. economy and cost U.S. jobs. The bill's language implies that the safeguards that exist in the GSP or "Generalized System of Preferences" will apply here. However, the most effective safeguard under GSP is the removal of an item based on competitive need and this action is prohibited under the bill. The only remaining safeguard would be for the President to decide to remove a product from the GSP list, something that is rarely if ever done for other than competitive need reasons.

(6) It Contravenes Commitments Made to the U.S. Textile Industry and to the Congress Regarding the Uruguay Round Agreements Act

As a result of the Uruguay Round legislation, President Clinton, in a letter to Congressman John Spratt and other members of Congress, assured the domestic textile industry and Congress that the industry would receive "gradual and even staging of tariff reductions and quota integration." He elaborated that "tariff cuts should be staged over a period at least as long as the phase-out of the MFA" (Multi-Fiber Arrangement), and that the Administration did not intend "to integrate sensitive products until the end of the phase-out period" (see Exhibit). In addition, President Clinton stated that he would insist "that our willingness to phase-out the MFA be linked directly to the achievement of effective market access in individual countries by the removal of non-tariff barriers and the lowering of tariffs."

The current legislation contravenes all of these commitments. Tariffs go to zero immediately, quotas are immediately removed and there is not a single shred of market access achieved for U.S. products. In fact, given the lack of effective safeguards against massive transshipments from Asia, the U.S. textile industry considers the legislation to be a *de facto* elimination of quota controls and tariffs on Asian textile and apparel exports.

(7) It Relies on a Flawed International Trade Commission (ITC) Study that Ignores the Reality of Textile and Apparel Trade

The Committee is in possession of a study by the U.S. International Trade Commission[1] on the Sub-Saharan Africa bill that concludes the impact on the domestic industry will be slight and that job losses will be negligible. This conclusion is so erroneous that it would be laughable—except for the fact that many people have accepted it at face value and, by doing so, are now supporting legislation which jeopardizes hundreds of thousands of U.S. manufacturing and agriculture jobs.

The study contains three major flaws, each of which falls out of a basic lack of understanding of the realities of international textile and apparel trade. First, the ITC failed to consider that the weak rule of origin in the bill effectively reduces the benefits that they conclude this bill will provide to the region. Because the rule allows for a majority of the value of the goods to be added elsewhere, much of the work the ITC assumes will be done in Sub-Saharan Africa will actually be done in Asia. Our analysis shows that because of the weak rule of origin, African workers will get stuck with doing mostly lower-skilled, lower-value incidental activities.

Second, the ITC failed to investigate whether adequate anti-transshipment measures had been incorporated into the legislation. For reasons that we still do not understand, the study spent only three paragraphs (out of 125 pages) reviewing the illegal transshipment problem and then essentially concluded that it was no problem at all. This inattention is even more remarkable given the fact that six different

[1] *Likely Impact of Providing Quota-Free and Duty-Entry to Textiles and Apparel From Sub-Saharan Africa;* Invesigation No. 332–379; September 1997.

U.S. industry organizations, including ATMI, singled out potential illegal transshipments as their number one concern regarding the legislation.

Third, the ITC failed to even consider whether the reduction in duties from 18 percent to zero could create an additional new incentive for non-African countries to use Africa as a transshipment platform. As we have already demonstrated, no-quota, no-duty status is a lightning rod for illegal activity. The ITC needed only to review the trade data regarding the Northern Mariana Islands to see what the future will hold if this bill becomes law. As already mentioned, this tiny group of islands is today the fastest growing apparel exporter to the United States—faster than Mexico, faster than the nations of the Caribbean. Last year, more than $800 million worth of apparel entered the United States from the Northern Marianas, and this year over $1.2 billion is projected to be exported to the United States. And the tiny Northern Mariana Islands represent only a snapshot of the kind of damage and abuse that could occur if a 48 nation Sub-Saharan bill is passed. The ITC, however, managed to miss that fact altogether.

In short, the study is so flawed in its analysis and so misguided in its conclusions that we urge the Committee to disregard it altogether.

Conclusion: Hundreds of Thousands of U.S. Jobs Will Be Threatened If This Bill Passes

In the final analysis, the African Growth and Opportunity Act is bad legislation. Its aims and objectives may be lofty, but they will not be realized. It is the embodiment of misguided, bad trade policy. It creates conditions that will cause massive amounts of customs fraud and illegal transshipments. It overturns important commitments made to the U.S. industry. It violates WTO guidelines and specifically removes safeguards that are available to every other industry sector. It will not help African workers but transfers most of its benefits to Asian textile and apparel manufacturers. And, most importantly, it will threaten the jobs of hundreds of thousands of U.S. cotton, wool and man-made fiber, and textile and apparel workers. For these reasons, it should not be considered further by the Finance Committee or by the Senate itself.

EXHIBIT

THE WHITE HOUSE
Washington, November 16, 1993.

DEAR JOHN: Thank you for your letter of November 10 concerning the Uruguay Round, NAFTA and questions concerning Customs Service enforcement of trade agreements affecting textiles and apparel. While I appreciate your concerns, I believe NAFTA will be a strong, positive opportunity for the textile and apparel industries and workers of the United States.

Let me respond to each of the points you have raised. First, regarding the enforcement of NAFTA, we believe the Customs Service procedures set our in the agreement are one of its strongest features, and a major improvement over the provisions of the U.S.-Canada Free Trade Agreement. I can assure you that I am committed to effective enforcement of NAFTA, and I am happy to work with your specific suggestions in order to ensure that you and other members are satisfied that the agreement will be properly implemented.

In response to your request regarding Customs Service funding, I can assure you that we will dedicate an additional $15 million supplemental to the enforcement of textile and apparel regulations and rules, as well as related competitiveness trade matters. A substantial majority of these funds will be used for an increased number of audits, criminal investigations, identification of high risk shipments and "Jump Team" activities. Out of these added funds, Customs will provide for an additional 50 import specialists, agents, and inspectors to work exclusively, to the extent practical under the circumstances, on textile/apparel enforcement other than NAFTA. I will ensure that the Customs' commercial program associated with both the enforcement of NAFTA and other textile and apparel enforcement will be held harmless from our government-wide effort to reduce employment levels.

With respect to NAFTA enforcement efforts, I can pledge to you that the Customs Service will hire 136 new employees, fifty of whom will be dedicated to enforcing textile and apparel rules and regulations. Many of these new employees will be stationed along the Southwest border to handle the increased activity produced by NAFTA. Other will be placed where they can best be used to enhance our trade enforcement efforts.

Assuming NAFTA is passed, Secretary Bentsen assures me that we will have at least 50 new auditors, 41 import specialists, 25 additional agents, 10 new analysts and 10 new inspectors. These personnel are being recruited to improve our ability

to ensure that our Customs rules, including particularly the rules of origin for textiles and apparel, are enforced.

The other suggestions you have made are within the administrative authority of the Customs Service, and I am pleased to consider implementation of your suggestions, with some minor modifications, as a way to ensure the integrity of the NAFTA agreement. The Customs Service will commit to issuing by April 1, 1994 proposed regulations on your suggestions for extension of the redelivery period, changes to the mitigation guidelines and issuance of certificates of origin/textile declarations on non-NAFTA qualifying shipments. Naturally, these proposed regulations would have to be subject to the normal administrative and legal procedures for issuing proposed regulations. But you should know that I am less certain of the merits of the suggestion for submission of these certificates "well in advance" of the goods arrival. This proposal must be reviewed with an awareness of possible burdens on the importing community.

Also Customs would be prepared to establish through a directive the necessary procedures for all U.S. Customs Districts, as well as foreign offices, to provide a monthly report to the Commissioner on all textile transshipment cases under investigation; and all results from Jump Team reports; seizures and shipments denied entry including the quantity and value of such shipments; and any indictments or fines and penalties with all appropriate details concerning the violation. As you are aware, U.S. Customs and the Committee for the Implementation of Textile Agreements (CITA) have recently signed a Memorandum of Understanding (MOU) detailing the types of information that will be provided in transshipment cases. U.S. Customs is committed to providing as much information as possible through this new procedure.

As to the Uruguay Round, I appreciate the difficulties faced by the textile and apparel sector in that negotiation. I am quite aware of the difficulty in asking the textile and apparel industries to agree to the phased elimination of the quota system and substantial tariff cuts simultaneously.

First, you mentioned the transition period for the phase out of the Multifiber Arrangement and the implications for many nations, given the dominance of countries such as China in the marketplace. Let me note that we have pursued a very aggressive posture toward China in our bilateral textile discussions with them, due to the difficulties we are having with transshipment and overshipments from China. In addition, China would not be afforded the increased growth in its quotas provided for in the draft Uruguay Round agreement unless and until it becomes a full member of the General Agreement on Tariffs and Trade and agrees to open its markets to U.S. textiles and apparel.

With respect to the duration of the phase-out period, I can pledge to you that we will do all we can to achieve the longest possible phase-out period. I will ask Ambassador Kantor to explore the prospect of a 15-year phase out with those nations that you believe favor it, such as the ASEAN and Caribbean nations and Ireland. If we find sufficient support among these nations for a 15-year phase-out period, we will put on the table, with their support, a proposal for a 15-year phase out, and will seek to negotiate acceptance of such a proposal. Failing that, we will work for acceptance of the longest-possible phase-out period that we believe can be achieved.

Second, we intend to work closely with the affected industry groups to ensure that the impact of the Uruguay Round is eased to the maximum extent possible, including specifically addressing the question of gradual and even staging of tariff reductions and quota integration. With respect to tariffs, this Administration has made it clear that the tariff cuts for textiles and apparel must be phased in over a longer period than many of the other tariff cuts in this Round and we have insisted that the tariff cuts should be staged over a period at least as long as the phase out of the MFA. As I mentioned, I do recognize and appreciate that the U.S. textile and apparel sector has been asked to make substantial concessions in the Uruguay Round, and I am sympathetic to this request.

With respect to the integration of textiles and apparel into the GATT, we do not intend to integrate sensitive products until the end of the phase-out period. We will examine very carefully the sensitivity of products in our market, and we will work with the industry and interested members of Congress to determine which products should be left for integration at the end of the phase-out period.

Third, I am informed that the U.S. and EC industries have tried to put aside their differences on the subject to wool tariffs, and to work to find common ground and I do commend the industries for their leadership. While the EC Commission has not accepted at this point that the industry's discussions on the tariff issue merits their agreements, I would note that these discussions are still ongoing. If the industry's efforts are ultimately successful, we will work with the U.S. interests to ease to the

extent possible the impact of any agreed-upon tariff cuts and would not anticipate going substantially beyond our current proposals on sensitive products.

Finally, we fully agree that effective market access commitments must be made by countries participating in the Round, both to reciprocate for our agreement to the phased elimination of the Multifiber Arrangement and to fulfill the commitment entered into at the outset of the Round that all participants would bring all measures under the discipline of the GATT. We are working diligently in bilateral market access negotiations to attain this goal, and have specifically proposed that tariffs be lowered and bound to levels no higher than 7.5 percent for man-made fibers, 15 percent for yarns, 30 percent for fabrics and made-up products and 35 percent for apparel in order to demonstrate that market access has been provided. We have insisted, and will continue to insist, that our willingness to phase-out the MFA be linked directly to the achievement of effective market access in individual countries by removal of non-tariff barriers and lowering of tariffs. I should also note that we are evaluating the options available to us should some countries fail to meet this obligation. In this connection, we are working closely with the industries concerned, and would of course welcome your input.

Thank you again for your ongoing interest and assistance on trade issues.

Sincerely,

BILL.

ATTACHMENT: TEXTILE PROVISIONS OF THE SUB-SAHARAN AFRICA BILL

PART ONE: FLAWS IN THE BILL

1. It Creates Large New Incentives To Transship and Commit Customs Fraud

- The bill creates a huge new incentive in the form of dramatic savings from duty reductions for Asian textile and apparel manufacturers if they either transship garments or do only minor assembly work in Africa.
- Asian textile and apparel manufacturers currently pay $4 billion a year in duties—under this bill, if they transship either fully assembled or partially assembled goods through Africa, they could save billions of dollars a year in duty reductions (while the U.S. Treasury loses billions of dollars in duties.)

2. It Fails To Recognize That Asian Textile and Apparel Manufacturers Have A History of Transshipping

- Asian manufacturers have been illegally transshipping goods into the United States for more than 15 years.
- Customs has estimated that transshipments from Asia have grown from $500 million in 1985 to $2 billion (and perhaps as high as $4 billion a year[i]).
- Asian manufacturers have used more than 30 countries, including eight Sub-Saharan countries, as "major transshipment routes", according to U.S. Customs[ii].

3. It Potentially Creates A Flood of New Transshipments From Asia

- At this time, only those manufacturers who fill their quotas have an incentive to transship—this applies mostly to manufacturers in China.
- Under this bill, because it lowers duties from approximately 18% to zero, every Asian manufacturer that ships products to the U.S. will have an incentive to try and transship through Africa.
- In the textile and apparel sector, where profit margins are small, a duty savings of 18% represents an almost irresistible incentive to cheat.

4. It Lacks Enforceability—The Proposed Visa System Will Not Stop Transshipments

- Every major Asian exporter currently operates under a visa system—and transshipments still run in the billions of dollars a year.
- Visas have been used in Hong Kong since 1976—yet it is generally known that Hong Kong remains the world's largest transshipment point.
  - In 1997, Hong Kong Customs found that 422 apparel factories out of 2,200 inspected were found to be transshipping.
  - In Sub-Saharan Africa, Kenya and Mauritius already use a visa system - and have also been identified by U.S. Customs as "major transshipment points."
- The proposed visa system was not even designed to stop transshipments:

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[i] Oversight of U.S. Customs Service and Textile Transshipment, Committee on Government Operations, House of Representatives, 10/5/93, p. 115–6.

[ii] "Major Transshipment Routes To U.S.", U.S. Customs Service map.

- Visas were originally designed to help foreign Customs officials keep an accurate count of legal shipments in order to avoid conflicts in the event that the U.S. informs a country that its quota is full. It is primarily used to help curb accidental overshipping, not to stop illegal trade;
- A visa is merely a stamp on an export document indicating the export category the shipments belong in;
- A visa does not require any verification activity or any inspections of local facilities—it does not constitute actual proof of any kind that a product was made in the country claimed.
- In addition, visas can easily be—and have been routinely—counterfeited in Asia.

- Other proposed anti-transshipment measures—such as an annual review, removal of companies who have been found guilty of transshipment activities, the possibility of a bilateral agreement—have all been employed in the past with little success.
  - The annual review is just that, "a review." It does not compel any action on the part of any agency, regardless of how poorly the agreements are being enforced.
  - The removal of benefits for two years for companies which have been found guilty of transshipping is not prohibitive.
    - One of the most widely employed scams among exporters that currently transship is for the company in question to simply change its name. Because U.S. Customs has a permanent presence in only 22 foreign countries and because its jurisdiction is almost always severely restricted by laws present in the foreign country, it has become exceedingly difficult to keep track of individual companies.
      - U.S. Customs does not have a presence in a single Sub-Saharan port-of-call. Of the 48 Sub-Saharan countries, Customs has an office in one—South Africa—and that office is located in the capital, Pretoria, which lies hundreds of miles from the closest major port.
      - The great amount of detail required to make a transshipment case against an overseas firm and the difficulty in securing timely, reliable and documented information severely limits the number of cases which can successfully be initiated to a relatively small number. (see Part 3, #1)
  - The use of a bilateral agreement on circumvention is not, by itself, a deterrent against transshipment activity—such agreements are already in place for major exporting countries in Asia—and billions of dollars in transshipped goods still enter the U.S. every year. Unfortunately, these agreements are only as effective as the foreign customs services which enforce them.

5. It Unfairly Requires That African Customs Be the Primary Vehicle For Stopping Fraud.

- The nations of Sub-Saharan Africa are among the poorest in the world; it is misguided and unfair to expect them to be able to effectively enforce this type of agreement.
- This agreement potentially extends duty-free, quota-free access to an area of over nine million square miles, three times the size of the United States, and potentially including 48 countries.
- African Customs services are often characterized as being underpaid, understaffed and under trained. Widespread corruption is a legitimate concern.
  - In May, 1998, the Administrator for U.S. AID's programs in Africa stated before the House African Subcommittee, "Systemic corruption in Africa typically occurs in the management of public companies, in public markets, in fiscal administration, in customs and in the justice system" (emphasis added). She also noted that "the problem is often fostered and encouraged by non-Africans seeking special status or privilege"[iii] (emphasis added).
  - In a 1996 study on corruption in Africa, a U.S. AID Mission Director wrote that "the everyday lives of most Africans are permeated by corruption: land use, health care, credit, imports and exports, to name a few" (emphasis added). She went on to note that "from the highest . . . to the lowest levels, Africans see public officials using their offices for private gain".

[iii] Carol Peasley, Acting Administrator of the U.S. Agency for International Development's African Bureau, in testimony before the House Africa Subcommittee, 5/20/98.

- The study further notes that corruption "is a means of survival on the part of junior civil servants and poorly paid workers." It concludes that customs and police work are especially "ripe for corrupt behavior," and notes that "the constant pressure from local businessmen and transnational corporations—all clamoring for permits, contracts, certificates, import licenses—creates an overwhelming temptation to "grease the wheels"[iv] (emphasis added).
- A World Customs Organization attach recently concluded that "the dependence by developing countries, including Africa, on customs revenue as a major source of funding has resulted in high levels of customs fraud." Lesotho, Swaziland and Namibia were cited as examples of countries that derive more than fifty percent of the government revenue from Customs.[v]
- Nancy Boswell, Managing Director of Transparency International, which is dedicated to curbing corruption in international business transactions, recently wrote that in Africa "Government-owned enterprises have traditionally been convenient channels for diversion of funds by political elites for private purposes. Regulatory procedures, especially licensing, authorizations and permits, have been key sources of corrupt practices, particularly when managed by drastically underpaid civil servants."[vi]

• South Africa, the largest and most developed SSA country, has a massive smuggling problem and an ineffectual Customs service.

- South Africa estimates that it loses billions of rands a year through the smuggling of illegal goods into the country. Nelson Mandela has described smuggling as a "massive problem" which threatens to "ruin the country's economy."[vii]
- South African Customs is described as being "in a state of near collapse, with high levels of staff demoralization and corruption"[viii]
- Thomas Callahan, the former director of African Affairs at the Senate Foreign Relations Committee, recently wrote, "South Africa is considered one of those countries most vulnerable to international criminal operations . . . and it has become increasingly central for global commerce in contraband of all kinds. . . . The region's extensive air, sea and land infrastructure make it a prime conduit for moving illegal cargoes . . . Long, porous borders and weak border controls, including undermanned ports and numerous secondary airports, give . . . smugglers nearly unlimited access . . . . Current customs and immigration laws cannot adequately cope with the massive volume of international connections."[ix]

• Large-scale smuggling of textiles and apparel from Asia into Sub-Saharan African countries Is already occurring

- Illegal imports of Asian textile and apparel goods into South Africa have resulted in job losses of 20,000 over the last five years."[x]
- Namibia and South Africa recently launched a probe into allegations regarding illegal imports of large amounts of textile products from the Far East which abused a duty payback scheme that allowed for a rebate on duties paid. The probe alleges that duty credit certificates (DCC's) were being sold on the open market in South Africa and that a number of Namibian companies not qualifying for the rebate had nonetheless been granted certificates to import textiles of up to $10 million duty free. Annual revenue losses are estimated to be in the millions of dollars.[xi]
- Zambia and the Congo report that smuggling of textile products has grown so large as to overshadow legal trade.[xii]

• The bill contains no requirements that the administration by African Customs of this agreement be corruption-free. There are no effective remedies against the country involved if transshipments are allowed to occur. There is no reliable method for removing duty-free, quota-free status if adequate safeguards are not maintained.

[iv] Anne Williams, *Governance and the Economy in Africa*, The Iris Group, 1996.
[v] *Mail & Guardian*, 10/16/97, 2/19/98.
[vi] Nancy Boswell, Managing Director, Transparency International, in prepared testimony before the House Subcommittee on Africa, May 20, 1998.
[vii] *Mail & Guardian*, 8/8/97.
[viii] Mail & Guardian, 7/12/96.
[ix] Thomas Callahan, "United Against the Creeps," Living Africa magazine, Nov. 1996.
[x] *Mail & Guardian*, 3/22/96.
[xi] *Mail & Guardian*, 6/9/97.
[xii] *Mail & Guardian*, 10/16/97.

6. It's Weak Rule Of Origin Guarantees That Asian Textile and Apparel Manufacturers, not African Workers, Will be the Primary Beneficiaries

• The bill's rule of origin stipulates that only 35% of the value of the garment must be added in a Sub-Saharan country for origin to be claimed;

• The products components—the yarns and fabrics, the sewing thread, the trims (zippers, buttons etc)—may be sourced anywhere. It is more likely that they will be sourced in Asia, where there is substantial over-capacity, than in Africa, where capital is scarce and textile mills can cost $100 million or more.

• Even if legal trade occurs, because the bill allows for multi-country assembly outside of Sub-Saharan Africa, much of the actual sewing will likely occur in Asia where wages are less and workers are more highly trained;

• Under multi-country assembly, only "an important assembly or manufacturing process" has to be performed in the Sub-Saharan region.

• It would be entirely reasonable, then, for a shirt to be fully assembled in Asia except for the attachment of the collar or of the sleeves which would then be done in Africa to ensure origin.

• African workers will probably be employed in more incidental tasks, such as quality control, packaging, inventory, tagging etc.

7. It Represents A Unilateral Trade Concession Which May Be Unprecedented in U.S. History

• To our knowledge, the United States has never before granted such an enormous unilateral trade concession absent a mutually beneficial free-trade agreement.

• Despite the expressed intention on the part of the Administration to build a trade agenda that allows U.S. exports to "compete on a level playing field,"[xiii] including a recent pledge by Ambassador Barshefsky that, in 1998, "the United States will again take the lead in pressing others to expand market access opportunities for goods and services"[xiv], the proponents of this bill seek to unilaterally eliminate tariffs on over 2,000 U.S. textile and apparel tariff lines, while not a single tariff line is lowered by a single percentage point for any of the 48 beneficiary countries.

• For example, under this bill, South Africa will be able to continue to block U.S. exports with tariffs as high as 30%.

• Nigeria will be able to continue its ban on textile imports from the United States.

• If a Sub-Saharan country decides to raise tariffs or even to ban U.S. products altogether, the U.S. has no recourse under this bill - duty free, quota access to the U.S. market will continue.

• According to the Administration, the United States is already the largest export market for African goods but accounts for less than 8 percent of Africa's imports. In addition, among industrial nations, U.S. exports to Africa rank fifth. This bill dramatically increases access into the United States while doing nothing to increase access for U.S. products in Africa.

• The import sensitive nature of the textile and apparel sector has long been acknowledged by U.S. trade policy.

• The import sensitive nature of textiles and apparel was the specific reason that textiles and apparel were originally excluded from the GSP program.

• Since the GSP program began, imports of textiles and apparel have risen dramatically and imports now exceed fifty percent of domestic consumption in spite of the exclusion.

• The legislation not only strips textiles and apparel of its protected status but also removes the "competitive need limitation" which all other non-SSA countries must adhere to and which prevents imports of GSP products from surging into the U.S. market.

• The legislation also prevents the U.S. from instituting quotas in the event of surging imports, a right under the World Trade Organization (WTO) which the U.S. has with every other nation in the world.

8. It Represents A Contravention of Guarantees Given to the Domestic Industry and the Congress During the Uruguay Round

• Under the Uruguay Round, the domestic industry was assured of a gradual and progressive phase-out of quotas and a relatively small reduction (approx. 15%) in

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[xiii] President Clinton, Proclamation of National Trade Week, 5/20/95.
[xiv] Ambassador Barshefsky, 1998 Trade Policy Agenda, p. 4.

tariffs As a result, the industry did not actively oppose the Uruguay Round legislation.

- President Clinton, in a letter to Congressman John Spratt and other members of Congress, assured the domestic textile industry and Congress that the industry would receive "gradual and even staging of tariff reductions and quota integration."
- The President elaborated that "tariff cuts should be staged over a period at least as long as the phase-out of the MFA", and that the Administration did not intend "to integrate sensitive products until the end of the phase-out period". In addition, President Clinton stated that he would insist "that our willingness to phase-out the MFA be linked directly to the achievement of effective market access in individual countries by the removal of non-tariff barriers and the lowering of tariffs."[xv]
- The current legislation contravenes all of these commitments. Tariffs go to zero immediately, quotas are immediately removed and there is not a single shred of market access achieved for U.S. products.

- Because of the likelihood of wholesale evasion of U.S. tariff and quota controls on Asian textile and apparel manufacturers, the industry considers the bill as permitting the de facto removal of quota and tariff controls on Asian textile and apparel manufacturers.

9. It Relies On An ITC Study Which Contains Serious Flaws

- The ITC report based its findings solely on an analysis of the competitive strengths of the textile and apparel sectors of the 48 beneficiary nations of Sub-Saharan Africa.

Despite the fact that six domestic industry organizations cited increased transshipment and Customs fraud—not legal imports from Africa—as the primary threat from the bill, the ITC spent only three paragraphs (out of more than 125 pages) reviewing the transshipment problem.

- The ITC report cited three measures: a visa system, jump teams and quota chargebacks—as potential weapons against transshipments. It failed, however, to evaluate how those measures might be employed if free trade access is granted to Sub-Saharan Africa or whether they have been successful in seriously denting the transshipment problem. (They haven't—see #4.)
- Despite the ITC's mandate to measure the potential impact of the legislation on the domestic industry, the ITC report failed to consider even whether the prospect of reducing duties from approx. 18% to zero would act as an additional incentive for increased transshipments and fraud from non-beneficiary countries.
  - For example, if the bill passes in its current form, Asian textile and apparel manufacturers stand to gain as much as $4 billion in reduced duties by transshipping goods through Africa.
    - The study fails to acknowledge that these countries already illegally transship $2 billion a year just to evade quotas and that they have shown both the means and willingness evade U.S. laws on a massive scale when the incentive is high enough. This bill significantly increases that incentive.

10. It Is Illegal Under The Articles of the World Trade Organization (WTO)

- Because it grants unilateral duty concession to Sub-Saharan African countries which other WTO members will not share in, the legislation contravenes WTO guarantees of "equitable treatment" under the "most favored nation" principles accorded to all member countries.
- The U.S. will be required to seek a waiver of these guarantees and may be required to pay compensation to get it. A number of major exporting countries have already indicated they will seek quota increases if the legislation passes.

11. It Creates A Dangerous Precedent For Non-WTO Members Seeking Accession

- By excluding Sub-Saharan countries from safeguard actions permitted the domestic industry under the Uruguay Round, the bill creates a dangerous precedent for the further dilution of quota controls on new countries entering the WTO. These include major textile and apparel exporters such as Taiwan, China and Vietnam.

12. It Sets A Dangerous New Precedent for the Development of Future Trade Policy

- Contrary to the spirit of almost all trade agreements in recent years, this bill gives virtually unlimited access to the U.S. market in a highly import sensitive sec-

[xv] Letter to Congressman John M. Spratt Jr. from President Clinton, 11/16/93.

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tor while giving no increased access for that sector (or for any other sector) to the countries involved.

- It also contains an ineffective safeguard provision if damage to U.S. workers and production occurs.
  - The competitive need safeguard which is available to domestic industry in the GSP provisions is removed for textiles and apparel under the SSA bill;
  - A secondary safeguard mechanism —an instruction from the President to remove benefits—has been rarely used;
  - The domestic industry is denied the right to impose temporary quotas in the event of market disruption—this is a right given to every sector under the Uruguay Round Agreements and the World Trade Organization.
- Previously, the extension of tariff benefits has been recognized to increase the potential for fraud and abuse—and appropriate controls and counter-measures have been instituted:
  - In each case in the past when textile and apparel tariff benefits have been extended to other countries—whether to the Caribbean and Andean nations under the 807A program, to Mexico under the Special Regime Program, to Canada under the U.S.-Canada FTA or to Mexico and Canada under NAFTA—strict anti-fraud measures have been included. These measures required the use of regional components, substantially increased documentation by domestic manufacturers, exporters and importers; increased authority for Customs to do searches and audits, the availability of legal recourse in local U.S. courts, and increased funding for anti-fraud enforcement. This legislation contains none of these essential safeguards.

PART TWO: WHAT WILL HAPPEN IF THE BILL PASSES

1. It Will Threaten the Livelihoods of Hundreds of Thousands of U.S. Fiber, Textile and Apparel Workers

- Because it offers lucrative incentives for non-beneficiary countries (particularly those in Asia) to transship and no realistic methods to prevent transshipment, billions of dollars of illegal Asian imports will enter the United States market duty-free and quota-free through Africa.
- This flood of illegal imports will cause widespread job losses throughout the entire textile chain, including U.S. apparel workers, textile workers, cotton and wool producers and man-made fiber manufacturers.
  - The United States textile industry currently invests over $2 billion a year in plants and equipment—and has one of the highest reinvestment rates in the manufacturing sector.
  - Last year, U.S. textile exports grew 15%, a rate exceeding that of the overall manufacturing sector by almost 50%. Much of this growth was the result of preferential trade arrangements—which are based on an 807a type program—with the Caribbean, Mexico and Canada. In 1997, U.S. textile and apparel exports constituted the eight largest U.S. export sector, exceeding exports of plastics, pharmaceuticals, medical equipment and computers.
  - However, Asian textile and apparel production is characterized by subsidies that extend all the way down to production chain, even to the growing or manufacture of the fiber involved. U.S. industry cannot be expected to—nor should it be expected to—compete with subsidized Asian imports which enter the country with zero duties.
    - During the last several years, even low-cost producers such as Mexico and Brazil have been forced to enact anti-dumping or quota restrictions on subsidized imports of textile products from China, Hong Kong and other Asian countries.
    - Earlier this year, the European Union placed substantial anti-dumping margins on illegally dumped fabric from a number of Asian countries.
- We have already seen how zero duty, zero quota access can alter trade patterns:
  - Textile and apparel imports from the Northern Marianas, a small U.S. trust territory approximately one quarter the size of Jacksonville, Florida, gets the same duty-free, quota-free treatment proposed in this bill, have increased over 300% since 1990 and totaled over $800 million in 1997. Imports from the N. Marianas grew 45% last year.
  - The dramatic increase in imports has been accomplished using non-indigenous Asian labor as well as non-indigenous Asian yarns and fabrics. As a result:
    - Local production of textile products has not increased while imports of Asian yarns and fabrics have soared

• While local production of apparel products has jumped, *the citizens of the Northern Marianas have not benefited.* Unemployment among indigenous workers stands at 14% while over 35,000 Chinese laborers have been brought in to sew clothes for export to the U.S..

• Widespread allegations regarding customs fraud, transshipments, worker mistreatment, forced abortion and other labor and human rights violations are currently being investigated by the Interior Department.

2. It Will Jeopardize Trade Agreements With Mexico and the Caribbean

• Trade among NAFTA partners (Canada and Mexico), which has risen dramatically since NAFTA was implemented in 1994, will be undermined by a flood of lower cost transshipped or partially assembled goods from the Far East. In addition, special trading arrangements made with the CBI which have resulted in the export of billions of dollars of U.S. fabric each year will also be undermined.

• More than 50,000 U.S. textile workers produce goods for export under these agreements.

• Because the agreement contains no requirements regarding components (the fabric and yarn), Asian textile manufacturers will benefit at the expense of North American textile manufacturers. Workers in Mexico, Canada and the CBI will lose jobs.

• The Northern American Textile Council—a joint industry group which represents the textile manufacturing sectors from the United States, Mexico and Canada—has warned of severe job losses in the North American textile and apparel complex if this bill passes in its current form.

3. It Will Impose Substantial New Burdens on U.S. Customs

• Customs currently catches less than 1% of all goods transshipped each year. Because this bill dramatically increases the incentive to transship and because all evidence shows that African customs are not capable of preventing massive transshipment from Asia, U.S. Customs will undoubtedly be asked to become more responsible.

• The bill fails to provide U.S. Customs with the necessary tools to effectively prevent massive transshipments and the Agency will find itself with a massive new problem and no means to solve it.

• U.S. Customs is already overburdened with many responsibilities—including an expanding drug interdiction effort.

4. It Will Cause Substantial Loss of Revenue to the U.S. Treasury

• Duty evasion by Asian textile and apparel manufacturers (through transshipping through Africa) could deprive the U.S. Treasury of billions of dollars of revenue.

5. Much of the Proposed Benefits Will Go To Asia, Not Africa

• Because the bill offers no realistic methods for deterring massive transshipment from Asia, most of the benefits of the bill will likely go to Asia, not Africa.

• Asian manufacturers, who dominate world trade in textiles and apparel, are unlikely to invest money in Africa if it is more cost-effective to transship through Africa. This is the case with both textile products, which are highly capital intensive to produce and of which there is an oversupply of capacity in Asia, and, of apparel products, which require skilled low wage labor, an abundance of which exists in many Asian countries.

• Asian manufacturers will either transship the entire garment, or they will only do minor assembly work in Africa—either way, the yarn, the fabric, most (if not all of the labor) will come from Asia. Asian manufacturers have shown no reluctance to transport workers by the thousands into countries that enjoy quota-free access to the U.S. market:

• In the Northern Marianas, while local production of apparel products has jumped, *the citizens of the Northern Marianas have not benefited.* Unemployment among indigenous workers stands at 14%—while over 35,000 Chinese laborers have been brought in to sew clothes for export to the U.S. (See #1)

• The use of Asian labor for sewing clothes for export to the U.S. is widespread throughout the Arabian Peninsula, which has few quotas. Asian labor camps have been set up in Oman, Qatar, Bahrain and the United Arab Emirates.

• Recent reports indicate that Asian apparel manufacturers in Mauritius, a Sub-Saharan beneficiary country, have recently imported 5,000 Asian workers to sew clothes for export and, at the same time, have laid off a large number of indigenous workers

• By lacking real enforcement and any means to keep Asian goods out, the bill essentially maintains the status quo which has, up to this point, prevented the development of a viable African textile and apparel sector.

PREPARED STATEMENT OF KAREN FEDORKO

Mr. Chairman, thank you for the opportunity to comment on the Africa Growth and Opportunity Act. My comments today reflect the views of Mast Industries, Inc. on behalf of itself and The Limited, Inc. MAST Industries, a global contract manufacturer of casual clothing, is a subsidiary of The Limited, Inc., the world's largest specialty apparel retailer, operating over 5,400 stores nationwide and with over $9 billion in U.S. sales. The Limited, Inc. is the 18th largest private sector employer in the United States.

I'm honored to be able to add our companies' support for this bill to that offered by such a distinguished group of public officials. The fact that Secretary Albright, Secretary Daley, Secretary Summers, Senator Lugar, Congressman Crane, and Congressman Rangel are all here today to express their support for this legislation is a testimony to the strong bipartisan consensus behind expanding U.S. trade and investment relations with Africa.

As a business person deeply involved in the dynamics of international trade in clothing, I was delighted with the passage of the Africa Growth and Opportunity Act in the House of Representatives earlier this year. Along with my colleagues in the retailing community, I'm equally gratified that this Committee is maintaining the momentum behind this important piece of legislation. I know how much work this Committee, and the Senate as a whole, has to accomplish before adjourning later this year. But we believe it is in America's interest that this bill make the cut for enactment in 1998, and we appreciate the efforts of this Committee to make that happen.

Mr. Chairman, you and other members of this Committee know that America's retailers of clothing are committed to less restrictive trade policies for textiles and clothing. We believe, in a nutshell, that American working men and women—not the U.S. Government—should make decisions about the clothing they buy. Taxes (tariffs and duties) paid by American families on clothing are among the highest paid on any imported products. (For example: 17% for cotton trousers; 7.5% for men's wool suits, 19% for cotton t-shirts.) Restrictions in the form of quotas mean higher prices for working families already struggling to make ends meet. We believe that lowering the clothing tax burden for American families makes good sense.

Our industry has also argued that U.S. trade restrictions very often seem to contradict broader American economic and foreign policy interests. The United States urges countries like Ukraine to promote export-led economic development, but we simultaneously limit their ability to do so by placing quota restrictions on Ukrainian jackets. We want countries in Central America and Asia to buy more American-made computers, airplanes, and farm products, and we discourage them from exporting their labor and narcotics to our country. But we limit their ability to do these things by restricting the hard currency they can earn by selling clothing in our market.

What's so refreshing about the Africa Growth and Opportunity Act is that it recognizes that keeping our market open is one of the surest ways to promote stable economic and political development and vigorous markets for American exports. And it recognizes that this can absolutely be done without harming American companies and their workers.

The establishment of a quota-free zone for qualifying sub-Saharan countries, and the possibility of duty-free GSP treatment for some textile and clothing products made in Africa, simply makes good sense. These provisions will help African countries begin to rely on trade instead of aid. They are the elements of the legislation that will have the most direct impact in strengthening trade and investment ties between the U.S. and Africa. And they will not have a negative impact on textile and clothing workers in this country.

I want to touch briefly on a few key points, and to clarify some of the misperceptions about the textile trade provisions of the bill that have been advanced by groups which are working against its passage, including some who are represented here today.

The Act Will Lead to Expanded Trade . . .

First, there has been the argument that the textile provisions of the Act are essentially meaningless since few American importers of textiles and clothing would actually place orders in Africa, even under the more open trade rules established

by the bill I've worked in this industry for 22 years—including in the U S domestic garment industry—and I know many of the people who coordinate international trade for U.S. retailers. I can assure you that new orders *will* be placed with African suppliers very soon after this bill is enacted. My own company is already exploring the possibilities, and I know others are as well. In short, Mr. Chairman, if the purpose of this bill is to expand trade between the United States and Africa, then the textile provisions of the *bill* will achieve that goal.

But a "U.S. Fabric Only" Rule Won't Achieve the Bill's Objectives . . .

I hasten to add, however, that the goal of expanded trade will only be achieved if liberal textile-related provisions, like the ones passed in the House of Representatives, are preserved.

As you know, Mr. Chairman, there has been discussion that the quota-free benefits provided in this bill should only apply to garments which are sewn together in Africa from fabric which is both formed and cut in the United States. In our business, this sort of off-shore assembly of U.S.-made pieces is known as "807A" trade.

I want to be very direct about this. From the perspective of retailers and importers, the addition of a "U.S. fabric only" restriction to this bill would effectively eliminate the commercial significance of these provisions. Making this an "807A" bill, with respect to textiles and apparel, would gut the objective of building stronger commercial ties between companies like mine and garment producers in Africa.

"807A" works well enough in the Caribbean, since distances are short and turnaround times can be quick. But shipping individual U.S.-cut garment pieces to Africa for assembly and subsequent reshipment back to the United States is too costly and much too slow, particularly in a business like ours, where the whims of fashion require us to move in hours or days rather than weeks or months.

While we are still awaiting, along with you, the General Accounting Office's conclusions about the potential effects of this bill, we have informally surveyed members of our industry's leading trade associations—the National Retail Federation (NRF), the U.S. Association of Importers of Textiles and Apparel (USA-ITA), and the International Mass Retail Association (IMRA). *Not a single* company we've encountered has indicated that it would place orders in Africa under a "U.S. fabric only" rule. However, most of these same companies have indicated that they would take a serious look at Africa if the bill passed by the House of Representatives were signed into law.

I understand that certain groups have provided "studies" to show that a U.S. fabric-only rule would work. I am deeply skeptical of these studies. It is easy to put numbers on a piece of paper. But I am waiting for a single one of the top 25 retailers of clothing (accounting for two-thirds of all the clothing sold in the United States) to endorse this view.

So I urge the Committee to preserve the integrity of the current language with respect to textile and apparel trade. The bill as currently written makes sense for our industry. Anything more restrictively defined very likely would not. The House of Representatives recognized this by voting explicitly to preserve the current formulation of the bill's textile trade provisions.

Arguments about "Job Loss" Don't Hold Water . . .

Finally, I want to address the argument that the quota-free and GSP provisions of the bill will lead to a flood of imports, displacing American garment workers.

This is just not realistic. While I am convinced that the bill would prompt many in our industry to expand our contacts and activities in Africa, we have to recognize at the same time that the production capacity on the continent is extremely low, and the range of products we could expect to source in Africa would probably be quite narrow for the foreseeable future. And this would likely remain the case at least until 2005, when quotas will be eliminated under the WTO in any event.

The International Trade Commission's recent report speaks for itself, noting that the likely impact of the bill on the U.S. textile industry and its workers would be "negligible." Let's not lose sight of the fact that, in 1997, imports from sub-Saharan Africa accounted for only about one percent of global U.S. clothing imports, a level that has remained constant for at least the past five years.

Speaking for my own company, I cannot personally think of a single instance in which orders we might place with African suppliers would displace any production which we are currently contracting with U.S.-based clothing manufacturers. We depend on our American suppliers to provide us with the kind of specialized, technology-intensive textile production that American workers do better than anyone else We would be looking to Africa for much more simple products, and so I see little prospect of head-to-head competition with U S producers

Where I do, however, see a possibility for some displacement is with respect to Asia. I can foresee that any orders we would place with African producers could represent a shift away from vendors in Asia. In that case, obviously, the effect in terms of total imports to the U.S. would be a "wash," with no impact at all in terms of employment in the U.S. industry. In fact, when I do the numbers for our company under a scenario of the bill passed by the House, *100 percent of the new orders we would consider placing in Africa are currently placed in East Asia*—especially Hong Kong, Taiwan, China, and Korea. Again, to put things in perspective, sub-Saharan Africa currently accounts for less than one percent of total apparel imports. The House-passed bill makes Africa more competitive vis-à-vis Asia, and does not pose a threat to the U.S. industry.

Let me state this clearly. We are major customers of this country's domestic textile and apparel industry. Thousands of UNITE members manufacture clothing for The Limited, Inc.'s brands. Millions of dollars worth of Cone Mills denim and other American fabric are contained in a wide range of products sold in our stores. In fact, few retail companies in America can afford to purchase a similar volume of high-value American fabrics, and we are proud of this. As a retailer, it is in our interest to have as many high-quality suppliers of apparel as possible—both domestic and foreign—so we're glad that U.S. textile production is at an all-time high and the industry is profitable. And I'm convinced that nothing in the bill we're discussing today would harm our friends in the domestic industry.

Mr. Chairman, the Africa Growth and Opportunity Act is the right thing to do—for Africa, for American foreign policy interests, and for workers and families in this country. Clothing retailers are gratified that this legislation has been the subject of broad bipartisan support—a support which evokes the bipartisan consensus which has existed on trade policy for so many years. We agree with Speaker Gingrich that "[t]his is a good bill." And we agree just as wholeheartedly with Congressman Rangel that "it is in our best interest to develop these markets."

We hope that this Committee will enjoy the same bipartisan support.

If you want to help the people of Africa help themselves through trade, not aid . . .

If you want to promote democracy, free markets, and peaceful societies . . .

If you want to create stronger markets all over Africa for American exports of goods and services . . .

. . . the Africa Growth and Opportunity Act is an excellent way to accomplish those goals.

Mr. Chairman, thank you again for the opportunity to appear, and for your efforts to advance this important piece of legislation.

Prepared Statement of Hon. Bob Graham

Let me first thank Chairman Roth and Senator Monyihan for holding this important hearing. I believe that the goals of the African Growth and Opportunity Act—to encourage increased trade and investment between the United States and the Sub-Saharan Africa countries in order to assist those nations which are committed to (1) accountable government; (2) economic reform; and, (3) the eradication of poverty—are commendable, and I strongly support the Administration's efforts to strengthen these nations' position in the global economic community. Further, I believe that the State of Florida is in a unique position to benefit from increased trade with Sub-Saharan Africa, due to our extensive port system and our geographical proximity to the continent.

However, having said that, let me suggest that we may be moving forward without first fulfilling our commitments within our own hemisphere. Over the last decade, the United States has played a vital role in the spread of democracy and the growth of free enterprise throughout this hemisphere. Today, every nation in the western hemisphere—with the notable exception of Cuba—has a democratic government and is opening its economy in unprecedented ways. Democratic elections have become the norm rather than the exception, and hemispheric trade integration—already underway as a result of the second Summit of the Americas—is a common goal.

The trade benefits enjoyed by Mexico as a result of the North American Free Trade Agreement (NAFTA) are increasingly affecting the Caribbean Basin nations' ability to compete for a share of the U.S. market. Prior to NAFTA, apparel imports from Mexico and CBREA countries grew at similar rates of approximately 26 percent per year. In the three years following NAFTA, apparel imports from CBREA countries grew by only 15 percent per year, while imports from Mexico increased by 44 percent per year. In fact, in 1996, U S apparel imports from the Caribbean

rose by only 11 percent, representing the smallest increase since 1990 Further, between 1995 and 1997, apparel imports from Mexico increased 101%, while imports from CBI countries increased by only 41%. Analysts predict that if the growth rate experienced between 1995 and 1997 continues, apparel imports from Mexico will be greater than those from the Caribbean in less than five (5) years. Finally, as incentives for production in the Caribbean continue to decline, we can expect to see less and less outside investment in Caribbean industries.

In short, unless we address the trade disparities created by the NAFTA, the U.S. will bear the responsibility for increased economic disruption in the Caribbean. Now is not the time to turn away from Latin America and the Caribbean, to turn our back on our backyard, something we have done all too often in the past. Continued attention is required to consolidate and institutionalize these democratic and economic gains, and to complete the establishment of a strong bilateral trade relationship with the Caribbean Basin nations.

As we have seen in Haiti, economic and political instability in the Caribbean region can have tragic consequences and mean enormous costs to the United States. The Caribbean has also been one of the principal transit regions for drug traffickers moving their poisonous cargo from the source countries of South America. In fact, recent law enforcement efforts along the Southwest border have resulted in more intensified narcotics trafficking in the Caribbean. It is critical that the people of the Caribbean Basin have real opportunities in the legal economy so they are not forced to turn to drug trafficking to feed their families.

There is no region in the world with which the United States has a stronger and more mutually beneficial relationship than the Caribbean. Therefore, I question the Administration's strong desire to establish a new, developmental trade relationship with Sub-Saharan Africa before completing its work within our own hemisphere. I would encourage the Administration to re-examine its international trade priorities, and to follow through on the commitments we have already made with some of our closest neighbors. I look forward to hearing their views on this subject.

PREPARED STATEMENT OF HON. ORRIN G. HATCH

Mr. Chairman, I join in welcoming our distinguished witnesses who have come to discuss the African Growth and Opportunity Act, S. 778. I understand the bill has not yet been referred to full committee and admire all the more the early initiative that you have taken.

It is time for an initiative like this one, which, despite its controversial aspects, has generated serious debate about promoting economic and trade opportunities on the African continent. We have too long overlooked African nations as potential partners in business and trade, demonstrating a kind of economic shortsightedness.

Besides, Africa does have a special relationship with the United States, and it is more compelling in many ways than some of the other bilateral trade relations that we have created. From these perspectives, I welcome this legislation.

This bill offers nothing by way of institutional trade and economic assistance that is any different than what we've offered many other countries and regions around the globe. For example, we have equity funds for the former East Bloc nations; and, we have special Export-Import Bank programs to exploit Russian and other former Soviet Union (FSU) oil and gas reserves to allow these states to accrue hard currency. The bill contains modest debt suspension and forgiveness programs not unlike the consideration we have given to our traditional allies, many of whom still owe us massive debts, some of which date back to World War I. I would hope that this reality will temper some of the objections to AID and other U.S. and multilateral institutional programs found in S. 778.

The bill is not perfect, but it is an important, unprecedented framework that Congress can and should work with. Do I agree with every part of it? Of course not, and let me provide an example.

Most of the 51 nations benefitting from S. 778 are already members of the World Trade Organization (WTO) and have subscribed to the Uruguay Round of GATT that led to, among other commitments, the related Multifiber Textile Agreement that will phase out U.S. textile tariffs and quotas by the year 2005.

In this particular case, I do not support the bill's provisions that unilaterally suspend the commitments made to this WTO agreement by African nations. The textile agreement was arduously negotiated with an eye toward equitable treatment for exporters and, most importantly, for American yarn and fiber producers, other textile manufacturers, and apparel makers The losses in these sectors have been horrendous, as we will hear today

Mr. Chairman, the purpose of this bill is to promote economic prosperity, via trade, democratic institution building, health improvements and environmental upgrades. The bill understandably combines continuing aid with trade. But does it in a way that separates this initiative from past efforts which went nowhere. To quote Economics Professor George Ayittey of American University: "The old approach hasn't worked. It created a dependency."

Today, Mr. Chairman, one does not have to visit countries like Senegal, Guinea, Ghana, Congo-Brazzaville, Ivory Coast, Chad, Kenya, and about 22 others that are making impressive economic progress to notice the increasing presence of business operators from the former colonial power. Without intending to be trite: they know something only a few of us have bothered to learn: there's opportunity in Africa. Yet, many of these nations want—even prefer—trade with the U.S.

Some Africa trade opponents cite as a reason for their opposition that it's the big guys, major multinational corporations, that want this bill. Perhaps they are right. The African nations themselves want this bill, and they want it because they also want those big corporations, as well as small- and medium-size ones, to make foreign direct investment there.

David Shinn, U.S. Ambassador to Ethiopia noted that the bill has "received virtually unanimous support from the African ambassadors here in Washington. That goes a long way in my book, and it shows that it is something the Africans want." And, these nations are willing to undertake the internal sacrifices, the very same effort that the bill's critics say are injurious to these nations, to get that investment.

Specifically, these nations are willing to privatize. Naysayers condemn this as a mere recolonization by allowing any type of foreign ownership; but, the Africans welcome it as a catalyst for direct investment in infrastructure, agriculture, manufacturing, and other sectors.

They are willing to engage in commodity and natural resource sales—which, again, the bill's opponents call exploitation by large companies. But, African leaders are enthusiastically seeking foreign markets.

Some opponents of the bill say a loss of sovereignty will result from African concurrence with a U.S. bilateral agreement. But, enlightened African leaders, now having a half century of experience at the United Nations, know better. This bill places no mandates on sovereignty.

Some opponents claim that the bill will yield infrastructure and even cultural changes having unacceptably high financial and social costs. Africans, however, see changes in the financial infrastructure as a means of ensuring fair treatment of investments, contracts, and honest dealings with foreign markets.

Mr. Chairman, this is a bill that can be made broadly agreeable to Africans and Americans alike. However, I'm not entirely sure we can do it this session of Congress. Rather, we have laid a valuable foundation for the most important and prospectively useful outreach program this country has ever made to Africa.

I want to again thank our witnesses, regardless of what side of this issue they come down on, for their insights and for helping us arrive at an honest and effective approach to this subject.

Mr. Chairman, I apologize for my late arrival. I was presiding over a Judiciary hearing that was scheduled at the same time.

But this hearing is no minor event. I commend our chairman for his foresight and initiative in exploring the issues surrounding the Africa trade bill even before it was formally referred to this committee.

Mr. Chairman, I support the clear and overdue need for a comprehensive trade and assistance program for Africa. This bill, while not entirely satisfactory in my mind, lays out a valuable blueprint that I intend to work from. I am submitting for the record my detailed review of the current bill under consideration. While I don't think we can accomplish what is needed in this term of Congress, I want to urge my colleagues in both the House and Senate to undertake an extensive review of the bill as a priority item in the next Congress.

In the interest of time, therefore, I would like to move to my question, or to defer it, as the Chair prefers.

PREPARED STATEMENT OF ROBERT JOHNSON

Good morning, Mr. Chairman. I am Robert Johnson, President of Black Entertainment Television Holdings Inc., (BET). BET was established in 1980 as the first national cable television network providing quality programming targeted toward African American audiences BET is now available in 54 million US cable households and 13 countries worldwide BET has a market value of $1 2 billion dollars and em-

ploys over 500 people. BET is currently working with Multichoice Cable of South Africa to provide programing for a twenty-four hour cable service.

I am pleased to be here this morning to urge your support for S. 778, the African Growth and Opportunity Act. S. 778 is a radical break with our past engagement with the countries of Africa. For the first time since the end of the colonial era, the United States is proposing to engage the countries of Africa on the same basis as we do the rest of the world, as trading partners. The old donor and recipient paradigm, that has historically defined US relations with Africa will be replaced by a new and more dynamic paradigm that states that: It is in the mutual economic interest of the United States and the countries of Africa to promote programs, and policies that reduce poverty through economic growth, self reliance, and commerce.

Traditional aid, while still necessary in some countries, is not sufficient to bring about fundamental change in Africa's economic stagnation. The new paradigm promoted by S. 778, makes it very clear to Africans and Africa's friends in the US, that without a strong commitment to economic growth, self reliance and commerce, no social programs, no amount of social expenditures, no amount of aid will make a sustained improvement in the quality of life of Africa's citizens. Africa needs economic growth to make its social objectives feasible. In short, double digit economic growth requires a strong and dynamic private sector and a supportive government.

The paradigm shift embodied in this legislation is in response to a growing number of African governments and entrepreneurs who prefer to have America's trade and investment not just our aid. Mr. Chairman, I believe that Africans are responsible for their future but with the right policies America could make that future brighter.

That is why I support S. 778. S. 778 helps to strengthen and expand opportunities for the African private sector, gives a boost to African capital markets by creating two equity funds, establishes for the first time a United States Trade Representative for Africa, and creates an institution—the US-Africa Economic Forum that will establish a transparent trade and investment agenda between the US and the countries of Africa.

This new engagement won't be easy for either of us. Africa's markets are small and generally inefficient, while US markets are highly competitive, diverse, and will exact a deadly price on those who can't keep up. But Africa's small but growing private sector will find the US market is full of profitable opportunities for well run companies; and the US private sector will find that patience and experience will be rewarded with large profits in the African market.

Although the public controversy surrounding this bill seems to indicate that it is not clear to everyone that this new economic engagement will benefit both parties, I believe that the passage of S. 778 is the beginning of a process that 20 years from now will create a market for the US that is the size and value of Southeast Asia (excluding China). Africa benefits also, our African trading partners will benefit immediately from market entry in important industry sectors where they have a comparative advantage. I believe that the job generation and income generating impact of this legislation in many African countries could be tremendous. But before we can reap the harvest of that potential two-way trade we must sow the fields.

S. 778 begins that process by urging African governments, through trade incentives and policy engagement, to liberalize their trade regimes and promote an expansion of their private sectors. During the 1970s and 1980s, a number of developing countries in Asia and later in Latin America, undertook trade liberalization as a central element in their development strategy. They also adopted a strong export orientation towards the United States. As a result (the current crisis notwithstanding), they have experienced double digit rates of growth, expanded trade with the US, and an unprecedented increase in the standard of living of their citizens.

Unfortunately, serious trade liberalization came late to the countries of Africa and with great disparity in the level of commitment to trade reforms. Most African countries still rely on a few primary commodities for much of their export earnings. Minerals and oil continue to dominate the regions exports. For the last forty years, since President Nixon's visit in 1957 which began the modern era of US—Africa relations, the US has promoted development assistance in Africa, while we have extracted minerals and oil and fought the spread of communism.

At no point during the last forty years have we brought forward our best weapon and strongest asset—the US private sector and the US economy. That is why S. 778 is so important because it emphasizes what the US does best which is generate wealth. By an efficient use of the private marketplace we have been able to produce a higher standard of living for ourselves and our trading partners.

Earlier this year I had the great honor to travel with the President on his historic visit to Africa. At each stop we were asked about this legislation by the African private sector and by high level government officials. Africans want to join the global

trading community and this legislation is the first step in that direction. The Presidents trip convinced me that the people of Africa want to be our trading partners, they appreciate our aid but they would prefer our capital investment, management expertise, technology and markets. They want to be trading partners not recipients of donor aid. I urge your passage of S. 778.

Thank you.

PREPARED STATEMENT OF MARK LEVINSON

My name is Mark Levinson. I am the Chief Economist of UNITE which represents 250,000 workers in textile, apparel and other related industries. I appreciate the opportunity to testify at this hearing. UNITE supports the goal of the African Growth and Opportunity Act "to promote stable and sustainable economic growth and development in sub-Saharan Africa." We believe, however, that many provisions of the bill work directly counter to that goal.

TRADE, INVESTMENT AND LABOR RIGHTS

In a recent speech at the World Trade Organization (WTO) President Clinton stated:

> In order to build a trading system for the 21st century that honors our values and expands opportunity, we must do more to ensure that spirited economic competition among nations never becomes a race to the bottom—in environmental protections, consumer protections, or labor standards. We should be leveling up, not leveling down. Without such a strategy, we cannot build the necessary public support for continued expansion of trade. Working people will only assume the risks of a free international market if they have the confidence that the system will work for them.

I agree with President Clinton. But the African Growth and Opportunity Act does not embody these principles. The bill's most glaring omission is its failure to include labor rights as a precondition for countries to gain eligibility for expanded trade. In the absence of core labor rights, as defined by the International Labor Organization, there is nothing to ensure that the wealth generated by increased trade is shared by the workers in Africa. That leads to an economic race to the bottom. If we have learned anything from the fast-track debate, it is that the American people believe that trade and investment agreements should protect workers as well as investors.

There are many in Africa who agree with us. During President Clinton's recent trip to Africa, South African President Nelson Mandela announced that the South African government has serious reservations about the African Growth and Opportunity Act. "To us, it is not acceptable," he said. The South African Clothing and Textile Workers Union (SACTWU) has informed us that they are "strongly opposed to the conditionalities" in the bill. They see the bill as "an attempt to protect and advance the interest of corporations—and will not advance the interest of Africa's poor."

African workers who have struggled to gain recognition for fundamental human rights confront the threat of having their gains undermined by competition from within Africa as well as from without. Andrew Kailembo, General Secretary of ICFTU-AFRO (a federation of African unions) put it this way:

> How can those using unfair or even oppressive labor practices and denying their own citizens freedom of association have access to international markets? Why should goods produced in slave-like conditions be allowed to compete with those produced in relatively free conditions? It is in this context that the link between the core labor standards and international trade becomes inevitable. It is not a push for any global minimum wage; neither is it a protectionist ploy against competition.

Consider the situation of South Africa and Lesotho and Swaziland. Lesotho and Swaziland each lie entirely within South Africa's borders. They are small countries and each is considerably poorer than South Africa. And in each country, workers' rights are not respected.

In the opinion of the U.S. International Trade Commission (ITC), "there is a significant chance that a competitive exporting industry will emerge" in Lesotho. And in Swaziland, according to the ITC, "[g]iven proper investment and some degree of government coordination to encourage the development of this sector, Swaziland could become a significant exporter of textile and apparel goods to the United States if sub-Saharan African countries were granted preferential access to the U.S. market."

Most of the investment in the Lesotho textile and apparel sector comes from South Africa and Taiwan. According to the International Confederation of Free Trade Unions (ICFTU), this investment has taken place on the basis of a guarantee that the companies would be able to disregard labor legislation. Many companies pay below the minimum wage, and have very long working hours—often locking-in workers until an order is finished. Employers refuse sick-pay leave and engage in almost constant unfair dismissal practices. In many factories, deductions are made from wages for workers found talking, or using the toilet more than once a day. On several occasions police have addressed workers at factory floor level advising them to leave the union, or elect new leaders, or allow the police to form a union for them.

Lesotho maintains several export-oriented industrial zones where 70 percent of employment is in the textiles, garment and leather sectors. Lesotho's labor law is supposed to apply in the country's industrial zones, but police stations at the entrances to the zones stop union organizers from getting in. The U.S. State Department has noted in its annual human rights report that no legally sanctioned strike has occurred in Lesotho since independence in 1966, and that employees are often threatened with expulsion from the country and loss of employment once they join unions. There is credible evidence, the State Department found, that some employers in the textile and garment sector use blacklists to deny employment to workers who have been fired by another employer within that sector.

Among the incidents that have occurred in Lesotho:

- This February, workers and management at one of the largest clothing manufacturers in Lesotho had been involved in a wage dispute for one week. Following a court eviction order, armed police stormed the building, shooting at random, reportedly injuring more than 40 workers and killing one woman.
- In 1995, police opened fire on striking workers at Maseru Clothing and Mustang Shoes, injuring 18 workers, one of them seriously.
- In 1993, three textile and apparel sector companies dismissed their entire work forces, amounting to over 1,500 workers, when workers there formed unions.

Observance of workers' human rights in Swaziland is even more rare than in Lesotho. There, an official of a trade union federation who calls a strike can be punished by a fine or a maximum of five years imprisonment, or both, and subsequently can be banned for five years from holding trade union office. Police can attend union meetings. Police intimidation and violence against trade union demonstrations and strikes are ruthless. In August 1994 police killed one worker and seriously wounded others during a month-long strike at a sugar company. Government agents attempted to murder the Swaziland Federation of Trade Unions' General Secretary in 1995. The ICFTU concluded in a recent report to the World Trade Organization that violations of freedom of association and the right to collective bargaining in Swaziland are so serious and widespread that they have a negative impact on wages and working conditions in every sector, including the traded sector.

Lesotho and Swaziland have 0.5% of the population of sub-Saharan Africa but account for fully 23% of the region's apparel exports to the U.S. And while these countries have 7% of the population of South Africa, their apparel exports to the U.S. are 42% greater than South Africa's. The current bill before the Senate would create a situation in which South African apparel workers face the reality of investment shifting to these countries where labor costs are lower because of human rights abuses.

Is this not exactly the "race to the bottom" that President Clinton warned against? By failing to link trade and investment with worker rights, the Lugar-Crane bill does nothing to prevent such a destructive race.

RIGID ELIGIBILITY REQUIREMENTS

There are other provisions in the bill that lead me to question whether it is in the interest of most Africans. The bill requires countries to adopt market-oriented policy changes analogous to those imposed under the structural adjustment programs of the World Bank and the International Monetary Fund: government spending cuts, reduced corporate taxes, wholesale privatization, removal of trade barriers and diminished protection for national industries.

The African Growth and Opportunity Act would even threaten current GSP beneficiaries in Africa with a loss of preferential tariffs if they fail to meet these market-oriented eligibility requirements. And while the bill also lists poverty reduction, social investment and human rights as factors to be considered in assessing eligibility, without clear enforcement mechanisms these criteria are eclipsed by the bill's central concern with market liberalization.

Achieving economic development through exports and foreign investment is problematic in much of Africa, where infrastructure and social services have deteriorated

following IMF/World Bank-mandated government spending cuts. Market liberalization does not address that problem or promote development of local industries. In fact it may undermine the very sectors which would allow African economies to develop the capacity to supply the U.S. market.

Trade and investment initiatives should not take the place of development assistance. Debt relief is crucial for many countries to be able to take advantage of new programs. Currently, debt service payments claim 80% of Africa's foreign exchange earnings and total four times the amount spent on health care throughout the region.

The legislation acknowledges the importance of continued development assistance programs and the urgent need for substantial debt relief but makes no additional funding available for these programs.

The problem with this bill is summarized well by the distinguished African political scientist Mahmood Mamdani:

> After a decade of liberalization, the issues for Africa are . . . those that expand the boundaries of meaningful choice in the era of globalization. . . . The U.S. African Growth and Opportunity Act, . . . tilt[s] the balance of reform away from choice to an external imposition. Rather than a helping hand, it read like a set of terms that every African country must meet before getting ease of access to the American market. . . . Many people here wonder whether the United States is opting for regimes that are willing to impose economic reforms designed in Washington, even if the same regimes deny the opposition the right to organize . . . If the era of single-party politics taught us one thing, it is that monopoly is as corrupting in politics as in the economy.

TRANSSHIPMENT IS A PROBLEM

The U.S. Customs Service has already identified eight sub-Saharan African countries as transshipment routes. By creating a large area of quota-free and duty-free textile and apparel imports, the bill will exacerbate the transshipment problem.

The bill attempts to deal with transshipment by setting up a visa system. Every significant textile and apparel exporter to the U.S. currently is required to have a visa system to certify the country of origin of their exports. There is little evidence that it works. Transshipment remains a major problem and this legislation creates a new financial incentive to transship. Thousands of American jobs have been lost due to violations of our international agreements. Thousands more could be lost because of this legislation. In addition, the duty free status for goods shipped through Africa will cost the Treasury hundreds of millions of dollars in lost revenue.

We are also concerned about "legal" transshipment. Section 503(a)(2) of the Trade Act of 1974 requires that the direct costs of processing operations performed in the beneficiary country be at least 35% of the value of the product. The Africa Growth and Opportunity Act amends that by allowing 15% percent of the value to be met by inputs from the United States. Thus only 20% of the value of a garment needs to be of African origin in order to qualify for duty- and quota-free treatment. This means that an American importer can ship plastic bags, hangers, thread, buttons, shoulder pads, etc., valued at 15% of the finished item to the African factory. A Chinese manufacturer, for example, could cut Chinese fabric, sew it into a garment and ship it to Africa. The African factory could sew in a "Made in Africa" label, inspect the garment, trim loose threads, do any necessary repairs, press the garment, package it (all valued at 20% of the finished item) and ship it to the U.S. duty-free and quota-free. Is this the best way to encourage a legitimate apparel industry in Africa; or is it way for importers to get around quotas and duties in other countries?

Another problem is that the bill does not require that African workers be actually employed making the goods that are shipped duty-free and quota-free to the U.S. market. Some companies have found it advantageous to import workers, who are forced to work under conditions amounting to indentured servitude, into African countries. For example, there are several thousand guest workers in Mauritius working in that country's growing apparel industry. Without a requirement that a high percentage of indigenous workers be used in industries shipping goods to the U.S. under the Lugar-Crane bill, there is no guarantee that Africans will benefit.

SIGNIFICANT DAMAGE COULD BE DONE TO U.S. INDUSTRY

The bill states that "it will be very difficult" for textile and apparel exports to the United States from sub-Saharan Africa to increase from less than 1 percent share of total U.S. imports to three percent of total imports. In fact a study by the ITC claims that the Africa Growth and Opportunity Act will cause a minor increase of imports and negligible job loss.

Can these predictions be taken seriously?

In 1986, after the passage of the Caribbean Basin Initiative, the U.S. International Trade Commission reassuringly claimed that "Caribbean countries play a relatively minor role in U.S. imports of textiles and apparel," supplying $500 million or 3 percent of the total in 1984. In 1997, imports of textile and apparel products from CBI countries were valued at $7.8 billion and constituted more than 13 percent of all U.S. textile and apparel imports.

In 1993, prior to NAFTA, Mexico supplied only $1.1 billion of apparel to the United States—under 4 percent of total U.S. apparel imports. In its 1993 report the ITC said that "even if U.S. apparel imports from Mexico grow by as much as 200 percent in the long run the U.S. industry's labor force will likely decline by about three percent." According to the 1997 ITC report on the effect of NAFTA, total employment in the apparel industry declined by 138,100, a 14% decline. (of course, not all of this can be attributed to Mexico). The ITC also predicted that removal of U.S. quotas and tariffs would likely result in an increase in U.S. apparel imports from Mexico of roughly 45 percent in the short term and 57 percent in the long term. In fact, between 1993 and 1997 imports of apparel from Mexico increased 350%. Mexico now accounts for almost 12% of U.S. apparel imports.

Perhaps the Committee will understand if we have little confidence in studies by the ITC which predict little harm to the domestic industry.

CONCLUSION

There is nothing wrong with African countries having access to U.S. markets. But this should not be done at the expense of workers in America or in Africa. Market access should be linked to adherence to internationally recognized labor rights. As an incentive to promote labor rights, apparel and textile quota should be transferred from countries that do not respect labor rights to those that do.

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. This bill falls short in all these areas.

The essential point was expressed well in a letter to the Senate circulated by Randall Robinson of TransAfrica and signed by many prominent African-Americans:

> Under the cover of an appealing name . . . the Lugar-Crane bill contains numerous provisions mainly aimed at benefiting large foreign private investors and multi-national corporations at the expense of true and equitable African development.

PREPARED STATEMENT OF HON. RICHARD G. LUGAR

Thank you Mr. Chairman, I appreciate this opportunity to testify on behalf of H.R. 1432 and S. 778, the "African Growth and Opportunity Act". I also want to express my appreciation to you, Mr. Chairman, for holding this hearing. I know the Committee's agenda is very crowded and you have made a special effort to make this proposed legislation a high priority. I am grateful for that.

Mr. Chairman, I have believed for some time that United States policy towards sub-Saharan Africa should be revised to reflect changing global and regional realities. For several decades, U.S. foreign policy towards Africa has been based largely on a series of bi-lateral aid relationships. Our involvement in Africa was influenced by strategic considerations inherent in the cold war. Our assistance programs targeted humanitarian crises and natural disasters and they have helped nurture a variety of important health, nutritional, educational and agricultural programs. As important as these programs have been, they have not promoted much economic development, greater self-reliance or even political stability for the vast majority of people in Africa. Nor, I must add, have they benefitted the American economy. For these reasons, it is time for the Congress to re-evaluate this policy. That is the purpose of our legislation.

The African Growth and Opportunity Act is the first serious attempt to develop a new American strategy in Africa. It is, in my judgement, a very modest bill that, if adopted and implemented, could bring substantial benefits to both Africa and the United States. The bill takes a long-term view that the United States can help improve the quality of life in sub-Saharan African societies through mutually beneficial economic ties. It provides a beginning road map for achieving these objectives.

In its essence, the bill would alter our policy towards sub-Sahara Africa by developing mature partnerships through trade and investment incentives with those countries undertaking economic and political reforms.

As you know, Mr. Chairman, the Africa bill was approved this Spring as a bipartisan measure in the House by a margin of nearly 50 votes. I introduced S. 778, the original Senate version of the House bill more than a year ago and regard its enactment as one of my highest foreign policy priorities. The Administration supports the legislation, in part because it mirrors its own initiative on Africa. Indeed, President Clinton mentioned the bill in his State of the Union address in January, and Secretary Albright, from whom you will hear shortly, included the Africa bill in her list of the top four leadership challenges for 1998.

Virtually all African Ambassadors, many of whom are in the hearing room today, have endorsed the bill. Most, but not all, African-American leaders and organizations have also endorsed it. The bill wide support among the American business community support as well.

Let me outline very briefly what the bill seeks to accomplish.

First, it urges the President to negotiate free trade agreements with African countries that would lead to the creation of a U.S.-sub-Saharan Africa Free Trade Area. That unquestionably is a long-term goal and will require considerable effort over time. For now, the bill is designed to promote freer and more open trade with Africa.

The bill establishes a U.S.-Africa Economic Cooperation Forum to facilitate high level discussions on trade and investment policies involving the U.S. and Africa. Nothing close to this now exists. The Forum would work with the private sector here and in Africa to develop a long-term trade and investment agenda. Enactment of this initiative will send a signal to the American business community that serious efforts are being made to facilitate doing business with Africa. As elsewhere around the world, the role of the private sector will be critical because it has the capital, the technology and the know-how needed to bring about growth and development. The bill signals to the world community that the United States intends to take Africa seriously. It signals that we want more mature economic partnerships and are willing to formalize high level discussions.

The bill also establishes, through OPIC, two privately-managed funds to leverage private financing for small- and medium-sized U.S. and African companies and to promote improved infrastructure development in Africa. No official appropriations are required—these are privately-financed funds. One is a $150 million Equity Fund, the other a $500 million infrastructure fund. Both are modest in size given the magnitude of the needs to be addressed. If successful, improvements in African roads, telecommunications, and power plants can do much to accelerate economic activity in Africa.

Each of these broad objectives will take time to manifest results. Similar efforts have proven successful in other regions of the world.

The initiatives in the bill that would bring more immediate economic results are those providing greater access to our markets for African exports.

The bill authorizes the President to grant duty-free treatment for certain products currently excluded from the GSP program—subject to the sensitivity analysis by the International Trade Commission. It extends the GSP program for Africa for 10 years, which is important for long-term business planning.

The bill would eliminate quotas on textiles and apparel from two countries—Kenya and Mauritius—after these countries adopt a visa system to guard against the illegal transshipment of goods. All but Kenya and Mauritius now enjoy no-quota status on textiles. The bill continues the prevailing no-quota policy that now exists for all other countries in Africa through the year 2005. Global textile quotas under the terms of the General Agreement on Tariffs and Trade are scheduled to disappear by that year, so the bill merely gives Africa a small head start in the more competitive textile market of the future.

As other witnesses may testify, African textiles and apparel exports to the U.S. now amount to less than 1 percent of our textile total import market of $46 billion. According to a report from the International Trade Commission, enactment of the African bill would increase U.S. imports of textiles and apparel from Africa to between one and two percent of our total textile and apparel imports.

I understand that the textile provision would not threaten, in any significant way, American textile workers and industries. Any increased imports are likely to replace those from other low-cost exporting markets, not American producers who produce apparel for more sophisticated markets. While that displacement is small in terms of overall U.S. imports, it can have positive effects for Africa. Warnings about the illegal transshipment of Asian-origin garments through Africa, under these liberalized access arrangements, are false alarms because the bill includes adequate safeguards to block such maneuvers. These safeguards were strengthened during House

consideration of the bill. Apart from the new jobs and export earnings that would benefit participating African countries, the major beneficiaries of lower-cost African textile imports would be American retailers and consumers.

Enhanced trade and private sector investment benefits will be available to all African societies but especially to those nations that undertake sustained economic reform, maintain acceptable human rights practices and make progress towards good governance. These standards are similar to those applied by the United States in Asia, Latin America, Eastern Europe and elsewhere. Although Africa is often seen as a continent with failing states, recently open forms of government and liberal economic reforms are taking root. Nearly thirty countries in sub-Sahara Africa have held democratic elections since 1990 and close to that number have begun to decentralize their economies and shift to more open markets. There is a real dynamism underway in Africa that we should encourage and assist.

Mr. Chairman, others who will testify today will elaborate on the trade and investment initiatives in the African bill. Let me conclude with a few remarks about the need for serious attention to Africa.

I believe the United States has an historic opportunity to help integrate African countries into the world economy, to wind down their dependency on foreign assistance and to help strengthen civil society and their economic and political institutions. Private investment tends to follow good governance and economic reform, but the private sector also takes guidance from government policies and expressions of interest. No one believes this bill is a panacea for Africa, but it is very much in our interest to play a constructive role in the evolving political and economic transition in Africa.

The annual economic growth rate in Africa has averaged nearly 5% during the past few years and, as I mentioned, electoral democracy has taken hold in nearly 30 countries. A stable and more prosperous Africa will be better equipped to cooperate on a range of global issues, including weapons proliferation, narcotics trafficking, terrorism, the environment, contagious diseases, and much more.

Africa is one of the last frontiers of untapped markets and an incubator for democratic institutional development. Sub-Sahara Africa has more than 600 million people, but the United Nations reports that 33 of the world's 48 least developed countries are in Africa. Africa's share of foreign annual direct investment has increased in recent years but it still commands less than two percent of global direct investment flows. Much of this capital comes from Europe, which has an established market and investment presence in Africa.

Despite this, our exports to sub-Saharan Africa are twenty percent greater than to all the states of the former Soviet Union combined. We now have less than 10 percent of the African market. But it is growing at a rapid pace—there has been a better than thirty percent increase in the in U.S.-African trade in past three years. If reforms stimulate economic growth, bigger markets will emerge. If African jobs are created and foreign exchange earned through enhanced exports, Africans will have the capacity to buy more goods and services. If we work cooperatively with them to develop their markets, they will want to purchase new machinery, electronics, financial services and agricultural products from us. But, it won't happen if we don't act to help make it happen.

Mr. Chairman, I wrote in a *Washington Post* editorial in April that the African bill is one of those rare pieces of legislation that has not been inspired by crisis or by an imminent threat to the United States or even by domestic political pressure. There is a strong constituency for this bill which has worked hard to promote its benefits to Africa and the United States. But, the bill emerged from the realization that the neglect of Africa is not in the short term or long term interest of the United States. This bill is visionary because it takes note of the change taking place in Africa and proposes steps that will enable the United States to be a constructive partner in that change. It states clearly that we wish to assist in and share in Africa's better future.

If the United States is a major player in Africa's economic and political improvement, we will also be a major beneficiary.

I hope the Committee will act soon to mark up this legislation and report it to the floor. I want to do all I can to see that the Senate approves it and that it is enacted into law.

Thank you very much.

PREPARED STATEMENT OF HON. DANIEL PATRICK MOYNIHAN

We are here, Mr. Chairman, largely because of the efforts of two of our witnesses this morning—Congressmen Rangel and Crane—who successfully shepherded this

bill through the House of Representatives three months ago, on March 11. I look forward to their testimony, and that of our good friend Senator Lugar.

Mr. Chairman, I intend to support this bill, but would hope to work with you and others on the Committee to seek improvements to ensure that the trade benefits will indeed flow to Sub-Saharan Africa. As we will hear later this morning, there are fears that others will seek to take advantage of the legislation, and we ought to prevent that.

I acknowledge that this bill will not solve the problem of endemic poverty in Africa. It may, however, give us an opportunity to re-engage with a continent that we have sorely neglected since the end of the Cold War. Even at the height of the Cold War, Africa was rarely at the forefront of our foreign policy. We were certainly more concerned with fighting communism than promoting development or even democracy. And we were not particularly generous: at its peak, in Fiscal Year 1985, our foreign assistance to Africa totaled a mere $1.8 billion (in 1998 dollars)—just 6.7 percent of our total foreign aid budget. Today, more than ten years later, our foreign assistance has dropped by more than a third to $1.1 billion in FY 1998 (equal to 8 percent of our total foreign assistance), although the challenges faced by Sub-Saharan Africa are as great today as they were then.

Consider for instance the differing paths of South Korea and Ghana: in 1958, the year after Ghana achieved independence, its per capita GDP, at $203, exceeded that of South Korea ($ 171 at the time). Almost forty years later, in 1997, South Korea's GDP had soared to $9,511 (though it declined a bit in First Quarter 1998—to $9,000—in the wake of the Asian financial crisis) while Ghana's GDP stood at a modest $490.

Ghana is not an anomaly. Per capita income throughout most of Sub-Saharan Africa remains low—at an average of $300 in 1996. Where other regions have seen an influx of private foreign investment, Africa's share of worldwide investment equaled a mere $3.3 billion in 1996, 1 percent of the total, with most of it concentrated in such oil-rich countries as Nigeria and Gabon. Only recently, has South Africa been added to that list.

There is reason for optimism. South Africa has thrown off the horror of apartheid and embraced a democratic model. Benin, Botswana and Mali, to name just a few, have taken steps towards participatory democracy. GDP growth rates are averaging 4 percent continent-wide and economic reform is underway in many countries.

It is time to rethink our relationship with Africa. The bill we are examining today may provide a starting point.

PREPARED STATEMENT OF HON. CHARLES B. RANGEL

Thank you, Mr. Chairman and the other members of this committee for the opportunity to testify today on a landmark legislative initiative, which I coauthored, to establish a new United States-Africa economic partnership.

VISITS TO AFRICA

I have had the unique honor and opportunity twice in the past six months to visit 10 nations of Africa—as Head of the Presidential Mission on Economic Cooperation to Africa in December 1997, and as a member of President Clinton's delegation on his historic visit to Africa in March.

Members of Congress on a bipartisan basis, officials from the Executive branch, representatives of non-governmental organizations, and business and political leaders participated in these trips to gain a better understanding of the opportunities and challenges for improving and strengthening our trade, investment, and overall relations with the countries of Africa.

On both occasions, the governments and private sectors in the African nations we visited welcomed enthusiastically new U.S. initiatives to move from a purely donor-donee relationship to one based more on economic cooperation and increased trade and investment. Specifically, we received strong support in each country for enactment of H.R. 1432, the "African Growth and Opportunity Act," as an essential catalyst to stimulate U.S. business interest in the region and to reinforce the positive economic and political reforms underway in sub-Saharan Africa.

CONTEXT AND PURPOSE OF THE LEGISLATION

It is important to recognize the context and purpose of this legislation. Sub-Saharan Africa consists of a diverse set of 48 countries with a population of nearly 700 million people—potentially one of the largest markets in the world. Many of these countries have undergone significant political and economic change in recent years.

More than 25 countries in sub-Saharan Africa have held democratic elections, and more than 30 countries have instituted market-oriented economic reform programs since 1990. The region is undergoing a political and economic renaissance, incomes are growing, and there is a newfound optimism about the future.

Yet, until now the U.S. Government and the American private sector largely have ignored and underestimated the economic opportunities in the African marketplace as well as the strategic importance of developing closer relationships with the new Africa built upon mutual respect and cooperation.

Africa accounts for only about three percent of total U.S. trade with the world. United States exports to the region were only about $6 billion, or 1 percent of total U.S. exports in 1996, while the United States was an important market for Africa, accounting for about 17 percent of total sub-Saharan African exports. At the same time, U.S. exports to the region are increasing faster than our trade globally.

Prospects for future trade and investment opportunities are bright, provided we and our African partners work together to implement sound economic policies. The United States, as the world's richest and most technologically advanced economy, can and should do more to contribute to Africa's economic growth and prosperity and its political and social stability. In turn, it is critical to note that this initiative is not a one-way street. By stimulating trade with Africa, we also increase business opportunities and jobs here at home.

The basic purpose of H.R. 1432 is to establish a new U.S. relationship with countries in Africa committed to economic and political reform, market incentives, and private-sector growth. The bill recognizes that trade, aid, and investment are all important and essential components of our policy toward Africa. It supports continued aid as a development tool. It increases access to the U.S. market for African goods and services, creates incentives for investment in the region, recognizes the need to provide for effective debt relief, and establishes a mechanism for ongoing mutual economic cooperation.

SUMMARY OF NON-TRADE PROVISIONS OF H.R. 1432

H.R. 1432, as passed by the House on March 11, contains the following major provisions, in addition to trade:

- Eligible countries for benefits under the bill would be determined by the President based on whether the country has established, or is making continual progress toward establishing, a market-oriented economy and does not engage in gross violations of internationally recognized human rights.
- With respect to investment, the bill supports initiation by the Overseas Private Investment Corporation (OPIC) of an African Equity Fund with assets up to $150 million and an African Infrastructure Fund with assets up to $500 million. These funds will leverage private financing for small- and medium-sized U.S. and African businesses and encourage much-needed infrastructure development in the region.
- With respect to debt, the bill supports extinguishing concessional debt owed the United States by the poorest countries in Africa.
- With respect to aid, the bill supports the U.S. Development Fund for Africa and does not cut any U.S. aid to Africa.
- With respect to economic cooperation, the bill directs the President to establish a U.S.-Sub-Saharan Africa Trade and Economic Cooperation Forum to facilitate annual high-level discussions on trade and investment matters and requires the OPIC and the Export-Import Bank to add board members with private-sector experience in sub-Saharan Africa. The Forum, which will also encourage annual meetings of nongovernmental organizations and the private sector, will ensure continuing attention on fostering the U.S.-African relationship.

TRADE PROVISIONS OF H.R. 1432

I will focus in particular on the trade provisions of H.R. 1432, since they are within the jurisdiction of this Committee and the House Committee on Ways and Means, and are a major and essential part of the overall policy initiative.

There are three main components to stimulate increased U.S.-Africa trade: First, as a longer-term goal for a permanent mutually beneficial trade relationship, the bill *directs the President to develop a plan for negotiation of free trade agreements with sub-Saharan African nations. Second, as an immediate benefit, the bill extends duty-free treatment under the Generalized System of Preferences (GSP) program for imports from sub-Saharan Africa countries for 10 years and authorizes GSP coverage of articles currently excluded including textiles and apparel, which are not import-sensitive from African countries* based upon a determination by the U.S. International Trade Commission. Third, the legislation *grants quota-free treatment for textile and apparel imports from African countries that have in place effective mecha-*

nisms to prevent illegal transshipments from third countries. Amendments to the original bill further strengthened monitoring and enforcement requirements to address the potential transshipment issue.

I recognize that concerns have been raised about the potential impact on the U.S. domestic industry and its workers of duty-free quota-free treatment for African textiles and apparel. I believe these concerns are unfounded when you look at the facts. United States imports of textiles and apparel from sub-Saharan Africa countries now are less than one percent of total U.S. imports of these articles from all suppliers.

After conducting an exhaustive study, the International Trade Commission concluded that duty-free quota-free treatment on all textile and apparel imports from sub-Saharan Africa would have a negligible impact on the U.S. industry and its workers, and estimated that imports from Africa would increase at most to two percent of total U.S. textile and apparel imports. More American jobs would be created by increased exports to Africa than lost due to increased imports.

An alternative proposal considered and defeated in the House would have limited duty-free quota-free treatment only to apparel assembled in Africa from fabric and yarn made in the United States; Africans could not even receive benefits for assembling apparel from cloth and yarn made in their own countries! It is contrary to a basic purpose of the bill—namely, to provide maximum incentives for productive investment and the building of indigenous industry in Africa in order to create economic opportunities for Africans—to craft a provision that makes African industry dependent on U.S. fabric and restricts benefits to serve the interests of the U.S. textile industry. This being said, I am willing to consider proposals that address legitimate concerns while maintaining meaningful benefits for the African nations consistent with the overall purposes of the bill.

SUPPORT FOR THE BILL

The House-passed bill was developed by a bipartisan group of Members together with the Administration, and enjoys broad support from a cross-section of concerned Americans, non-government organizations, and the U.S. business community. The bill was developed with the full input of the nations of Africa themselves and has their strong and active support.

This legislation offers an historic opportunity for the United States to put in place new, more constructive policies and to develop a mutually beneficial relationship with an increasingly dynamic region of the world. It will provide an essential catalyst for new business opportunities and jobs for both Africans and Americans, and put in place sound public policies to support and encourage the positive reforms taking place in the nations of Africa.

It is time for the United States to seize this opportunity to create a U.S. policy of economic engagement and partnership with Africa on equal terms with our partners in Europe, Asia, and Latin America.

I am happy to answer your questions and offer my assistance to ensure successful enactment of this historic legislative initiative before the end of this Congress .

PREPARED STATEMENT OF HON. LAWRENCE H. SUMMERS

Mr. Chairman, it is a pleasure to testify before you today on proposals to forge a new trade and development relationship between the United States and the countries of Africa. The Partnership for Economic Growth and Opportunity in Africa which the President announced last year, and the Africa Growth and Opportunity Act passed by the House of Representatives, and now introduced in the Senate, have as their basic objectives supporting faster growth through expanded private investment and trade. The Administration fully supported that important legislation in the House, and is doing so in the Senate. We look forward to continuing this work, in a collaborative spirit, with your Committee and the entire Senate.

The Administration's initiative draws from ideas that were developed in the Congress and in Africa itself. More importantly, it is inspired by the profound changes that have been under way on the African continent since the beginning of this decade. These changes have altered the basic assumptions that previously underlay US policy in Africa:

- Markets can work in Africa as they do everywhere else, but the conditions and the policies must be right.
- We want to move from a donor-client relationship to one based on trade and investment ties for mutual advantage.
- We will be supportive of changes initiated by the African countries themselves. We want to offer Africans a "hand up" rather than a "handout."

Let us be clear: America has a powerful commercial and security interest in building stronger trade and investment ties with Sub-Saharan Africa. Those ties are not nearly as strong as they could be. Only 1 percent of our trade is with Africa, and slightly less than 1 percent of our direct investment abroad. With developing countries making a large contribution to our economy—in a typical year buying around 40 percent of our exports, for example—the largely undeveloped market of 660 million Africans represents an exciting opportunity, with great potential benefits to both sides.

We are convinced that the key to unlocking Africa's potential lies in helping African countries achieve higher levels of growth through trade and private investment. Bringing those countries into the global economy would give US firms and workers a wealth of marketing and supply opportunities, and offer reforming African countries themselves a path out of conditions that foster poverty, conflict, disease, and environmental degradation.

The Africa Growth and Opportunity Act enjoyed bipartisan backing in the House because it makes sense for America and for Africa. By offering expanded trade opportunities as well as specific congressional backing of this change in policy direction, it makes an important contribution to Africa's emergence as a continent with which we can do business. We support the market-opening provisions of this bill because the United States has a great deal to gain from a stable, prosperous Africa, and nothing to lose. This truly is a "win/win" opportunity for us. In my comments today I would like to focus on three points:

- First, on the changes that are taking place in sub-Saharan Africa, and the historic opportunity it presents for Americans as well as Africans.
- Second, on some of the lessons of past development success stories—and failures—showing how they point the way for our current efforts; and
- Third, I will talk in a more detailed way about the specific initiatives we are pursuing.

I. AFRICA: CHANGE AND OPPORTUNITY

Americans' views of Africa still are largely shaped by banner headlines telling us of yet another war or natural disaster. Such catastrophes are sobering reminders of how bad things can get in circumstances of economic and political despair. But they are far from the whole story.

President Clinton's visit to Africa in March went far toward showing America a different picture of Africa. It was an Africa that is eager for closer relations with the United States. It was an Africa where an enthusiastic crowd estimated at half a million turned out to hear him in Ghana—reportedly the largest such event in Ghana's history. It was an Africa that welcomed US involvement in areas as diverse as conflict resolution, education, and microcredits. The President and other American visitors have found reason to be encouraged. Parts of the continent are far more prosperous, vibrant, and forward-looking than they were just five years ago. A growing number of governments are taking concrete steps to encourage market-oriented, private sector-led growth. US investment banks that would not have been around five years ago are now an active presence.

- In the south, the end of apartheid and of the wars ravaging the region have created a remarkable change of atmosphere. South Africa has joined its neighbors in the Southern Africa Development Community (SADC) to work toward greater regional integration. Nearly as many US firms are present in South Africa as were there prior to the anti-apartheid boycott. Mozambique ended its devastating civil war, made a commitment to market-oriented reform, and has completely privatized its banking sector. We were very excited to hear, Mr. Chairman, that Mozambique's growth was 12.8% in 1997, while inflation fell to 2%.
- In the west, the francophone countries, led by Cote d'Ivoire, ended the long-standing (and debilitating) overvaluation of their currencies in 1994 and undertook supporting changes in trade policy, the banking industry, and commercial law and practice. These eight countries now are on the way to creating a true economic community of nearly 60 million people based on a common currency, a single central bank, a regional stock exchange, and a customs union. The agricultural economy has rebounded and new industries, such as oil and gas, are growing. Over 50 US firms are represented in these countries. Growth in Cote d'Ivoire and others is in the 5–7% range.
- In the east, Uganda, Kenya and Tanzania have revived their regional association, representing a combined market of about 70 million. Uganda has been growing at an average rate of about 8% in recent years; Nairobi is East African home base for 75 US firms.

• Central Africa is a more difficult proposition, with the legacies of ethnic strife and corruption still to be overcome. Even here, however, US and other private investors have been pursuing opportunities to develop the region's enormous mineral resources. A more supportive US trade policy would be an important part of any effort to encourage economic and political reforms.

• In Nigeria, following the recent death of Gen. Abacha, the country has another chance to fulfill its great promise as an "African Giant." The new leadership has an opportunity to pull together all of Nigeria's people in support of a credible and open transition to democratic civilian government that respects the rights of its people. We urge the new leadership to make a sustained commitment to political and economic reform, and we pledge American support if they do.

Changes like these—in outlook as well as events on the ground—give reason to believe that democracy and economic reform can take root in sub-Saharan Africa. In recognition of the changes and the opportunities that lie ahead, Secretary Rubin is planning a visit to the region July 11–19. He expects to stop in Cote d'Ivoire, South Africa, Mozambique, and Kenya. The purpose of the trip is to advance the initiatives put forward by the President, especially in the financial sector, and to convey America's willingness to do what we can to help integrate African reformers into the global economy.

Yet the roots of democracy and reform are young, and continued growth is far from guaranteed. The question is, how can we help countries that have begun to grow to continue their upward climb—and thereby show the way to others?

II. LESSONS ON DEVELOPMENT

Some would say there is little or nothing we can do. Africa, in their view, is different; somehow incapable of achieving the same kind of economic take-off we've seen in other regions of the world. It is worth recalling that in 1961 Gunnar Myrdal, the Nobel-Prize winning economist, wrote a 2,200-page book bemoaning his subject's poor export prospects, which, in turn could be traced to factors such as heavy dependence on trading primary goods. All very much in line with the prevailing thinking. And all very wrong. For the region he was talking about was not Africa, but East Asia.

Africa's performance in the '60s, '70s, and '80s certainly was poor. In 1960, Korea was no richer than Sudan, and Taiwan was as poor as Zaire. By 1995, per capita incomes in Korea and Taiwan were more than 25 times higher than in sub-Saharan Africa. Today, on the brink of the new millennium, at least 40 percent of Africans still live on a dollar a day or less. In some parts of the continent, a child is more likely to be malnourished than learn to read, and more likely to die before the age of 5 than go to school.

But are the "Afro-pessimists" right that to say this dismal outcome was inevitable? Careful studies of Africa's growth performance suggest not. They find that slow African growth can be traced to three broad factors, all of which have afflicted the region to a greater degree than elsewhere, but none of which could be said to be an immovable part of the landscape.

• The first problem is political instability. Nearly 15 percent of the sub-Saharan population lives in countries that were severely affected by civil war during the '90s. A much larger fraction lives in countries where investors cannot be confident of a stable political environment and property rights are insecure. It is noteworthy that Africa's standing has deteriorated both relatively and absolutely on international scales of political risk.

• The second major factor impeding growth has been chronic macroeconomic instability. While inflation has come down in the last several years, inflation rates in many African countries have been well into double digits for much of the last two decades.

• Third, and, clearly related to the first two impediments to growth, have been policies that grossly distort the allocation of Africa's resources. These include export taxes; high tariff and non-tariff trade barriers; excessive, and mismanaged, government intervention in the economy; and corruption. The evidence suggests that by far the most damaging of such policies are those that distort or cut off African countries' economic relations with the outside world.

• Economies cannot work well in these kinds of environments. Nor can (or should) foreign aid make up the difference. Assistance to governments pursuing the wrong policies actually can be counterproductive, by encouraging public investment that crowds out private investment and allowing governments to postpone painful, but necessary, structural reforms. A recent World Bank study found that aid in fact *slows* growth in such distorted environments. But where policies are sound, the same study found aid had made a real difference.

III. THE ADMINISTRATION'S PARTNERSHIP

The Administration's Partnership for Economic Growth and Opportunity in Africa represents a concerted effort to respond to the recent changes in the region, the lessons of the development record, and our knowledge of the tools we have to help accelerate a transition to economic vitality. We are pursuing an approach with four main components:

1. Expanded market access.
2. Strengthened assistance programs and debt relief to restore financial viability.
3. Concerted efforts to nurture private sector development and investment.
4. Enhanced dialogue with African countries.

I should stress that these four elements comprise an integrated whole. It makes little sense to provide assistance to Africa's private sector in our aid programs if we deny African business access to our market. Likewise, we cannot credibly urge African governments to liberalize their trade regimes for the private sector's benefit if we are unwilling to liberalize our own. But taken together, these four elements provide an attractive package of incentives to reform. If any are omitted, the package is less compelling and less useful.

1. Expanded Market Access

The Administration fully supports the Africa trade legislation now before the Senate. It will put us in a position to make the best use of the most potent development tool we have: our private sector and its ability to create productive investments. The bill would be fully consistent as well with the U.S. economic strategy of promoting trade with Emerging Market countries. In the last four years, one-third of our economic growth has come from exports, 40% of which typically go to developing countries.

At present, the United States has only a 7% share of Africa's markets—far smaller than in other areas of the developing world. We have a long way to go to improve that position, given Europe's overwhelming market share (over 41%) arising from its historical ties with Africa. Yet the potential is substantial: exports to sub-Saharan African countries already exceed $6 billion, and support 100,000 American jobs—more trade than we have with all the countries of the former Soviet Union combined.

To encourage further trade with the United States, while promoting opportunities for growth in Africa, the legislation would offer better access to US markets for African exports under a renewed and expanded GSP program. For countries willing to embark on more aggressive trade reforms, the bill would provide authority for the President, after consultation with the U.S. International Trade Commission, to grant GSP treatment for some products which are currently excluded, such as textiles and leather goods. These industries are vitally important to developing countries, which typically use them as the first stepping stones toward industrialization.

Critics have raised fears that this step would facilitate illegal transshipment of textiles and apparel, especially from Asia, through Africa, to the US market. But the bill contains a number of safeguards that are designed to deal with the problems of transshipment.

Another issue raised by critics is that of job losses. A recent study by the International Trade Commission found that US textile and apparel imports from sub-Saharan Africa represent only 0.62%, less than two-thirds of one percent, of our total imports of such goods. The ITC estimates that the proposals in the Africa Growth and Opportunity Act would increase this figure by 25–50%, yet the resulting total still would be only about 1% of our imports. Direct job losses due to such increased imports might total approximately 650. Of course, this figure excludes net job *gains* we would be likely to achieve by increased exports to a more prosperous Africa. Once again, the legislation contains safeguards against import surges, including a prominent ITC role.

While the U.S. economy would not be harmed by the trade provisions in the legislation, the gains to African countries, even from these small amounts of trade, can be significant. In Mauritius, for example, per capita income has more than doubled in the fifteen years since creation of the export processing zone, and much of that gain resulted from textile production.

Clearly, Mr. Chairman, the trade provisions in this legislation are practical examples of the power of competitive markets to produce effective development. We have a chance in this legislation to put market forces more fully into play in sub-Saharan Africa.

I should note also that, over the long term, we would expect market-opening initiatives on both sides to culminate in negotiations for the creation of free trade

areas. We fully agree with the authors of the House bill that trade liberalization with such an objective in mind can be a strong catalyst for market liberalization.

2. Targeted financial assistance and debt relief

Targeted Support by International Financial Institutions. Even with greater trade opportunities, external finance on concessional terms remains vital for a continent that lacks sufficient savings of its own, and that depends heavily on trade taxes to finance government operations. The concessional financing available through the IMF's Enhanced Structural Adjustment Facility, the World Bank's IDA, and the African Development Fund provides such support to reforming countries, leveraging our own contributions at a ratio of about 6 to 1 with those of other donors.

As with our own approach to African trade policy, the IFIs are recognizing that financial support must be conditioned on reforms and allocated more selectively to countries committed to doing the most to help themselves. Such reforms must be market-oriented, designed to reduce the intrusive role of the African state and create an environment in which domestic and foreign private investment can work. High on the list of priorities for the IFIs at making such determinations are the quality of governance, the level of transparency, and the attention given to combating corruption. We are gratified that both the IMF and World Bank are pursuing these issues with real vigor.

These institutions already are directing a larger share of their programs to the better economic performers. In the World Bank's fiscal years 1994–96, for example, its concessional lending window, the International Development Association (IDA), committed about 60% more funding on a per capita basis to the strongest performers than it did to average performers. In the previous three-year period, that differential was only 20%. IDA's goal is to limit the average per capita allotment to its worst-performing borrower countries to one-third the normal level for poor borrowers.

The point has been made in Congress on other occasions but let me say it again: the United States must meet its financial obligations to the institutions that we have asked to join us in this extraordinary effort to help Africa. With last month's historic agreement to reform the governance of the African Development Bank, we now have an excellent opportunity to deploy this uniquely African institution in support of the same reform objectives.

Debt relief for strong reformers: Despite reforms in Africa and reformed practices within the International Financial Institutions, there is a heavy burden of debt from past mistakes. The US has taken a stand at the World Bank, the IMF, and other multilateral organizations to ensure that deep relief is provided to eligible bold reformers within the framework of the Paris Club and the new program for Heavily Indebted Poor Countries (HIPC). I want to stress that conditional relief is key: debt relief is ineffective unless countries pursue sustained reforms necessary for growth.

The international community, both public as well as private sectors, has provided debt reduction totaling $35–40 billion over the past decade for the poorest countries, most of them in Africa. An additional $40 billion in relief is expected under current mechanisms, including Paris Club action under "Naples Terms" and action by all creditors under HIPC.

In addition, President Clinton is seeking appropriations that would make possible not just the reduction, but the extinction of eligible reformers' bilateral concessional debt to the United States. We are calling on all donors to join us in this effort.

As you know, we agreed last year that Uganda—a country with an impressive track record of sustained reform—will be the first to benefit from the HIPC program. The agreement means that about $650 million in nominal tax revenues that would otherwise be owed to creditors will now be available for investment, such as in universal primary education—a major goal of President Museveni. Cote d'Ivoire, Burkina Faso, and Mozambique also have been declared eligible, and we expect Mali and possibly others to follow this year.

We have structured debt relief in order to leverage reform. But to encourage a sustained political commitment to reform, we have encouraged other donors and the international financial institutions to provide interim relief as a reward for reforms under way, until the HIPC relief becomes fully effective.

3. Nurturing private sector development and investment

The Administration is developing a range of measures designed to encourage maximum private sector development in reforming countries at minimum budgetary cost. Foremost among these will be two new funds supported by the Overseas Private Investment Corporation (OPIC), which had their origins in proposals in the Africa Growth and Opportunity Act. The first, launched in December, is a $150 million fund designed to invest in productive enterprises, drawing on $100 million of OPIC-

guaranteed private credits and another $50 million of private equity funds that are fully at risk. The second will be a $500 million infrastructure fund that still is being put together. Countries pursuing the deepest market-oriented reforms are likely to capture the lion's share of investments supported by these funds.

USAID also is implementing its Initiative for Southern Africa, designed to support trade and private investment. This program devotes up to $30 million annually to promoting trade and transportation protocols, harmonization of investment policies, and strengthening of regional business associations within the Southern African Development Community (SADC).

We are particularly interested in building on the very promising experiences that USAID and other organizations have had with micro-credit programs. These are often a very cheap and effective way to spur the development of small-scale businesses, particularly among groups—notably women—who would not otherwise have access even to very small amounts of credit. I myself have seen the results in South Africa, visiting a home in Soweto which the family had bought on the proceeds of a very fast-growing auto fender repair business. It all started with a very modest USAID loan.

In addition, USAID is providing technical assistance to African governments to help them take advantage of the new trade preference programs that would be available to them, and help reforming countries become more fully engaged in the WTO.

The Export-Import Bank is tailoring its programs to the challenges many African countries present. In the first such visit in many years, Chairman Harmon recently went to Africa to underline the Bank's readiness to work with creditworthy private companies to structure asset-backed and project finance deals even in countries where the public sector is not deemed creditworthy. I would also note that the Chairman of the Bank's new Advisory Committee on Africa is a former member of Congress, the Rev. Floyd Flake. This committee also was first suggested in the Africa Growth and Opportunity Act.

4. Enhanced dialogue

To focus high-level official and public attention on the African countries that are taking bold reforms, and to exchange views about what is working well and what is not, the legislation before you suggests, and the Administration is planning, annual cabinet-level meetings with the strongest-performing sub-Saharan countries. The first such meeting is being planned this coming December in Washington.

This kind of high-level dialogue, backed by continuing discussions at the technical level, will help ensure that the Partnership is achieving its objectives. We at the Treasury have been experimenting with such a dialogue at the sub-Cabinet level for the last two years with a number our African counterparts, and we are encouraged at the possibilities.

IV. CONCLUSION

Mr. Chairman, the Administration and many in Congress have devoted more constructive thought and energy to improving America's economic relations with Sub-Saharan Africa over the past two years than at any time in our history. With our G–8 colleagues, we also have made Africa a prominent subject for discussion at our annual summits, and we are encouraging other countries to follow a similar approach to maximize the impact in Africa. That we have done so says something about US priorities, and about our strong belief in embracing the new global economy and supporting the development of emerging, and potentially emerging, markets.

As we have emphasized repeatedly, however, our determination to develop closer ties with this long stagnant region also reflects the changing times in Africa itself. African governments want the kinds of support that will help them to help themselves, and propel growth rather than plug gaps. Primary among these are open markets and private sector investors, the two core elements of the African Growth and Opportunity Act as well as the President's Partnership.

In short, Mr. Chairman, we urge the Senate to join us in a bold initiative to help sub-Saharan countries get back into the global economy and back on the road to growth. It is an ambitious program; success, certainly, is not guaranteed. But from what we know about the development process we can be at least cautiously optimistic that the four-pronged strategy I have outlined today could help Africa make that long-awaited transition to commercial vitality and growth. We look forward to working with you, Mr. Chairman, with members of this committee, and with others in the Senate to help make this hope a reality. I would now welcome any questions that you might have. Thank you.

COMMUNICATIONS

STATEMENT OF THE AFL–CIO

The AFL–CIO supports the stated goals of H.R. 1432, the African Growth and Opportunity Act, "to promote stable and sustainable economic growth and development in sub-Saharan Africa," but we believe this bill will undermine those ends. We therefore urge the Senate to amend the bill substantially or reject it.

H.R. 1432 attempts to distinguish between African countries that are on the right and wrong development paths, rewarding certain behaviors with enhanced market access, development aid, and loans. The criteria laid out in this bill, however, will serve the needs of multinational businesses, rather than foster the kind of development that will improve the lives of ordinary Africans. Over the long run, Africa's ability to attract investment and participate fully in the global economy will depend on its ability to build a strong foundation of vibrant democracy and a prosperous middle class, with broad-based involvement by civil society. Any new trade initiative towards Africa must reflect these priorities.

It is increasingly true that grants of foreign aid are being replaced by private trade and investment flows as the main avenue of interaction between developed and developing countries. U.S. trade policy reflects this new reality, as the U.S. government trades increased access to the U.S. consumer market for desired changes in the domestic economic policies of developing countries. To the extent that U.S. trade policy now serves as U.S. development policy, we have an obligation to examine carefully the criteria we seek to impose on other countries and be clear about whose interests such criteria protect.

The African Growth and Opportunity Act contains relatively few concrete new benefits for Africa and only a few provisions that actually need legislation in order to be enacted. Yet it is worth our attention because it lays out the framework for the deepening of a long-term relationship with Africa. The bill explicitly defines a model for future trade and investment policy. Unfortunately, the development model imbedded in this bill is both failed and outdated. It is also unnecessarily constraining, restricting some legitimate independent development strategies.

As President Clinton said in his speech to the World Trade Organization in May, "a trading system for the 21st century" must "ensure that spirited economic competition among nations never becomes a race to the bottom—in environmental protections, consumer protections, or labor standards."

The bill lays out twelve "eligibility requirements" that each country must satisfy in order to receive the benefits of the bill *or to continue receiving existing trade preferences.* These eligibility requirements (listed in section 4) are pivotal to everything else in the bill: they condition enhanced market access (in textiles and apparel and the generalized system of preferences program), the ability to take part in future free trade areas, additional aid from the international financial institutions, and eligibility for debt forgiveness.

But these eligibility requirements do more to address narrow business concerns than to establish a sound foundation for successful, democratic, and sustainable development. The list includes items of interest to businesses investing in Africa, such as the reduction of "high" corporate taxes, the "control" of government consumption, privatization of government enterprises through divestiture programs, and the protection of intellectual property rights, but is strangely silent on the protection of core labor rights or the environment. The list places undue emphasis on market forces, relegating crucial goals such as poverty reduction and the provision of health, education, credit, and physical infrastructure to a secondary category of "additional factors" not covered by monitoring or reporting requirements.

As Oduor Ong'wen of EcoNews Africa in Kenya has written, "The reality is that compliance with [the reforms required under the bill] is associated with slow growth, a poor record on investment and, in many cases, failure to protect social

investment." More generally, the United Nations Conference on Trade and Development (UNCTAD) found in its 1997 Trade and Development Report, that the "unleashing of market forces" in the world economy since the 1980s has been accompanied by rising inequality and slow growth. UNCTAD calls for "a carefully managed and phased integration [of the developing countries] into the world economy," rather than the "big bang" liberalization adopted by some countries.

While H.R. 1432 includes laudable language preventing countries that "engage in gross violations of internationally recognized human rights" from receiving benefits under the bill, it fails to define "internationally recognized human rights" or to reference any international conventions or treaties. Under U.S. development assistance law (Title 22, U.S. Code Section 2151n), "internationally recognized human rights" include "torture or cruel, inhuman, or degrading treatment or punishment, prolonged detention without charges, causing the disappearance of persons by the abduction and clandestine detention of those persons, or other flagrant denial of the right to life, liberty and the security of person . . ." This language would not protect "internationally recognized workers' rights," as defined in section 502(a)(4) of the 1974 Trade Act, as amended (freedom of association, right to bargain collectively, prohibition on child or forced labor, and acceptable conditions with respect to minimum wage, health and safety, and hours of work).

H.R. 1432 should be amended to clarify that internationally recognized workers' rights (as defined above) are included under the definition of internationally recognized human rights.

H.R. 1432 is poorly written and conceived. Section 9(e) of the bill amends the generalized system of preferences (GSP) to add a separate category of eligibility requirements that apply only to sub-Saharan countries. This approach uniquely disadvantages African countries vis-a-vis other developing countries, by holding African countries to the GSP criteria *plus* the section 4 list of requirements if they are to continue receiving existing GSP trade preferences. If this was not the intention of the bill's drafters, then this section of the bill should be removed.

In section 9(b), the bill further amends GSP to reduce the value added in Africa required for GSP eligibility to only 20% of the total value of the product (from 35% under regular GSP). This amendment would further reduce the value of the bill in supporting African employment. The AFL–CIO opposes this change in GSP.

The AFL–CIO supports the goals of poverty eradication, debt reduction and egalitarian, democratic, and environmentally sustainable development in Africa. We urge the Senate to address the following issues in the bill:

- include internationally recognized labor rights (as defined under Section 502(a)(4) of the 1974 Trade Act, as amended) in the definition of "internationally recognized human rights" discussed in section 4;
- ensure that the eligibility requirements, taken together, are development-centered, not business-centered;
- provide for funding and effective enforcement mechanisms to prevent illegal transshipment of goods through Africa;
- leave unchanged the African content required for enhanced GSP benefits (i.e. remove section 9(b));
- remove section 9(e) (the provision in the bill that amends the GSP eligibility criteria);
- remove section 7 of the bill that calls for establishing a Free Trade Area between the United States and sub-Saharan Africa without binding labor and environmental standards;
- provide additional funding for debt relief and development assistance under the bill.

U.S. trade policy must link enforceable labor and environmental standards to economic integration initiatives and must foster sustainable, democratic, and balanced development. Increasing the volume of trade and investment flows between the United States and Africa is not a goal in and of itself, but simply a means to improving the lives of ordinary Africans and laying the groundwork for a healthy, reciprocal social, political, and economic relationship. The AFL CIO believes H.R. 1432 reflects the wrong priorities and lays a poor foundation for African development and a long-term relationship between the United States and Africa. We therefore oppose H.R. 1432. We seek the opportunity to work with Congress to create a bill that will respect the rights and futures of African and U.S. workers.

STATEMENT OF AMBASSADOR CHARLENE BARSHEFSKY

Mr. Chairman, Members of the Finance Committee, on behalf of the Administration, I applaud your leadership in holding this hearing on the African Growth and Opportunity Act.

We see African trade and investment as one of the world's great emerging economic opportunities. We also see a danger that the United States will be left behind. Passage of the African Growth and Opportunity Act will help to ensure that does not happen.

THE AFRICAN ECONOMIC CONTEXT

Let me begin with some context. Sub-Saharan Africa includes 48 nations with a total population of over 660 million people. And after a long period of stagnation, its economies have begun to grow.

Between 1995 and 1997, real GDP growth in sub-Saharan Africa averaged four percent per year, more than double the rate it achieved during 1990–94. A few countries—Botswana, Mauritius, and Uganda—have achieved high rates of growth for many years. But they are now being joined by others, as, for example, Malawi, and Lesotho have posted double-digit growth rates. At the same time, inflation rates have generally dropped. And the number of African countries with negative growth declined from 17 countries in 1992, to four in 1996, and just two last year.

These better economic prospects are the result of widespread reforms. Most African countries became independent during the 1960s and 1970s. This was a period in which many developing countries had viewed the state and import substitution policies as the best tools for growth. This faith was misplaced, and African citizens have paid a high price for it.

In this decade, however, more than 30 sub-Saharan African countries instituted economic reform programs. These include liberalizing trade and investment regimes, rationalizing tariffs and exchange rates, ending subsidies, and reducing barriers to private sector development. Sub-Saharan Africa also has over 15 stock markets. Government spending as a percentage of GDP in sub-Saharan Africa has dropped. And in many countries these reforms have extended into the political system—today, more than 20 sub-Saharan African countries have held free and fair elections, compared to fewer than five only ten years ago.

Finally, these reforms have also extended into trade policy. Forty of sub-Saharan Africa's forty-eight countries have joined the WTO, indicative of their desire to end the region's marginalization in the global economy.

OPPORTUNITY FOR THE UNITED STATES

These developments offer the United States a remarkable opportunity to usher in a new era of economic cooperation with Africa based on common values, interests and goals.

Our trade with Africa is already considerable. In 1997, we exported over $6 billion of goods to sub-Saharan Africa, supporting some 100,000 jobs in the United States. To put this in context, $6 billion is more than our exports to Russia and the former Soviet countries combined; and in per capita terms, our exports to Africa are about equal to our exports to the People's Republic of China outside Hong Kong.

Investment statistics are even more remarkable. The average annual return on U.S. direct investment in sub-Saharan Africa is more than 30%—compared to 17% in Asia and less in Europe.

The future offers us some remarkable opportunities. African countries will require a great deal of capital investment in areas from telecommunications to aircraft to information technologies. Uganda, for example, has only 50,000 telephones for a population of 20 million. South Africa could be a major purchaser of civil aircraft in the coming years. And African countries were among the strongest supporters of our proposal to introduce satellite phone services with global coverage, seeing it as a way to improve their infrastructure rapidly.

In all these areas, America leads the world. And Africans are interested and excited about trade and investment relations with the United States. We need only look at President Clinton's visit to Africa last month, when 500,000 Ghanaians turned out to see the President and First Lady; and at the follow-up, as the Ghanaian government has appointed a top-level team to oversee projects from traditional industrial partnerships like the Tano River Power Barge project—which may mean over $300 million in American sales.

DANGER OF LOSING OUT

And yet even as we see a bright future in Africa, we also see a risk that the United States will be left behind.

Despite the fact that we are the world's largest exporter, the United States now ranks only third among industrial country exporters to sub-Saharan Africa. And that understates the reality. Our share of the African export market is only 7.1 percent—less than a quarter of the European Union's 30%.

This gap could widen further. European exporters have the benefit of strong historical ties to Africa. And without an activist American trade policy, their initial advantage may be strengthened by preferential programs and new policy efforts like the potential for a proposed EU-South Africa Free Trade Agreement.

In 1994, Congress took the initiative of requiring a full-scale review of our African trade policies. The Finance Committee was instrumental in this, and I believe our Africa trade policy has benefited as a result.

RESULTS OF AFRICA TRADE POLICY REVIEWS

Our policy review identified three types of problems.

First, policies followed by African governments. Sub-Saharan African tariff rates, for example, average 28%—the highest of any region in the world. And many African countries have not made binding tariff commitments in the WTO that would ensure confidence and predictability.

Second, basic economic factors that impede the growth of African economies and hence of American trade with Africa. To substantially improve living standards, sub-Saharan Africa will need to achieve an economic growth rate of 6% per year, requiring that the region attract at least $100 billion in investment every year. Bilateral and multilateral assistance, though important, cannot provide this scale of capital flow. Only the private sector and foreign investors can do so. Yet in 1996, sub-Saharan Africa managed to attract only about 2.7 percent of all foreign direct investment flows to developing economies. But to become a more attractive investment site, African countries need to continue and deepen reform.

Third, historically inadequate attention in our own government to Africa's trade potential. American policymakers tended to see African countries as recipients of foreign aid rather than as trade partners. In February, I created within USTR an Office of African Affairs, which underscores the resolve of this Administration to establish a partnership with sub-Saharan Africa that includes cooperation on trade and broader economic issues. This is one small illustration of a phenomenon President Clinton pointed out in his address to the South African Parliament last March—for many years we asked:

> "what can we do for Africa, or whatever can we do about Africa. Those were the wrong questions. The right question today is, what can we do with Africa?"

US POLICY REFORMS

Thus, the reforms we need are clear. We need to improve our own government's institutional capacity to lower trade barriers and promote exports to Africa; and provide incentives for further reforms which will promote growth and private sector-led development in Africa.

Some of this can be done through administrative decisions rather than changes in the law. In addition to the administrative discretion that I have used to create an Office of African Affairs, headed by a newly created Assistant USTR for Africa, the Overseas Private Investment Corporation and EXIMBANK have also designated senior advisors on Africa to facilitate growth and a greater U.S. economic presence in this challenging, but emerging and promising region of the world.

PRESIDENT CLINTON'S PARTNERSHIP INITIATIVE

Last June President Clinton announced a new Partnership for Economic Growth and Opportunity in Africa. The African Growth and Opportunity Act and The President's Partnership Initiative are complementary. Expanded U.S. market access, debt relief, technical assistance, promotion of regional integration and investment support are key components of the President's Partnership Initiative. In addition to support for expanded market access for least-developed sub-Saharan African countries through the GSP Program, the Partnership Initiative includes debt relief for reforming African countries. President Clinton's 1999 budget request includes an additional $35 million to extinguish approximately $325 million in bilateral concessional debt for sub-Saharan Africa's most aggressive reformers. This budget request also includes $30 million in technical assistance in support of economic and trade reform.

To advance sub-Saharan Africa's regional integration, the Partnership Initiative grants the benefit of GSP rule of origin cumulation to regional groupings of sub-Saharan African countries that are making meaningful efforts to integrate their economies. In support of increased investment in Africa, the Overseas Private Investment Corporation (OPIC) has launched $270 million in investment and equity funds for sub-Saharan Africa. OPIC is currently seeking investors to establish and manage an infrastructure fund that could be capitalized up to $500 million. Both the equity and infrastructure funds are cited in the African Growth and Opportunity Act. Under the Partnership Initiative, the Administration will continue to lead efforts to provide enhanced debt relief and technical support for sub-Saharan Africa through the international financial institutions. Increased dialogue with Africa is also a centerpiece of the President's Partnership Initiative. During the historic trip to the continent by the President, he announced that the United States will host the first annual ministerial-level U.S.—Africa Economic Forum.

THE AFRICAN GROWTH AND OPPORTUNITY ACT OF 1998

But the most important parts of our agenda—those which mean the most direct benefit to both Americans and to Africans, require legislative changes. And that brings us to the bill we are discussing today: the African Growth and Opportunity Act.

It is based on the principle of mutual benefit. As African countries reform and open their markets to our goods and services, we will offer them incentives and assistance that will help them grow. These provisions will support the efforts of African countries that have chosen to implement the necessary reforms to attract investment and improve their people's lives. The result will be trade, jobs, and economic opportunity for Americans and for Africans as well.

Specifically, the bill includes the following:

- It establishes, as U.S. policy, support for economic self-reliance in sub-Saharan Africa.
- It calls on the President to develop a plan for eventual trade agreements with sub-Saharan African countries.
- It provides enhanced market access for sub-Saharan countries pursuing reforms by authorizing the President to grant duty-free treatment for certain products from the region that are currently excluded from the Generalized System of Preferences (GSP) Program. The bill extends GSP for qualifying sub-Saharan African countries for ten years. The bill also eliminates quotas on textile and apparel exports from Kenya and Mauritius after these countries adopt effective visa systems to prevent illegal transhipment of these goods.
- The bill institutes an annual U.S. policy dialogue with sub-Saharan Africa through the creation of a US-Africa Economic Forum. The Forum will facilitate U.S. trade and investment discussions at the cabinet level with African trade and finance Ministers.
- The bill calls for the Overseas Private Investment Corporation to create a $150 million (dollar) equity fund and a $500 million (dollar) infrastructure fund for Africa. Both funds shall pay special attention to women entrepreneurs and investments that maximize employment for women and the poor.

SUPPORT FOR AFRICA LEGISLATION

This approach is tested and proven by time. Trade and investment-centered economic development helped to re-build Europe after World War II and helped Asia achieve impressive growth rates for decades. Latin American economies are now embarking on a similar path. And the African Growth and Opportunity Act will help African nations join with Asian and Latin American countries on the path to growth.

Thus, the bill has broad and diverse support in both the U.S. and Africa. In Africa, the Organization for African Unity (OAU), the Common Market for Eastern and Southern Africa, the African Business Roundtable and virtually all the governments in sub-Saharan African have conveyed strong support for the bill. In the United States, a broad coalition of business and NGO leaders, the U.S. Conference of Mayors and the National Conference of Black Mayors are among many American supporters of the African Growth and Opportunity Act. The House has already acted on the bill, and we urge the Senate expeditiously to pass this important initiative as well.

CONCLUSION

In conclusion, Mr. Chairman, we are at a critical moment in Africa's history. Progress in Africa is clear, but fragile. The economies of sub-Saharan Africa are

largely fragmented and weak. The costs of transportation, taxes, and tariffs are high. Africa's poverty rates are the world's highest. Literacy rates, life expectancy and infant mortality rates show that sub-Saharan Africa remains a continent at risk.

Yet this is also a moment of opportunity. Across a region of 600 million people, governments are taking a new look at old policies. They have much more work ahead—whether with respect to accelerating progress toward meaningful binding obligations in the WTO, removing trade barriers and reforming their domestic economies.

President Clinton and this Administration, however, believe in the possibility and promise of Africa. That is because we have seen first-hand the economic promise Africa offers and the enthusiasm of Africans for a closer economic relationship with the United States. The Ghanaian Independent writes, for example, that:

> "March 23, 1998 is an unforgettable day in Ghana's history. Many years from today, the schoolchildren who lined the streets will tell their children and grandchildren that they saw this great American President on that day."

Substantively and symbolically, the African Growth and Opportunity Act affirms to the world that the United States stands with these schoolchildren. And it also shows that we will not cede one of the world's great emerging markets to others. We look forward to working with the Committee to pass this legislation, and open a new era in our relationship with Africa

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STATEMENT OF CARGILL, INCORPORATED

[SUBMITTED BY ERNEST M. MICEK, CHAIRMAN AND CEO]

Mister Chairman, Members of the Committee. I am pleased to submit this written testimony to discuss economic opportunities and development in Africa.

My name is Ernest Micek, Chairman and Chief Executive Officer of Cargill, Incorporated. Cargill is a privately-held agribusiness company founded over 130 years ago in Iowa. Today, Cargill is headquartered in Minneapolis, Minnesota, and is involved in marketing, processing and distributing commodities, with some 79,000 employees in 72 countries. Cargill is no stranger to the developing world, nor to Africa. We believe the legislative initiative you are considering today is needed to accelerate economic and political development in sub-Saharan Africa.

Cargill has been a trading partner with African countries for many years, and also has been part of African development through our subsidiary, Cargill Technical Services (CTS). We have been active "on the ground" within Africa since 1981. Our current businesses in Africa include processing and trading cotton, coffee, cocoa, oilseeds and rice; development and marketing of hybrid maize, sunflower, sorghum and soybeans; sugar and grain trading; and the rural development work of CTS. We now have offices and facilities in ten African sub-Saharan countries, with annual sales of $220 million from our asset-based businesses trading within Africa, and total trade (inside and through exports and imports) of $1.3 billion. In these eight countries, Cargill has a full-time workforce of about 1250, and we employ another 1300 seasonal workers.

Our experience in Africa convinces us that sustainable development must begin with agriculture. Agriculture is the foundation stone for every African economy. Unlocking Africa's latent agricultural productivity is the best way to begin self-sustaining, broad-based development. Let me illustrate how that happens by describing how we have invested in Africa.

Our first efforts often are at the most basic level: providing seed that makes local agriculture more productive. Through the use of expertise already existing within the company, as well as through seed testing and research conducted in Africa to meet local conditions, we help the farmer learn how to use these products to improve yields and to plant and harvest more efficiently. These are fundamental building blocks needed to begin the creation of an economy.

At the next level, we provide the farmer with a way to market those products. In some cases, such as coffee, cocoa or cotton, where Africa has a comparative advantage to other parts of the world, that market may be the export market. In others, we may be able to help create a local or regional market.

Let me give a couple examples.

The first is from Malawi. In the early 1990's the U.S. government worked with the Malawi government to encourage the sale of the government-owned oil processing businesses. Cargill purchased a share in the country's oilseed crushing and refining and rice milling business, NOIL. Under its former state ownership, the business experienced regular annual losses in excess of $1 million. This loss was paid

for by the Malawi taxpayers. Through the incorporation of technology developed in our other operations, we revamped the crushing process, upgraded the refining and milling processes and expanded the local market for oil and rice. In fact, Malawi has begun exporting rice to some of its neighbors, laying the foundation for a regional trading system. The business is now making a profit and paying corporation taxes to the government—a net turnaround for the Malawi treasury of $1—1.5 million. And, with Cargill's practice of reinvesting most of its earnings inside the country, Malawi is benefiting from increased local cash flow and spending power, as well as from the investment.

In South Africa, the new post-apartheid government has taken steps to adopt policies supportive of open markets and economic development. We have seen changes in the marketing of maize, one of the country's most important agricultural products.

Previously, the government-owned and -run maize marketing boards were intended to "assure food security." In fact, what they did was prevent the development of a functioning market system. Prices were fixed by the boards, without reference to the demands of the market, so farmers planted what the boards would pay for, and not what the market wanted. For example, in many years the board supported the production of yellow maize, despite a strong demand for white maize.

The new government did not want to support the old system that was seen, more than anything, as protection for the white commercial farmers. It wanted to build a system that would be responsive to the market, make food more cheaply available to all their consumers and take advantage of the unique strengths of South African agriculture. The Ministry of Agriculture worked with the partnership I have described above. The ministry brought together agribusiness companies with agronomic experts and South African farmers and built a new, stronger and more transparent system.

They began by removing price controls from the domestic market, though they did not immediately disband the boards. This slow and cautious approach allowed all parts of the economy to adjust to the change, and protected the farmers' planting decisions for the short term. As a first step, internal prices were allowed to be established by the rules of supply and demand, rather than by artificial restrictions of a government-run board. Slowly, they opened the export market, and for a period, the commodity traders competed in the export markets side-by-side with the state-ran boards. Gradually, traders were allowed to take price risk, then price supports were removed, and exports were allowed to freely respond to and compete in the international market.

A small futures exchange was created for white and yellow maize, so that prices in those commodities were more transparent to the market. The government set up a grain information service, so that farmers could learn how to make informed planting choices and compete in the free market, rather than being dictated to by the boards. Exports and imports both moved freely into and out of the country.

White maize prices rose 150 percent, driven by predictions of the impact of El Nino, stimulating farmers to continue planting white maize, and leaving the yellow maize to be imported. South African farmers are able to capitalize on the market demand for white maize and find it more cost effective and better for the economy to import yellow maize when there is a shortage.

In South Africa, Cargill has assisted and participated in this change. In addition to participating in the shift to the more open and transparent demand driven marketing system, we have two seed research and development programs in place—one in South Africa and one in Zimbabwe. These programs incorporate Cargill's worldwide technology in breeding methods and germ plasm to improve yields, disease resistance and stress tolerance. On the production side of the seed business, we have provided 200 person years of employment. We are taking hybrid seed technology to emerging farmers and teaching them new and better agronomic practices.

We believe that situations like these from Malawi and South Africa are good examples of our company living its vision statement: "to raise standards of living around the world by delivering increased value to producers and consumers." We increased output of a crop already established there; added value to that production through our ginning, trading and processing businesses, creating jobs and income; and we transferred knowledge local farmers could use for more sound husbandry of the local natural resource base.

In other parts of Africa, Cargill has been ginning and trading cotton in Tanzania and Zimbabwe (where we are contributing strength to the local economies by employing women in the gins). We have been exporting cocoa beans from Nigeria, the Cameroon, Ghana and the Ivory Coast for several years. We are working towards establishing a cocoa processing operation in the Ivory Coast to add value to the beans within the country before they are exported.

As successful as these modest efforts may be, the development needs in Africa cannot be met by the private sector alone.

Nor can they be met by the aid community alone. PVO's can help to initiate development efforts and spread their benefits, but sustainable growth requires well-functioning markets and entrepreneurial opportunities. Governments' role is to create an environment, infrastructure and socio-political stability that promote development, reform and growth in their countries. They do need help and support. The challenges of sub-Saharan Africa, particularly debt burdens, population growth, under employment, poverty and disease, would confound any government operating in the best of circumstances.

What Africa needs, and what the proposed African Growth and Opportunity Act begins to offer, is a partnership. Each participant in the effort—working with its unique skills, resources and abilities—can contribute to the solution.

Let me briefly describe how the members of that partnership, working together through various stages of development, can raise standards of living in Africa.

People living in poverty have little margin for error in feeding themselves. Crop fluctuations or other natural disasters create risks of severe hunger. Those risks usually can be overcome through trade or relief efforts. What can compound shortages and imperil relief from imports is civil strife. When civil order fails, risks of famine increase and assistance efforts are imperiled. Consequently, maintaining civil order and building political legitimacy are critical responsibilities of governments and the institutions that seek to help them. Indeed, order and legitimacy are necessary preconditions for effective assistance.

Beyond the point of crisis, NGO's, working with the World Bank and through development banks, can help. Cargill Technical Services, which often partners with aid institutions, has provided technical assistance in helping farmers to improve. This has ranged from help and advice on research into better seed varieties to development of better storage facilities (African farmers may lose up to 40% of their harvested crop to insects, rodents and weather damage) to the development of village-sized hand-operated oilseed presses to allow farmers to produce edible oil for their own needs.

U.S. and international research institutions provide help over longer time lines by adapting technologies to local needs, supporting indigenous research and extension services and building up local agricultural support institutions.

While the improvements realized through these efforts are necessary, they are not sufficient to start self-sustaining growth. They are not enough to break out of a subsistence economy to a dynamic growing economy.

To make this next step requires real collaboration among local governments, multilateral development banks and agribusiness. In some respects, the answer for the next level of development lies in a phrase made famous in the movies: "If you build it, they will come."

Investors choose countries with at least the basic infrastructure, as well as stable political and economic environments, needed to earn decent returns. For a country to be attractive to agribusiness does not require *huge* asset investment, but it does require *some* investment. In countries like Malawi, to use my earlier example, investors in agribusiness development do need specific infrastructure: transportation and energy.

To achieve stable political and economic environments, the role of the local governments becomes critical. Their efforts can be well supported through the World Bank and the MDBs, and the provisions in the legislation for continual consultation on policies is a critical part of that support. But no one outside of the country can make this next step happen. The governments locally must establish:

- responsible, fair and transparent trade, fiscal and monetary policies;
- properly valued exchange rates;
- a legal system based on the rule of law, not the rule of individuals;
- laws that are enforced against bribery and corruption;
- secure rights of property ownership;
- a reliable and enforceable law of contracts and a fair, transparent dispute resolution system;
- credit policies focused on the farm sector; and,
- a movement toward democracy, civil development and greater individual freedoms.

Where these conditions (or, at least most of them) exist, private enterprise, and especially agribusiness, can help take the development process to the next level. We become the pathway through which needs can be met—both within Africa and in the parts of the world that are markets for African products. Agribusiness uses the global market to match the needs of the rest of the world with the capabilities of Africa. When the countries of Africa are meeting needs beyond their borders and

are meeting the needs of their people beyond mere survival or subsistence, indigenous wealth is generated.

As economies are strengthened and local and regional prosperity grows, the Africans themselves have increased capacity to purchase. They seek improvements in their diets and in the way they live, creating a market for imported food, clothing and consumer goods. They also become a market for capital goods, technology, and further investment. The African countries can and, if we all contribute to the effort, will become a larger market for those goods reflecting the United States' comparative advantages.

Eventually, these countries will join, in real economic, social and political terms, the international marketplace, realizing food and economic security, Once that position is achieved, internal threats to peace subside and openness to international intercourse increases.

This upward spiral requires each partner in the development process to play its role well. The African governments, the foreign governments (like the United States), the aid community, the multilateral development banks, universities and research organizations and private enterprise—each must contribute what we are most capable of doing, for the benefit of the people of Africa and the people of the United States.

Statement of Cheraw Yarn Mills, Inc.

[SUBMITTED BY FRED C. CRAFT]

I am writing on behalf of the 265 employees of Cheraw Yarn Mills, Inc.—a small spinner of 100% cotton, cotton/polyester blend and 100% acrylic yarns. Our customers are located in more than 25 states, Canada, Mexico, Latin American, and Japan with occasional shipments to other foreign countries.

We are located in a small (population 6,000), rural town in the Pee Dee Section of South Carolina and have been in the business for over 80 years. We are the oldest, continuously operating manufacturing firm in Chesterfield County and a brief synopsis of our company is shown below:

Cheraw Yarn Mills, Inc.

Establish: 1917
Employment: 265 Employees
Product: Sales Yarn
Capacity: 1,000,000 lbs./week
Products: 100% Cotton (OE); 50/50 Poly/Cotton (OE); 60/40 Cotton/Poly (OE); 100% Acrylic (Ring)
Operational Strategy: High Involvement Teams
Priority: Safety Wellness
Capital Investment: $40,000,000 in Last 4 Years
Educational Commitment: $1,000 per Employee/Year
Recent Distinction: ISO 9002 Certified

However, "The Africa Growth and Opportunity Act", (H.R. 1432/S. 778) if passed in its present form *threatens our existence.* We urge the Senate Finance Committee to *vote against* the bill for the following reasons:

1. After NAFTA's passage in 1994, the U.S. textile industry agreed to give up all quotas under the Multifiber Agreement in return for a 10-year transition period (the year 2005). S–778 (the Africa or Sub-Saharan bill) now violates the clear understanding that our government made with the U.S. textile industry in 1994 that *no further liberalization of foreign access to our markets would occur in the interim.* This is like kicking a man while he's already down.

Now with S–778, the Congress and Administration is unilaterally granting greater non-reciprocal access to our market and is making a mockery of the Geneva Agreement. Additionally, the bill would grant non-World Trade Organizations (WTO) countries in Africa *more favorable trade treatment than is accorded to WTO members.* This could lead to similar concessions or demands by any or all members of the WTO.

H.R. 1432/S. 778 would grant textile and apparel exports from the 48 nations of Sub-Saharan Africa duty-free and quota-free access to the U.S. market. At the same time, these 48 countries would not have to open their markets to our exports in any way. A dangerous free trade precedent (no quota, no duty) would be created and this one-sided trade bill would be extremely damaging to Cheraw Yarn Mills and other U.S. producers of yarns, fabrics, home furnishings, apparel, and other textile products and our employees and their livelihood.

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2. If the United States wants to help people in another country, we should not do so at the expense of American jobs. The ever-increasing flood of textile and apparel imports from foreign countries—and more importantly, the slowdown of U.S. exports—will only *hasten the shift of technology and production jobs from the United States to overseas markets* and erode the paychecks of thousands of workers across the country.

The bill will open a major avenue for China, India, Pakistan and others to illegally ship textiles and apparel through the Sub-Saharan because of the lack of any effective customs service enforcement provisions provided for in other trade agreements. The proposed bill does not contain a rule-of-origin provision requiring that the fiber, yarn, or fabric contained in the garment shipped from Africa be either from the U.S. or the 48 Sub-Saharan countries. This would allow shipment of such components from any low-wage nation with quotas to Africa for final assembly into garments. For example, a shirt sewn in China, except for the side seams, could be completed in Africa and still legally qualify as being "made" in that African country, even though the yarn, the fabric, and the cut pieces were made in China. *This is simply not fair*—this is a bad bill and will result in a flood of imports through Africa from Asia which will cost American production and jobs.

Our foreign trade policy should be geared toward improving the economic competitiveness of American businesses engaged in world commerce. Given the opportunity to compete on a level playing field, American industries can achieve substantial economic success in international markets, and this can result in jobs and opportunities for millions of Americans. However, if unlimited textile products can be imported from these low-cost countries, where there are virtually no government wage, hour, safety, or environmental requirements, they will unfairly compete with American-made goods. Retail stores like Wal-Mart will stock these cheaper, foreign products and make a higher profit, but shoppers will pay the same price and *American jobs will be lost.*

3. This bill is not likely to lead to meaningful economic development in Africa. The backers of this legislation claim that it will help the people of Africa but the few African "jobs" created for transshipment purposes will be at the expense of tens of thousands U.S. production jobs.

New policies are clearly needed to encourage democracy and economic development in Africa. However, this bill will not achieve these goals. These poor African nations are unlikely to see many of the presumed employment benefits. Although transshipments are supposedly prohibited by the bill, there is no funding for meaningful monitoring and enforcement. The bill does not prevent the establishment of "production colonies"—i.e., movement of Asian, Indian, or Pakistani labor to Africa. Today, 5,000 *non-resident* apparel workers from China and other countries are employed in Mauritius, one of the two African countries with a current quota. Also, there have also been massive increases in exports to the U.S. of apparel made with imported labor from the Northern Mariana islands under similar duty-free and tariff-free rules. U.S. imports from the Northern Marianas alone totaled $800 million in 1997. This type of "economic development" is done at the expense of American workers.

4. Others who have examined the Africa bill have concluded that it reports the misguided lose-lose rather than win-win approach to the new global economy. These include the U.S. Association of Concerned African Scholars, TransAfrica and its president, Randall Robinson, consumer advocate Ralph Nader, and a host of U.S. and African labor, environmental, and human rights groups.

Perhaps most important, the bill was rejected by Nelson Mandela, who told President Clinton during his recent African visit, "To us, this (Africa bill) is not acceptable". There is growing opposition from the members of the Congressional Black Caucus who fear that Africans will be exploited. Although the Caucus has not taken an official position on the bill, *a real fear* is that it will open the floodgates of supposedly African imports that will threaten the jobs in the United States that are filled by black Americans.

5. Lastly and perhaps most importantly, American workers will see their jobs and wages negatively affected by the bill's failure to prohibit sweatshops, and child or prison labor as a precondition for Sub-Saharan countries to gain eligibility for this expanded trade. In addition, *the bill deliberately increases the flow of low-wage textile and apparel imports* at a time when such imports are expected to rise substantially as an aftermath of the current crisis in Asia. The net effect will be further U.S. job loss and disruption of family and community life in areas dependent on textile and apparel employment.

U.S. textile and apparel employment declined from a peak of about 2.4 million in 1973 to 1.4 million in 1997. Between 1994 and 1997, textiles and apparel lost

229,000 jobs. Women and minorities were disproportionately affected: Women held 60% of the jobs, blacks 19%, and Hispanics 17% in 1995.

Six of the top 10 states in textile and apparel employment are in the South (North Carolina, Georgia, South Carolina, Alabama, Virginia, and Tennessee) where small towns play a predominant role in state and local economies. Small towns in the South like Cheraw will be particularly hard hit by the destruction of jobs in the textile and apparel industries—more welfare, more homeless, and dependence upon the government "dole". The loss of such plants as ours *threatens the economic base in hundreds of small communities,* as well as the jobs and lives of cotton growers, retail merchants, teachers, and numerous government employees whose communities or agencies depend upon these industries for the spending and tax base they provide.

Please, please help us—help America, and *vote against this bill!* Thank you.

STATEMENT OF CHEVRON CORPORATION

[SUBMITTED BY KENNETH T. DERR, CHAIRMAN OF THE BOARD]

Mr. Chairman and members of the Senate Finance Committee, thank you for the opportunity to submit my testimony to this Honorable Committee for inclusion in the Committee's official record. Thank you for your leadership, as well as that of the other members of your committee, for convening this hearing today on the African Growth and Opportunity Act. We at Chevron support this legislation and are encouraged by the prospects of its passage this year. We have been working with the African Diplomatic Community and the African Growth and Opportunity Act Coalition, Inc, of which we are a founding member, for passage this year of this very important and valuable legislation.

For too long, sub-Saharan Africa has been ignored by U.S. economic policy and has not been recognized as a valuable and equal trading partner with the United States. Although this legislation will not change the impact of U.S. economic policy overnight, it does establish a starting point for the U.S. Government and business community to view Africa as a viable trading partner in the global economy. More importantly, the African Growth and Opportunity Act will begin to develop a new paradigm toward Africa. The impact of this new perception could have more economic benefit for Africa and the U.S. than any trade bill could ever hope to accomplish.

Chevron has a long and good relationship with our partners in Africa. Our operations in Africa date back to the 1930's. We are the largest U.S. based investor in several of the continent's nations, including Angola, the Republic of Congo, and through the company's 50 percent ownership in Caltex, South Africa. In the last four years, Chevron has invested more than $7 billion in the countries where we operate. We intend to invest more than $10 billion in Africa over the next five years. Although these figures represent significant investments, sadly, only a handful of U.S. based companies are investing sums of this magnitude. We at Chevron believe, however, that the African Growth and Opportunity Act will serve as a catalyst for fostering additional investment and commitment from other U.S. companies who in the past may have been hesitant about doing business in sub-Saharan Africa.

Fostering such investment and economic development is the quickest and perhaps most sustainable way for Africa nations to improve their health, education and social infrastructure. It is a proven fact that when a nation has a good health and education system, and the economics are relatively stable, the country is politically stable, which translates into smoother business operations. A stable and peaceful country is one element that will attract additional investment, thereby furthering the promotion of sustainable economic, and social development. In all of the countries where Chevron operates, we have been engaged in developing various sectors of the country outside of the oil industry. We have helped build schools, train workers, and establish medical clinics. We are part of this great continent and we plan to stay. It is, however, to our advantage, to other potential U.S. businesses, and to the Africans themselves, that those African nations such as Uganda, Ghana, Zimbabwe, Botswana, and many others that have transitioned into productive, democratic and market oriented economies, continue to do so. The language in the African Growth and Opportunity Act establishes certain mechanisms for encouraging and hopefully sustaining the progress these countries have made. The investment funds to be managed by the Overseas Private Investment Corporation, and the new initiatives launched by the U.S. Export-Import Bank are good starting points to assisting U.S. businesses in further establishing presence in Africa. The extension

of the Generalized System of Preferences and Free Trading Zones will also provide many African products an opportunity to compete in the global economy.

The African Growth and Opportunity Act will provide a great potential for partnerships between African and American business. Such partnerships will encourage new economic ties between the U.S. and Africa, boosting new investment in Africa. encouraging U.S. exports, and lead to creating and sustaining jobs in both the U.S. and Africa.

I am pleased that Chevron has played and will continue to play a significant role in the growth of Africa, specifically in those countries where we operate. Many African countries are seeing significant gross domestic product growth rates of 5%–9%. Worldwide the average GDP is 2%–3%. I believe that with sub-Saharan Africa's vast resources, the commitments many of their governments are making toward political, economic and social reforms, coupled with U.S. investment in the manufacturing, telecommunications, transportation, health and natural resources sectors, sub-Saharan Africa will experience growth rates never thought possible. U.S. investors willing to take the risks in Africa today will be the biggest winners tomorrow.

Chevron believes that a diversified business sector and free enterprise produce much greater and longer lasting contributions to a society than large public projects. True prosperity comes from investment and trade, and not just development assistance. Improvements in technology and managerial skills can speed the arrival of that prosperity. Mr. Chairman, we at Chevron believe that the African Growth and Opportunity Act is the model for creating change in Africa by encouraging investment. The African governments and businesses are for this legislation as well as the U.S. business community. This legislation is a win-win for all of those involved. Any delay in passage of this legislation this year will send the wrong message to the U.S. business community and to Africa. Africa is open for business, and we are in the business of business.

Mr. Chairman, Chevron will continue to work with you and your Committee to ensure passage of this important and historic legislation this year. Thank you again for holding this hearing and allowing me to submit this statement on behalf of Chevron.

Thank you.

STATEMENT OF CITIBANK

[SUBMITTED BY WILLIAM R. RHODES, VICE CHAIRMAN]

Mr. Chairman, members of the Committee on Finance, my name is William R. Rhodes and I serve as Vice Chairman of Citibank. Thank you for giving me the opportunity to present Citibank's position on H.R. 1432, the African Growth and Opportunity Act.

Citibank is the second largest bank in the United States and the world's largest issuer of credit cards. With 3,400 locations in 100 countries and territories, Citibank is a truly global provider of financial services. We maintain major commercial banking, corporate finance and trading operations worldwide. We also provide world-class consumer banking, offering customers savings, and financing services around the globe.

We have been active in sub-Saharan Africa since 1958. Currently, we operate in 14 countries in the region. Citibank has invested heavily in Africa, and we look forward to continuing this trend with new operations in Cameroon and Uganda by the end of this year. Our operations in the region are focused on serving the needs of our customer base which includes subsidiaries and branches of multinational corporations, local and state-owned corporations and local financial institutions. We are also a major provider of financial services to aid and non-government organizations present in the region, facilitating the flow of funds and humanitarian aid to the destined countries. We add value to the markets in which we operate through employment opportunities, technology transfer, product innovation and the highest standards of customer service.

Citibank has long been a proponent of fair and unhampered trade around the globe. Lowering barriers to trade and investment opens opportunities for Citibank and other U.S. companies to expand operations around the world, which increases earnings to our shareholders and creates new high-paying jobs both in the United States and in the countries in which we invest.

Africa has, for too long, been an afterthought for American companies planning their international strategies. As a result of years of rule by non-democratic governments which stifled free enterprise, sowed corruption and spread poverty throughout the continent, many U.S. firms simply wrote off Africa as a potential growth

market. Even today, American businessmen talk about expanding operations in Asia, Latin America and Eastern Europe, but too often they do not even consider Africa. This, despite the fact that Africa is home to nearly one-sixth of the world's population and represents one of the few remaining relatively-untapped developing markets on the globe.

Fortunately, in recent years, we have seen the emergence of a new generation of leaders in sub-Saharan Africa who understand the importance of a democratic system of government and a market economy and who are committed to integrating their countries into the world economy. Ghana, for example, has in the past few years, undertaken an aggressive privatization program and is working to attract foreign direct investment in an effort to improve its aging infrastructure. And of course, South Africa is a country whose people are together meeting a myriad of challenges and serving as an example for others to emulate.

Citibank and other United States firms have a strong interest in seeing the countries of sub-Saharan Africa succeed in their reform efforts to attract investment, and trade.

We also want to ensure that U.S. companies have the opportunity to benefit from the significant trade and investment opportunities that are likely to develop as Africans succeed in meeting the challenges of development. The infrastructure needs in the region are truly staggering. Billions of dollars must be committed to building roads, bridges, power plants, and telecommunications facilities. I want to see American firms designing those projects, providing the construction equipment, and installing the machinery and electronics; and I want Citibank and the rest of the American financial services industry to be financing them.

If we are to see that happen, it is important that the United States begin to take steps to encourage stronger commercial ties between companies in the United States and those in sub-Saharan Africa. For the first time in a decade, the U.S. Government has been taking strong steps toward that goal. In March, President Clinton became the first U.S. President in recent memory to travel to sub-Saharan Africa. His trip was quickly followed by a visit from Export-Import Bank Chairman James Harmon—the first visit to sub-Saharan Africa by an ExIm chairman. In July, Treasury Secretary Rubin will lead a delegation of financial services industry representatives, and Secretary Daley will follow in the Fall. Those kinds of visits are invaluable to American companies trying to increase their presence in overseas markets, and I hope we will see them continue.

The African Growth and Opportunity Act is another historic step in the effort to strengthen commercial ties between our countries. The bill is aimed at moving the relationship between the United States and sub-Saharan Africa from one of aid dependence to one based on enhanced commerce by providing commercial incentives to encourage bilateral trade. It would also raise the region's profile in the United States by creating a new U.S.-Africa Trade and Economic Forum to continue efforts to foster trade and investment. By broadening market access and spurring export growth, the bill would help the nations of sub-Saharan Africa to move forward with the economic reforms and economic development they have already undertaken.

The potential to create new, high-paying jobs in the construction, infrastructure, construction equipment and financial services industries in Africa is large. It would be a mistake to concede these new jobs to our competitors in other industrialized countries. Government leaders throughout the region are following the progress of this bill. They want to see if we follow up our words with action. Congressional approval of this legislation will demonstrate that the United States is committed to being a partner to the countries in the region and will help U.S. firms to gain a foothold in these important emerging markets.

Turning to the concerns that have been raised by some that increased investment by U.S. firms will somehow result in the exploitation of local workers, I would strongly disagree. In comparison to investors from other countries, U.S. companies are the employers of choice—providing better work conditions, high wages, and more attractive benefits. Contrary to the arguments of many interest groups here in Washington, the presence of U.S. companies in developing markets generally results in an improvement in overall conditions for workers in that market. I would simply note that the countries that are the target of this legislation very strongly support it and want to see it passed.

Mr. Chairman, most of the people of sub-Saharan Africa—despite the great strides being made there—continue to live in poverty. The African Growth and Opportunity Act is a mechanism that will allow us to extend a hand to the 48 countries in the region—to help them help themselves. And, by doing so, we are helping American companies and American workers to develop new markets and new jobs

here at home. It is a win-win situation for all involved. I strongly urge the Committee and the full Senate to approve this measure.

STATEMENT OF THE COCA-COLA COMPANY

[SUBMITTED BY CARL WARE, SENIOR VICE PRESIDENT AND PRESIDENT, AFRICA GROUP]

I appreciate the opportunity to share my thoughts with the committee as it considers S778, the African Growth and Opportunity Act.

We at The CocaCola Company support this legislation. While we do not foresee its provisions having a major impact upon our operations, this bill offers a productive approach for encouraging economic growth and stability in sub-Saharan Africa, which can only serve to benefit the United States as well.

In addition to its substantive legislative provisions, this measure is of vast symbolic importance: a new approach for a new Africa, seeking to treat the nations of sub-Saharan Africa not as needy benefactors of our nation's generosity, but as active trading partners in the world economy of the 21st Century.

In remarks earlier this year at the World Economic Forum, the chairman and CEO of The CocaCola Company, Doug Ivester, said, "The overriding principle of our strategy states that we believe in the future of Africa, and our strategies and investments will be guided by that belief."

As Africa is changing, it behooves nations and companies alike to change the way they perceive the continent, focusing not just on Africa's deficiencies, but on Africa's promise. The African Growth and Opportunity Act does just that, encouraging market-based economies and free trade to the benefit of African countries and their sister trading nations.

From our Company's experience, doing business in 50 nations in sub-Saharan Africa, we feel strongly that Africa's day has come. The United States has a great opportunity to support the growth and development of the nations of Africa in the context of a free-market economy. I was honored to witness our President's commitment to African economic development on his trip to the continent earlier this year. And one could scarcely miss the overwhelming response the President received; Africa's people are keen to be active partners in the international business community.

Our Company, which has done business in Africa for 70 years, has seen first-hand the progress Africa is making in the areas of free-market trade, democratization, intellectual property rights and policy reform. We have heard the willingness of many African governmental leaders to engage in honest, open dialogue concerning the need for effective judiciaries and the harmonizing of taxes and tariffs across national borders.

The truly historic legislation before this committee is born of the change sweeping across Africa today, placing the private sector solidly at the center of the continent's economic development agenda. Importantly, this bill seeks to promote sustainable growth through strengthening Africa's private sector—fostering economic reform, privatization programs and market-led economic development. Its provisions to help reduce tariff barriers, trade obstacles, excessive import and corporate taxes and double taxation should prove beneficial in this regard. And its proposals to strengthen the private sector, minimizing government intervention in the market and promoting a new generation of African entrepreneurs, are right in line with the emergence of Africa's small-business climate.

We at The CocaCola Company are aware of the benefits private-sector investment bring in sub-Saharan Africa, because we see them in our business every day. We are proud that CocaCola has been the basis for thousands and thousands of small, start-up businesses across Africa—kiosks, small shops, even push-carts. These merchants can soon graduate to larger stores, multiple locations and distributorships. (Africa's largest black-owned soft-drink bottler, Kunene Brothers Holdings, began as a small CocaCola distributorship outside Johannesburg.)

Today, some 700,000 Africans earn a living, in whole or in part, through the sale of CocaCola Company products; many thousands more, meanwhile, supply our Company, our bottling operations and our retailers with goods, materials and services.

And from our experience, we know that the provisions in this legislation, encouraging small businesses and entrepreneurship in Africa, can have a powerful impact. This bill's focus on increasing technical and managerial skills among sub-Saharan Africans should help create a brighter, more prosperous future for these workers, their families and their communities. In our business, our Project Kusile ("new dawn") has achieved great results through a similar effort in managerial and skills training, partnering talented young African businesspeople with experienced veterans from across the CocaCola system.

Our Company sees a tremendous future in sub-Saharan Africa. We sold more than half a billion cases of our products there last year, yet the average African resident stills drinks just 25 servings of our products annually—less than half the worldwide average, signaling great opportunity for growth. We are investing heavily and building our business there, confident in the long-term future of Africa.

The international business community seeks economic and political stability in Africa, free markets and democratic reforms, to benefit international trade and the nations of the region alike. As this bill fosters these aims, we support its passage.

We thank and commend this Congress for its attention to the growth, development and prosperity of sub-Saharan Africa, and we applaud those who aim to nurture Africa's burgeoning business and economic climate. We do business in Africa because it is good business, and we are confident that the United States will increasingly be welcomed by the nations of sub-Saharan Africa, who seek to be good business partners in the arena of international trade.

Statement of the Ferroalloy Association

On behalf of The Ferroalloy Association (TFA) and its members, we write in opposition to sections 9(b) and 9(c) of the African Growth and Opportunity Act and hereby request that our comments be included as part of the written record. The Ferroalloys Association supports the goal of S. 778 "to facilitate the social and economic development of the countries of sub-Saharan Africa in a manner which strengthens and expands market-led economic growth consistent with equitable and efficient development and which reduces poverty and increases employment among the poor." However, as mentioned above, there are two specific provisions within the Generalized System of Preferences (GSP) section of the bill that TFA opposes.

BACKGROUND ON THE FERROALLOYS ASSOCIATION

The Ferroalloys Association is an industry advocacy group made up of the producers of chromium, manganese, silicon, vanadium ferroalloys and related basic alloys/metals in the United States. Founded in 1971, TFA represents over 20 companies with facilities in 25 different states.

Approximately 100 years ago, the U.S. ferroalloy industry emerged with the introduction of the electric arc furnace. Soon thereafter, it expanded rapidly to meet the needs of the United States for projectiles and armor plates during the Spanish American War.

Ferroalloys are high strength metals created by submerged electric arc smelting, induction melting, alumino/silicothermic reduction processes, and vacuum reduction furnaces, as well as by electrolytic processes. More than fifty different alloys and metals in hundreds of compositions and sizes are produced by the ferroalloy industry for use in the manufacturing of batteries, stainless steel, iron, and aluminum. The industry also produces vital materials used in the production of chemicals, semi-conductors, solar cells, coatings, and catalysts.

In the 1970's and 80's, the U.S. ferroalloy industry declined sharply, largely due to foreign import penetration and rising environmental standards. From 1970 to 1990, the annual domestic production of alloys dramatically decreased from 2,340,000 to 645,000 net tons per year, while imports increased from 350,000 to 1,490,000 net tons per year. Foreign competitors flooded the U.S. market at significantly lower prices, resulting from foreign government subsidization of electricity costs, capital investments, transportation, and taxes. As a result, U.S. producers faced high operating costs and declining prices which forced them to reluctantly lay off workers and shut down plants at an alarming rate. These closings resulted in plants abandoning vital research and development programs in order to remain in business. Simultaneously, the U.S. government imposed strict environmental standards on metals producers, forcing companies to direct large amounts of capital to environmental control equipment.

Although American ferroalloy producers still suffer from *high levels of import penetration,* they are recovering and more able to compete in the global market. Improved federal government support, coupled with the industry's renewed commitment to quality and performance, will enable the domestic ferroalloy industry to reclaim its place in the world economy. The U.S. ferroalloy industry has resurfaced as a core of producers who are attempting to gather the resources and public policy support necessary to effectively compete in the fierce global market. Increased technological quality, along with stronger U.S. trade laws designed to challenge import penetration, enabled domestic producers to become more globally competitive, resulting in greater industry success.

RULE OF ORIGIN CHANGE COULD LEAD TO DUTY CIRCUMVENTION

First, TFA is concerned with the change in the rule of origin calculation for countries in sub-Saharan Africa as set out in Section 9(b) of the act. Decreasing the percentage value of an article from "processing operations performed" in the eligible countries will ultimately lead to a situation of duty circumvention. Other countries will run their products through sub-Saharan African nations, having only minor packaging changes actually take place there, in order to "originate" in those countries. This does a disservice both to the U.S. Treasury which will collect lower duties, and more importantly to the sub-Saharan African nations who do not get the advantage of increased higher paying jobs associated with more substantial processing. The only entity which benefits from this provision are the third-party countries which undertake duty circumvention.

WAIVER OF COMPETITIVE NEED LIMIT VIOLATES THE PURPOSE OF THE GSP PROGRAM

Second, TFA opposes the designation of all sub-Saharan Africa nations on par with Least Developed Beneficiary Developing Countries (LDBDCs) with the automatic waiver of the competitive need limit. Specifically, TFA opposes the inclusion of language in Section 9(c) of the act which violates two of the founding purposes of the GSP program. The GSP program was initially proposed to "promote the development of developing countries which often need temporary preferential advantage to compete effectively with industrialized countries." A permanent waiver of the competitive need limit violates the "temporary preferential advantage" purpose, and does not permit any inquiry into whether or not the nation can "compete effectively with industrialized countries" in that industry. TFA is not necessarily opposed to the idea of waivers of the competitive need limit. However, the GSP program already effectively deals with this issue by only allowing the waiver for properly designated LDBDCs. Thus, the decision as to whether or not a country is an LDBDC should decide whether or not a country can waive the limit. In fact, several sub-Saharan Africa nations are already considered LDBDCs. There is no need to give a blanket waiver to all sub-Saharan Africa nations.

CONCLUSION

In closing, TFA would like to make it clear that domestic industries other than ferroalloys will be harmed if this proposed legislation becomes law. Unfortunately, this bill has been portrayed as only a concern of the textile industry. Clearly, this is not the case. If the issues TFA outlined above are not addressed, this bill will have detrimental effects on the ferroalloy industry and many others. TFA strongly urges all Senators to look closely at the language contained in section 9 of the bill and oppose their inclusion. If sections 9(b) and 9(c) are not removed, TFA urges the defeat of this legislation.

STATEMENT OF THE FOOTWEAR INDUSTRIES OF AMERICA, INC.

I. INTRODUCTION AND STATEMENT OF POSITION

This statement is submitted on behalf of Footwear Industries of America, Inc. (FIA), a trade association representing domestic manufacturers and distributors of nonrubber footwear, and a substantial portion of their suppliers. The domestic nonrubber footwear industry encompasses men's, women's, children's, athletic, work, slippers, and other footwear. The industry is located in 38 states where it operates in over 350 footwear manufacturing establishments.

This statement responds to the Senate Finance Committee's request for input from interested parties regarding trade with Sub-Saharan Africa. In particular, FIA wishes to comment on H.R. 1432, the African Growth and Opportunity Act, which would eliminate the statutory exclusion of footwear from the Generalized System of Preferences (GSP) program for countries in Sub-Saharan Africa.

The domestic nonrubber footwear industry is opposed to the elimination of the exclusion of nonrubber footwear from coverage under the GSP for Sub-Saharan African countries. Tremendous import growth over the years has devastated this domestic industry and left it a shell of what it once was. Duty-free treatment for nonrubber footwear will stimulate rapid growth in imports from Sub-Saharan African countries which will erode further the fragile health of the remaining domestic producers. More factories will close and more workers will lose their jobs. Economic development in Africa should not come at the expense of U.S. industry, particularly one which has already suffered so much from imports.

II. THE NONRUBBER FOOTWEAR INDUSTRY IS EXTREMELY IMPORT-SENSITIVE

U.S. imports of nonrubber footwear have increased so rapidly over the past years as to capture almost the entire U.S. market. Imports of nonrubber footwear rose from 726 million pairs in 1984 to 1.1 billion pairs in 1996, and on a value basis grew from $4.7 billion to $10.5 billion. By 1996, imports accounted for 90.2 percent of the U.S. market. Less developed countries accounted for the vast majority of these imports.

The huge growth in imports has displaced domestic production and caused plant closings and layoffs. In the last three years alone 47 shoe factories have shut their doors. Most of these factories were located in small towns with limited employment opportunities for laid off shoe workers. The toll in lost jobs has been staggering as employment in the nonrubber footwear industry fell by 60 percent between 1984 and 1996, from 114,700 workers to only 46,100 workers.[1]

The U.S. Government has long recognized the products of the nonrubber footwear industry as import-sensitive:

—they are statutorily excluded from duty-free treatment under certain trade preference programs, including the Caribbean Basin Initiative, the Andean Trade Preference Act, and the Generalized System of Preferences;

—most categories of nonrubber footwear were exempted from duty cuts in the Tokyo and Uruguay Trade Rounds because injury due to imports had been found to exist; and

—they were deemed to be among the most sensitive U.S. products in the NAFTA tariff negotiations with Mexico, designated for stage C (i.e., ten-year phase out).

Further evidence of the injury suffered by the domestic industry is found in the numerous trade actions it has been forced to take over the years, including four Section 201 cases, a 301 case, and several countervailing duty cases.

The Government understood that less developed countries, eager to industrialize and with low paid work forces, posed a real threat to domestic producers. Today the plight of the domestic industry is even more precarious and the vulnerability to imports that much greater.

III. SUB-SAHARAN AFRICAN COUNTRIES HAVE THE POTENTIAL TO BECOME MAJOR SUPPLIERS TO THE UNITED STATES

Less developed countries regard the development of a footwear industry as an important first step along the road of industrialization. As shoe-making technology has spread throughout the world, these countries have built shoe factories and directed much of the production to the United States. New suppliers have emerged rapidly to compete with existing suppliers.

U.S. imports of nonrubber footwear illustrate this development. In 1984 Taiwan and Korea were the two largest suppliers of nonrubber footwear to the United States accounting for 59 percent of total imports. Imports from China of 12.7 million pairs accounted for less that 2 percent of imports. By 1996 China had become the largest supplier of nonrubber footwear to the United States (750.9 million pairs) accounting for 68 percent of total imports. Although Taiwan and Korea's share of total imports in 1996 fell to less than 3 percent, imports from the two countries were still large (27.9 million pairs valued at $341 million).

Sub-Saharan Africa has not yet become a major player in worldwide nonrubber footwear trade. But the building blocks of a formidable footwear industry—cheap labor, a desire to industrialize, and a rapidly developing leather industry—are in place. FIA notes in particular a major effort by international development organizations to help in the development of the African leather industry. These organizations, the International Trade Centre UNCTAD/WTO, the Food and Agricultural Organization of the United Nations, and the United Nations Industrial Development Organization, are undertaking major efforts to not only grow the African leather industry but also to help it expand into the production and exportation of leather-related goods including footwear. Materials documenting these efforts are provided for the Subcommittee's review.

Duty-free entry of nonrubber footwear from Sub-Saharan African countries will stimulate powerfully the production there of nonrubber footwear. And much of this production will make its way to the United States as African producers will enjoy

[1] Employment and Earnings, U.S. Department of Labor Bureau of Labor Statistics.

a significant competitive advantage over producers in other countries which must pay U.S. duties on these products.[2]

IV. CONCLUSION

The domestic nonrubber footwear industry has been wracked by imports. Footwear was excluded from coverage under the GSP in order to provide some protection for domestic producers. Eliminate this exclusion now and soon the domestic industry will have to contend with increased imports from yet another region of the world. Africa needs to grow and prosper. But this must not come at the expense of closed shoe factories and unemployed shoe workers. FIA requests that other means be found to stimulate development in Africa.

STATEMENT OF THE INTERNATIONAL HAND PROTECTION ASSOCIATION (IHPA)

The International Hand Protection Association (IHPA), representing glove manufacturers from across the nation, strongly urges the United States Senate to defeat pending Senate legislation that would permit duty-free imports into the U.S. of glove and glove products from foreign nations, particularly from Sub-Saharan African nations who would "transship" such products from Asian nations such as China. The IHPA makes this urgent appeal to the United States Senate on behalf of the many thousands of employees of the domestic glove manufacturing industry whose jobs would be lost if the pending Sub-Saharan African free trade legislation were enacted into law.

The IHPA, by unanimous approval of its Board of Directors, joins with other industry organizations such as the American Textile Manufacturers Institute and UNITE to voice our firm opposition to any legislation that would weaken the domestic glove industry and threaten the jobs of American workers and taxpayers.

STATEMENT OF THE INTERNATIONAL MASS RETAIL ASSOCIATION

This statement is submitted on behalf of the International Mass Retail Association, which represents the mass retail industry—consumers' first choice for price, value and convenience. Its membership includes the fastest growing retailers in the world—discount department stores, home centers, category dominant specialty discounters, catalogue showrooms, dollar stores, warehouse clubs, deep discount drugstores, and off-price stores—and the manufacturers who supply them. IMRA retail members operate more than 77,000 American stores and employ millions of workers. One in every ten Americans works in the mass retail industry, and IMRA retail members represent over $411 billion in annual sales.

IMRA fully supports initiatives to liberalize trade between the United States and the countries of Sub-Saharan Africa (SSA). Recent trends in the U.S. retail market offer SSA apparel, home furnishings, and footwear producers opportunities to develop their exports in a way that will foster job growth and development in the region—to the immediate benefit of American consumers, and the long-range benefit of U.S. exports and investment. We believe it will do this without harm to U.S. textile and apparel producers. In addition to Afrocentric products, opportunities abound for the export from SSA producers of basic apparel in the low- to mid-priced ranges—the consumer markets of key importance to IMRA members.

In some SSA countries, sufficient domestic and foreign investment has already produced factories capable of competing with those in Asia; in others, however, much needs to be done to remove significant constraints to competitiveness. The United States could do much to encourage development in these economies by removing its textile and apparel barriers to their exports, and by expanding and making permanent GSP benefits in the region.

For this reason IMRA fully supports the provisions of the House-passed Africa Growth and Opportunity Act.

THE SUB-SAHARAN REGION OFFERS SOURCING OPPORTUNITIES

SSA suppliers offer U.S. retailers opportunities to source two very different types of products: ethnic Afrocentric home furnishings and clothing, and low- to moderately-priced basic apparel products.

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[2] The transshipment of nonrubber footwear through Sub-Saharan African countries by non-African producers to avoid U.S. duties will lead to even greater levels of imports from the region.

The American market is unique among developed country apparel markets in that a relatively large and a growing market exists for ethnic apparel and home furnishing products, and in particular for Afrocentric apparel and home furnishings. Just under 34 million consumers—almost 13 percent of the U.S. population—describe themselves as African-American. School curricula are increasingly emphasizing ethnic heritage, fueling a future generation of demand for consumer products tailored to an appreciation of that heritage. A market for Afrocentric products, from wood carvings and books to home furnishings (throw pillows and sheets, for example) to apparel, has been growing. Some estimate the total spending power of African American consumers at $300 billion.

Retailers are responding to this growing demand for "Afrocentric" products. Many IMRA members have initiated product lines directed at African-American customers which incorporate goods—apparel as well as handicrafts—with African-inspired themes. Indeed, an entire handicraft export industry developed in Ghana to supply major U.S. retailers.

Demand for ethnic, hand-crafted merchandise is particularly strong in the growing home products sector, and to a much smaller extent in apparel. So far U.S. manufacturers have supplied most of this demand. U.S. suppliers have taken African designs and modified them to American tastes. Nevertheless, authenticity is important for some consumers. Consequently, retailers are keen to source such products from Africa.

In apparel, SSA countries are most competitive today in exporting basic garments, such as shirts, T-shirts and trousers. The U.S. market for these products is highly competitive, and price is a major factor in a consumer's decision to purchase a given product. These items are "bread and butter" items for IMRA member stores.

Apparel and home furnishings sourcing from SSA is complicated by a host of factors that are in most cases the consequence of underdevelopment. With time and opportunity, many of them can be eliminated and the region can compete.

Importers require particularly large volumes in the U.S. market, which is dominated by mass retailers such as those represented by IMRA. To meet these orders, African exporters must either coordinate the production of many independent, small, traditional producers or invest in a factory where the items can be manufactured or assembled in-house. There has yet to be much investment in facilities in Africa to manufacture crafts in large quantities, and achieving volume production in handicrafts continues to revolve around the coordination of many small producers in most cases. One of Africa's greatest impediments to handicraft exports today is lack of experienced export intermediaries to play this coordinating role.

Poor sea freight infrastructure in Africa often delays shipments. Ships routinely arrive in port late and leave late. Ocean freight rates in SSA are expensive compared to Asia. Arrival and departure dates of ships are subject to change at a moment's notice and security at the port is often a problem for exporters who do not load and seal their own containers. Many exporters are thus forced to send goods via air freight, which costs at least three times more than sea cargo. Exporters in landlocked nations like Zimbabwe rely almost exclusively on air freight because customs duties and other "fees" on intra-African trade are generally extraordinarily expensive.

Poor internal infrastructure creates hurdles for on-time delivery. During the rainy seasons dirt roads can become impassable. Lack of electricity keeps workers from being able to work longer hours to meet a deadline and limits production to a single shift.

Because of significant delivery problems throughout SSA, handicraft intermediaries in Africa as well as foreign wholesalers who have specialized in African craft imports state that they have to keep rather significant levels of inventory in order to ensure on-time delivery. This adds another cost to the product since inventories must be financed and stored.

Using letters of credit (LCs) for imports of handicrafts from Africa is virtually impossible unless there is an experienced intermediary handling the order because many artisans are ill-prepared for dealing with international financial documents. But even if there is a qualified intermediary, using a letter of credit poses problems in Africa. Delivery delays, which are commonplace, can invalidate an LC. Delays and extra costs ensue to open a new LC. In addition, African banks are reluctant to extend credit based on LCs, particularly to first-time exporters, because there is a significant risk of non-shipment. Until African exporters develop a track record of success, banks will be reticent to lend.

PROVIDING DUTY-FREE TREATMENT THROUGH GSP CAN MAKE A DIFFERENCE

SSA suppliers face so many difficulties that it's a wonder that anyone is really interested in doing business there. But there is interest, and the textile examples provided below show how reducing duties can make a big difference in sourcing decisions. Table 1 shows the average per-dozen values for total U.S. imports of men's cotton blue denim trousers in 1995. It shows that two of the three leading SSA suppliers of this product to the United States were quite competitive in basic cost compared to Mexico and China, and higher than CBI producers, with per-dozen values of $86 (South Africa and Lesotho). However, import duties of 17.4 percent ad valorem and freight charges boost these SSA producers' costs considerably, putting them well out of the range of Mexico and CBI producers, but still below China. Mauritius remains a relatively expensive source even if duties are eliminated. If duties are eliminated on U.S. imports of these SSA products, some SSA suppliers clearly would become quite strong alternative suppliers to China and other similarly-priced Asian suppliers. Duty-free status most likely would not jeopardize men's jeans suppliers in Mexico or the CBI, which would continue to enjoy proximity advantages that SSA suppliers can never achieve.

Similar calculations for women's cotton T-shirts also show that duty-free status (the 1997 tariff rate is 20.6 percent) would significantly improve the competitiveness of some SSA suppliers, particularly relative to Asian suppliers such as China, but not at the expense of Mexico or CBI producers. (Table 2)

For these reasons IMRA supports The Africa Growth and Opportunity Act, which would extend the GSP program for nine years and remove the statutory exclusions for products like textiles and apparel.

FOR TEXTILE PRODUCTS, DUTY FREE IS NOT ENOUGH

Obviously, the elimination of duties reduces the usual costs of doing business and can make the countries of Sub-Saharan Africa more competitive with other, far more developed suppliers, particularly those in Asia. Reducing tariffs is very important to spurring development in the region, because, by-and-large, the countries of sub-Saharan Africa are not governed by import quotas.

But reducing tariffs alone is not sufficient.

IMRA's members say that intangible "uncertainty costs" also limit their ability and desire to do business in the region. These costs include such intangibles as the child labor situation, intellectual property rights protection, and of course the most important intangible of all—the chance that the United States will impose quotas on products from the source country in the near- or mid-term. In the past, it has not taken a large level of exports for the United States to invoke its safeguard rights under the Agreement on Textiles and Clothing (ATC) to impose new quotas on so-called "sensitive" categories like cotton shirts and pants.

Table 3 provides a text-book example of the chilling affect this safeguard has on development. Kenya had begun to develop a promising textile and apparel export industry when in 1994 the United States effectively shut it down by imposing quotas on "sensitive" categories like cotton shirts and trousers. The quotas not only limited Kenya's export potential, but they scared off retailers and importers. The fact that today Kenya does not fill its quotas does not mean that the quotas have no impact, it simply means that the potential for development has been shut down. Indeed, textile exports from all of SSA have declined in the past two years.

History tells us that quotas on categories such as cotton shirts and trousers are almost inevitable. This fear or uncertainty cannot be minimized, but it is also extremely difficult to quantify. IMRA strongly believes that Congress should establish an explicit "no-quota policy" so that investors can have some assurance that quotas or the threat of quotas will not shut-down investment.

For this reason IMRA supports the Africa Growth and Opportunity Act, which contains a sense of the Congress resolution urging the Administration to maintain a no-quota policy for the SSA region, so long as total imports from the region do not exceed 3 percent of total U.S. imports.

DOMESTIC IMPACT

Trade liberalization does not just provide benefits to the nations of SSA. U.S. consumers benefit as well. In 1997, IMRA conducted an economic analysis of providing duty free treatment for textile and apparel exports from the Sub-Saharan region. Using the International Trade Commission's COMPAS model we determined that a no-tariff policy will lower consumer costs, without significant damage to domestic producers. Tariff elimination applied to exports from the Sub-Saharan region would lower the cost of all apparel sold in the United States, including U.S.-made apparel.

Such a policy would also direct economic resources into sectors of the U.S. economy where they would be used more efficiently. We estimate that the value of lower prices and greater economic efficiency will total between $72.2 million to $93.1 million each year at wholesale. The retail value of these cost benefits would be higher.

Offsetting these gains would be extremely modest losses by U.S. producers of $5.6 million to $7.2 million—a far cry from the enormous loss of jobs that some producers have suggested, should we expand trade opportunities with the SSA region. Indeed, our analysis is based on providing duty-free treatment to *all products from the SSA region.* The Africa Growth and Opportunity Act would apply duty-free treatment *only to those products which the President determined were not import sensitive.* While this provision will reduce somewhat the benefits to consumers, it should eliminate any worry that the bill will harm American workers.

For this reason, IMRA strongly opposes recent suggestions that the trade benefits accorded SSA be limited only to products which contain U.S. cut and formed fabric so-called 807a products. This proposal is simply unworkable. No IMRA member would be interested in doing business in Africa if it first had to purchase U.S. formed fabric and then *cut it* in the United States, then ship it to Africa tens of thousands of miles round-trip for assembly.

Such a proposal will not encourage investment in Africa. Transportation costs are too high, and distances between the United States and Africa are too vast. Even if transportation costs were lower, U.S. retailers would have no incentive to make such investments, since an 807a program already exists for Carribbean suppliers. Carribbean suppliers have one overriding advantage—their proximity to U.S. markets which makes turn-around times shorter and allows retailers to place orders much closer to the intended selling seasons.

If Congress is serious about encouraging investment in Africa, it must develop a program that works for Africa. The 807a program (and other variants that would require the use of bolts of U.S. fabric) simply will not accomplish the goals intended in the Africa Growth and Opportunity Act, as passed by the U.S. House of Representatives.

Table 1.—MEN'S COTTON BLUE DENIM JEANS, 1995 (HTS NO. 6203.42.4010)

[Dollars per dozen]

Source	Customs Value	Import Duties	Int'l. Freight, Insurance Charges[1]	Total	SSA Supplier Total if Duty-Free
Mauritius	$108.59	$19.11	$11.99	$139.69	$120.58
South Africa	86.75	15.26	3.18	105.17	89.93
Lesotho	86.23	15.18	3.05	104.46	89.28
Mexico	89.72	0.57	0.77	91.06	n.a.
CBI Countries	76.83	4.76	1.84	83.43	n.a.
China	88.22	15.51	4.35	108.08	n.a.

[1]Freight from the port of export to the first port of entry to The United States
Source: The Trade Partnership from U.S. Census data.

Table 2.—WOMEN'S COTTON KNIT T-SHIRTS, 1995 (HTS NO. 6109.10.0040)

[Dollars per dozen]

Source	Customs Value	Import Duties	Int'l. Freight, Insurance Charges[1]	Total	SSA Supplier Total if Duty-Free
Mauritius	$40.91	$8.43	$1.97	$51.31	$42.88
South Africa	38.62	7.96	4.79	51.37	43.41
Lesotho	30.04	6.19	1.17	37.40	31.21
Mexico	28.39	nil	0.33	28.72	n.a.
CBI Countries	28.07	2.54	0.86	31.47	n.a.
China	30.94	6.26	2.12	39.32	n.a.

[1]Freight from the port of export to the first port of entry to the United States
Source: The Trade Partnership from U.S. Census data.

Table 3.—U.S. APPAREL IMPORTS FROM KENYA, 1994–96

	1994	1995	1996
Cotton Apparel:			
334—MB Other Coats (doz.)	3,348	16,160	16,992
336—Dresses (doz.)	503	2,525	19,087
340—MB Woven Shirts (doz.)	395,039	388,247	230,591
347—MB Trousers (doz.)	249,236	184,795	197,041
MMF Apparel:			
636—Dresses (doz.)	0	12	16,257
Silk Blend and Veg. Fiber Apparel:			
847—MB Trousers (doz.)	72	1,547	16,215
Home Furnishings:			
360—Cotton Pillowcases (Nos.)	1,973,160	598,656	426,576
361—Sheets (Nos.)	158,424	510,864	67,560

Source: U.S. Department of Commerce, Office of Textiles and Apparel, Major Shippers 1996.

STATEMENT OF THE KMART CORPORATION

[SUBMITTED BY ANDREW GIANCAMILLI, PRESIDENT AND GENERAL MERCHANDISE MANAGER]

Thank you Mr. Chairman and members of the Committee. I am grateful for the opportunity to submit testimony on behalf of Kmart Corporation regarding the future of trade between the United States and Sub-Saharan Africa. It is especially appropriate that Kmart provide input on this matter regarding H.R. 1432 and its Senate companion S. 778, the African Growth and Opportunity Act, because Kmart Corporation has been a pioneer in importing from Africa, as we have purchasing arrangements with outlets in Ghana, Tanzania, Lesotho, South Africa and Mauritius. It is important that there be a public explanation of how a free and open trade relationship will affect Kmart and how it will ultimately benefit both American and African producers and consumers.

My name is Andrew Giancamilli and I am the President and General Merchandise Manager of U.S. Kmart. Kmart has 2,118 discount retail outlets in the U.S., with locations in all 50 states as well as Puerto Rico, Guam and the U.S. Virgin Islands. Kmart employs 261,000 people in the U.S. and had net sales of $32.18 billion last year. Kmart is committed to providing the highest quality of goods at the lowest possible prices to American consumers. It is because of this corporate mission that Kmart strongly supports efforts to liberalize trade between the U.S. and Sub-Saharan Africa.

Potential gains for Kmart as a result of African Growth and Opportunity Act and trade with Sub-Saharan African countries are made known by understanding the basic characteristics of the core Kmart customer. Our customer has a median family income of $32,000 per year, which is used to support a family of four. Our shoppers want, and often need, to pay the lowest possible prices for the products that offer quality, meet their needs and offer value. The bottom line is cost and it is our job to find these goods at the lowest prices and pass these savings on to our customers.

Some legislators have expressed concern about liberalized trade with Sub-Saharan Africa and opponents of this legislation have capitalized on this fear by stating that it will take jobs away from the American people. This is simply untrue. Kmart supports the U.S. economy, employing over 261,000 Americans and buying American products whenever possible.

However, many of the goods sold at Kmart can not be produced in America at the low costs that Kmart customers have come to expect. Again, the bottom line is cost. Therefore, Kmart and other discount outlets must purchase clothing and inexpensive plastic goods from countries abroad, such as China, in order to provide these goods at the lowest prices to the consumer. These goods are not produced competitively in the U.S. Thus, they will continue to be imported, at no loss of jobs or capital in the U.S., from one country or another.

A bi-partisan economic analysis by the International Trade Commission has confirmed this by stating that Africa's ability to produce textiles over the next decade is still very limited, and that they will likely increase their exports in the next decade at best by about 3 percent. Currently, Sub-Saharan Africa accounts for less than 1 percent of total U.S. imports of textiles and apparel. The Commission's final analysis concluded that this bill would create a small shift away from Far Eastern suppliers rather than U.S. manufacturers, and that less than 1,000 American jobs could

possibly be affected. Should this limited number of jobs be lost, they would be absorbed, and likely soon compensated for, when Africa's capital enables the African countries to increase their imports from the United States.

The benefits of increased trade with Sub-Saharan Africa for Kmart customers are clear. The first stage of development for an emerging economy is the development of an employment base and a national infrastructure. This ultimately gives underdeveloped countries the basic ability to do business with other nations. Eliminating U.S. tariffs and quotas on products imported from Sub-Saharan Africa will expand export opportunities for these areas and will eventually allow the people of these countries to compete seriously in the global marketplace. Of course, this will not happen overnight, but it will not happen at all if the current cycle of economic hopelessness and dependency in a large number of Sub-Saharan African nations is not reversed.

Kmart has a long tradition of working in partnership with reputable suppliers who share our commitment to human rights and ethical standards of conduct. To maintain our commitment to these principles, Kmart has established a Workplace Code of Conduct, which requires all Kmart suppliers and their subcontractors to provide a clean, safe and healthy work environment and to engage in fair and ethical employment practices. Kmart's Workplace Code of Conduct requires all suppliers and subcontractors to make their facilities available for inspections at any time and we reserve the right to terminate its relationship and cancel all orders with any supplier that doesn't comply with these; strict standards. Kmart believes that all workers, both in America and overseas, should benefit from the same high standard of working conditions. We understand that our customers depend on the quality and value of our products and the underlying integrity of the workplaces which produce them, and Kmart is on the forefront of the fight against child labor, forced labor, unfair wages and discrimination. The African Growth and Opportunity Act will help forward this endeavor and force other facilities to raise their standards because the duty-free provisions of the bill are built upon the very successful Generalized System of Preferences (GSP) program, which links worker's rights and workplace conditions to trade concessions.

Allowing Sub-Saharan Africa to compete with China, Pakistan, India and the countries of Southeast Asia will increase competition. As a result, those who produce the highest quality goods at the lowest possible prices will win the business of companies such as Kmart, and these savings will be passed on to our customers.

For example, many products sold at Kmart, items like shoes, and toys, are currently produced in China. In fact, China represents a large percentage of these markets because they can produce mass goods much more cheaply than many other countries. China also has the capital necessary to do business with the U.S. This enables manufacturers in China to produce a pair of children's jeans that can be sold at a Kmart in the U.S. for $12.99, which seems very reasonable.

However, if Sub-Saharan African countries had a similar means to do business with the U.S., manufacturers there under this legislation could produce the same pair of jeans to be sold in the U.S. for $9.99, reducing the cost to the American consumer by nearly 25%. These savings are significant for an individual supporting a family of four on an average income $32,000 a year.

While the African Growth and Opportunity Act is good for Kmart, it is also good America as a whole. Africa is the only untapped emerging market in the world and it has the potential for expansive growth. This legislation would provide a launching pad for American exports to Africa by enabling us to expand our imports from Africa. The United States can not increase exports to a country that does not have the means to buy our goods. By buying goods from African countries, we would be exchanging capital, which can, in turn, be used to purchase American exports. Importing Sub-Sahara African goods will create a great export opportunity for the U.S., and increased exports to Africa will create not only capital, but also jobs in the United States.

While many legislators, companies, and consumers already recognize the advantages of increased trade with Africa, some have expressed concern. I have already explained that that the United States will prosper economically from the African Growth and Opportunity Act, but some are afraid that the provisions that eliminate quotas will encourage quota fraud and transshipment of clothing produced in Asia. This is absolutely untrue. U.S. Customs officials have reported that Africa is not currently a platform for transshipment. In addition, because production of apparel in the African countries is extremely limited, a dramatic increase in apparel exports would be quickly noticed and easily tracked by the U.S. Customs Service. Nevertheless, as an extra precaution, the House-passed version of the African Growth and Opportunity Act addresses the potential for transshipment problems by requiring the importers of textiles and apparel to obtain import visas for all products shipped

from Sub-Sahara Africa. It also imposes a "one strike and you're out" penalty provision for Sub-Saharan exporters who commit quota fraud.

The African Growth and Opportunity Act is a win-win prospect for everyone. This legislation will help to ensure that companies, such as Kmart, are able to provide the best quality goods to our customers at the lowest possible prices. On a larger scale, as the African economy emerges, this bill offers a great opportunity for U.S. businesses to maximize trade and investment opportunities in Africa. The African Growth and Opportunity Act will stimulate private investment in Africa and will transfer the U.S. policy toward Africa from aid to trade for Sub-Saharan countries committed to economic and political reform.

I hope that each U.S. Senator will recognize Africa's tremendous potential and the importance of this legislation to all parties involved; and as a result, will support the African Growth and Opportunity Act.

STATEMENT OF LIZ CLAIBORNE, INC.

[SUBMITTED BY FRANK KELLY, INTERNATIONAL TRADE COMPLIANCE, GOVERNMENT AFFAIRS]

Liz Claiborne, Inc. is pleased to submit this statement for the record of the Senate Finance Committee hearing. We strongly support efforts to expand and develop trade and investment opportunities in Sub-Saharan Africa. S. 778, sponsored by Senator Richard Lugar (R–IN), would bring about much needed change in U.S. policy toward Africa.

This legislation provides the countries of Sub-Saharan Africa the opportunity for real and sustainable growth. By giving the Sub-Saharan African countries the tools to develop a textile and apparel industry, Africa will be able to participate in the global trade flows that have largely passed by this continent.

Yet, the position of the Sub-Saharan African countries remains fragile. Existing impediments to trade and investment can be overwhelming. The serious lack of infrastructure discourages many companies, including our own, from moving ahead with investment in the region. Ports, roadways, utilities, in most cases, are simply not adequate to support industrial development.

That is why we view S. 778 as such an important beginning. By reducing U.S. tariffs on a wider range of products, including textile and apparel, this legislation will encourage investment in the region and hasten the removal of existing barriers.

The tariff and quota reductions for textile and apparel are particularly important to this effort, since textile and apparel production is a good starting point for unskilled workers in a developing country. This new production not only contributes to job creation in the short-term, but has long range benefits as well. Skills developed in the production of clothing enable workers to move on to more complex manufacturing industries as the economy expands.

Liz Claiborne, Inc. cautions the Committee against including a provision to require the use of U.S. fabric. From a practical, business perspective, it does not make sense to source the fabric from such a distance. The costs of transporting U.S. fabric to Africa would remove any competitive advantage created through duty-free and quota-free status. In fact, such a requirement would defeat the central purpose of the bill—to encourage investment in the region. We urge the Committee to refrain from including a U.S.-fabric requirement in the bill.

As U.S. budget constraints diminish foreign aid to the region, private investment becomes even more critical. Not only will this economic development bridge the funding gap, but it will strengthen the African economy in unprecedented ways.

Liz Claiborne fully supports S. 778 and encourages the Committee to act expeditiously on this legislation. Thank you for your consideration of our views.

STATEMENT OF THE LUGGAGE AND LEATHER GOODS MANUFACTURERS OF AMERICA

I. INTRODUCTION AND STATEMENT OF POSITION

This statement is submitted on behalf of the Luggage and Leather Goods Manufacturers of America, Inc. (LLGMA), a trade association representing the U.S. luggage, flat goods, and handbag industries, in connection with the Senate Finance Committee's request for input from interested parties on legislative proposals to expand trade with Sub-Saharan Africa.

The Committee has before it legislation, H.R. 1432, the African Growth and Opportunity Act, which would eliminate the statutory exclusion of textile and non-textile luggage, handbags, and flat goods from the Generalized System of Preferences

(GSP) for Sub-Saharan African countries. The U.S. travel goods industry is opposed to the elimination of the exclusion of its products from the GSP program. The industry is similarly opposed to quota-free treatment for textile products.

Textile luggage of all types is subject to quotas when imported from China, Taiwan, and Korea. Textile handbags and flat goods are also subject to various textile restraints. Tremendous import growth over the years has ravaged the domestic travel goods industry. Duty-free and quota-free treatment for luggage, flat goods, and handbags will stimulate rapid growth in imports from Sub-Saharan African countries, which will erode further the fragile health of domestic producers. More factories will close and more workers will lose their jobs. Economic development in Africa should not come at the expense of the U.S. travel goods industry.

II. THE LUGGAGE, FLAT GOODS, AND HANDBAG INDUSTRIES ARE EXTREMELY IMPORT-SENSITIVE

The increase in U.S. imports of luggage, flat goods, and handbags over the past years has been remarkable. To provide some measure of protection for the travel goods industry, its products were excluded by statute from GSP eligibility almost 15 years ago. Since that time, U.S. imports of luggage have quadrupled, reaching over $2.3 billion; imports of flat goods have tripled to almost $400 million; and imports of handbags have almost doubled to $1 billion. Over 80 percent of total U.S. imports of luggage originate in less-developed countries. For flat goods and handbags, the percentages are 69 percent and over 70 percent, respectively.

The growth of imports has displaced domestic production and caused plant closings and layoffs. Many companies have exited the business altogether or have been forced to import some or all of their product lines in order to compete. Employment in the luggage industry fell by 20 percent between 1984 and 1996. The loss of jobs in the flat goods and handbag industries was even more severe as the number of employees plunged by 57 percent between 1984 and 1996. The imports' low prices have exerted powerful downward pressure on domestic prices further hindering the viability of domestic producers.

The U.S. Congress and Executive Branch have long recognized the luggage, flat goods, and handbag industries as import-sensitive:

- they are statutorily excluded from duty-free treatment under certain trade preference programs, including the Caribbean Basin Initiative (CBI), the Andean Trade Preference Act (ATPA), and the GSP;
- their tariffs were cut only slightly or not at all in the Uruguay Trade Round negotiations; and
- they were deemed to be among the most sensitive U.S. products in the NAFTA tariff negotiations with Mexico, designated for stage "C" (i.e., ten-year phase out).

Congress took affirmative action in 1984 to add a statutory exclusion to the GSP program for luggage, flat goods, and handbags of non-textile[1] materials on the basis of extreme import sensitivity. At the time Congress granted the exemption, it was understood that less-developed countries, eager to industrialize and with low paid work forces, posed a real threat to domestic producers. Today the plight of the domestic industry is even more precarious, as imports in this sector have tripled since 1984, and the vulnerability to imports that much greater.

III. SUB-SAHARAN AFRICAN COUNTRIES HAVE THE POTENTIAL TO BECOME MAJOR SUPPLIERS TO THE UNITED STATES

One of the defining characteristics of the world economy today is the mobility of the factors of production to those regions and countries with the lowest labor costs. This is particularly true in the case of labor-intensive industries such as luggage, flat goods, and handbags, factories for which can be built quickly and production expanded rapidly. Foreign producers of these products scour the globe for low-wage countries and then quickly establish production facilities to make goods for export to the United States. When labor costs increase, these producers often shut down their facilities and move their operations to other low-wage countries.

Trends in U.S. imports of luggage illustrate the changing composition of supplier countries as producers have shifted production to take advantage of lower wage rates. In 1984 Taiwan and Korea were the two largest suppliers of luggage to the United States accounting for 78 percent of total imports. In 1998, China, the Philippines, and Thailand are the predominant suppliers of luggage to the U.S. market. Although there has been a major and rapid shift of luggage production to three

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[1] Textile luggage, flat goods, and handbags are subejct to the GSP statutory exclusion for textiles and apparel since they are considered to be "textile and apparel products which are subject to textile agreements."

lower cost countries, Taiwan and Korea continue to be major suppliers of luggage to the U.S. market.

Duty-free entry of luggage, flat goods, and handbags from Sub-Saharan African countries will create powerful incentives for foreign producers of these goods to establish new or additional operations there. First, prospective foreign producers will enjoy wage rates among the lowest in the world. Second, they will greatly benefit from a burgeoning leather industry that is being developed via monetary as well as "hands-on" assistance by international development banks and organizations. Third, they will enjoy a major competitive advantage over producers in other developing countries, which are required to pay the significant U.S. duties on these goods.

The domestic industry will also be vulnerable to transshipment of luggage, flat goods, and handbags through Sub-Saharan African countries to avoid U.S. duties and quotas. In recent years, many foreign producers have resorted to the illegal transshipment of their goods through third countries to evade U.S. quotas. The U.S. Customs Service has undertaken strenuous efforts to combat this problem, but the magnitude of the task is immense. Forty-eight Sub-Saharan African countries with duty-free access to the United States will provide non-African producers with numerous avenues for transshipping luggage, flat goods, and handbags through African countries to the United States, and will impose on Customs a near impossible enforcement burden. This illegal movement of goods will exacerbate further the import problem faced by the domestic industry.

IV. CONCLUSION

The domestic luggage, flat goods, and handbags industries have been battered by imports, particularly from less-developed countries. To provide some measure of protection for the leather-related industries, their products were excluded from coverage under the GSP. Eliminating this exclusion and the potent threat of quota restraints now will lead to an influx of imports from Sub-Saharan African countries and will inflict more harm upon these domestic industries. Economic development in Africa is a worthy goal, but the preservation of American industry and American jobs is important, too. Thus, LLGMA urges the Committee to strike the GSP and quota provisions that affect its products from H.R. 1432.

STATEMENT OF MAURITIUS—U.S. BUSINESS ASSOCIATION, INC.

This statement is submitted for the record of the Finance Committee's June 17, 1998 hearing on the African Growth and Opportunity Act, S. 778 (the Africa Bill), by the Mauritius-U.S. Business Association, Inc. (MUSBA).[1] MUSBA encourages the Finance Committee to give favorable and prompt consideration to the Africa Bill, which would establish a long-overdue comprehensive U.S. policy in support of economic development in Sub-Saharan Africa (SSA).

Experience has shown that the foundation necessary for sustained economic development can best be established through direct private sector participation. The Africa Bill puts this experience into action by encouraging private sector participation in the economic development of SSA through incentives for investment and expanded opportunities for mutually beneficial trade. While the Africa Bill will definitely assist in the further economic development of Africa, it will simultaneously benefit the United States by creating new opportunities to export U.S. products, which will in turn create new jobs in the United States. In short, the Africa Bill makes good sense for both Africa and the United States.

While all provisions of the Africa Bill are important, Sections 8 and 9 of the bill are critical to the successful economic development of SSA. Sections 8 and 9 would: (1) lift U.S. quotas on apparel imported from countries in SSA that adopt satisfactory measures to prevent transshipment and (2) eliminate U.S. import duties on "non-sensitive" apparel products from these countries. Of all the provisions of the Africa Bill, only Sections 8 and 9 would create new jobs in the short term and create an opportunity for an immediate expansion of trade.

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[1] MUSBA is a non-profit bilateral chamber of commerce between private sector companies in the United States and Mauritius. MUSBA is dedicated to enhancing the opportunities for mutually beneficial bilateral trade and investment between Mauritius and the United States. MUSBA's members include major U.S. corporations that do business with Mauritius, such as Qualcomm and FloSun, as well as a number of smaller U.S. companies. MUSBA's members also include two former U.S. Ambassadors to Mauritius, Hon. Penne Korth and Hon. Ronald Palmer. Ambassador Korth is a member of MUSBA's Board of Advisors MUSBA's membership comes from a variety of industries, and its members include both Mauritian apparel manufacturers and U.S. apparel importers

Equally important, Sections 8 and 9 of the Africa Bill would also limit the negative consequences of the Uruguay Round Agreement on Textiles and Clothing and the North American Free Trade Agreement (NAFTA) on the developing SSA textile and apparel industries.

While providing quota-free/duty-free access for textiles and apparel from SSA would provide an immediate boost to the economic development of those countries, implementing Sections 8 and 9 would have at most only a marginal impact on the U.S. apparel and textile industry and on U.S. employment. Because of the safeguards already built into Sections 8 and 9, there is virtually no risk to the U.S. textile/apparel industry, and the U.S. International Trade Commission (ITC) has confirmed that the impact on the U.S. industry would be negligible.

I. ESTABLISHING SUCCESSFUL APPAREL INDUSTRIES IS AN IMPORTANT FIRST STEP IN THE ECONOMIC DEVELOPMENT OF SUB-SAHARAN AFRICA.

In a common pattern that has been repeated around the world, one of the first steps taken by countries to develop their economies is to encourage the creation of an apparel industry. Because the start-up capital costs are relatively low and the technological requirements are not usually great, apparel manufacturing is one of the few viable options available to developing countries trying to establish a manufacturing base. Apparel manufacturingcreates immediate employment opportunities in developing countries, which typically have high unemployment. Creating a successful apparel industry has typically served as a building block for developing countries to expand into other areas of manufacturing.

This pattern has been followed in SSA. Prior to the early 1980's, almost no apparel manufacturing existed in SSA. In 1983, only two SSA countries—South Africa and Mauritius—exported apparel to the United States, and their combined exports totaled 26.608 million square meters (sm), or 0.3 percent of total U.S. apparel and textile imports.[2] By 1997, 11 SSA countries were exporting apparel and textiles to the United States. U.S. imports of apparel and textiles from these countries in 1997 amounted to 141.053 million sm or 0.6 percent of total U.S. imports.[3]

To place this in perspective, each of 28 countries, individually, exported more apparel and textile products to the United States in 1997 than did all of SSA together.[4] No SSA country ranks among the top 40 apparel and textile exporters to the United States, while every other region of the world is represented in the top 40. As a further point of reference, in 1997 Mexico, by itself, exported to the United States more than 21 times the total volume of apparel and textile products supplied by all of SSA.

In short, despite modest growth over the past 15 years, apparel and textile imports from SSA remain literally a drop in the bucket of the total U.S. market. Reflecting its status as the least developed region of the world, SSA is a relative newcomer to the U.S. apparel and textile market, and it still supplies only a tiny share of U.S. imports. In light of the changes currently underway in the U.S. market as a result of the Uruguay Round and NAFTA, SSA may never achieve meaningful access to the U.S. market unless something is done immediately to assist in the development of apparel manufacturing in SSA. The Africa Bill will provide the necessary impetus for developing a successful apparel industry in SSA.

II. THE URUGUAY ROUND ATC AND NAFTA CREATE NEW RISKS FOR SUB-SAHARAN AFRICAN APPAREL EXPORTS.

Although the successful conclusion of the Uruguay Round and the creation of the WTO was a tremendous accomplishment, a consensus has emerged that the Uruguay Round Agreements provide relatively few benefits for the countries of SSA. Indeed, it is becoming clear that the Uruguay Round Agreements actually raise new problems for SSA exporters. This is especially true in the case of apparel exports under the Agreement on Textile and Clothing (ATC).

The gradual phasing out of country quotas under the Multifiber Arrangement (MFA) by 2005, as required by the ATC, will result in intense competition for access to the U.S. market. It is doubtful whether small and relatively new producers like

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[2] December 1983 Major Shippers Report, U.S. Department of Commerce, International Trade Administration, Office of Textiles and Apparel (Major Shippers Report).

[3] December 1997 Major Shippers Report.

[4] Each of the following countries (listed in descending order of apparel and textile exports) supplied more apparel and textile products to the United States in 1997 than did all of SSA combined: Mexico, Canada, China, Pakistan, Taiwan, India, Indonesia, Hong Kong, the Dominican Republic, Korea, Thailand, Bangladesh, Honduras, the Philippines, Sri Lanka, El Salvador, Turkey, Italy, Germany, Costa Rica, Israel, Japan, Guatemala, Malaysia, Egypt, Jamaica, Macao, and the United Kingdom. December 1997 Major Shippers Report.

the SSA countries can obtain new market share, or even retain their existing small market share, once the quotas are lifted on large, low-cost producers like Pakistan, Taiwan, India, Hong Kong and Indonesia.

Even before the Uruguay Round was completed, however, U.S. trade policy had begun to shift in favor of Western Hemisphere regionalism, as exemplified by NAFTA, the negotiations to create a Free Trade Area of the Americas (FTAA), and proposals to expand the trade preferences accorded to beneficiary countries under the Caribbean Basin Initiative (CBI). There is a real risk that further expansion of Western Hemisphere trade preferences may curtail commerce between the United States and SSA unless steps are taken to provide similar trade opportunities for SSA. This risk can be seen most clearly in the case of NAFTA.

Under the ATC, U.S. quotas on apparel imports will be phased out over ten years. Under NAFTA, however, U.S. quotas on Mexican apparel products that meet NAFTA's "yarn-forward" rule of origin were eliminated January 1, 1994, and U.S. quotas on non-originating Mexican apparel products will be phased out more quickly than under the ATC, with most such quotas to be eliminated by 2001.

Equally important, Mexican apparel products have a permanent duty advantage as a result of NAFTA. Under the ATC, U.S. tariffs on SSA apparel exports will be reduced—but not eliminated—over ten years. In contrast, under NAFTA, U.S. tariffs on qualifying Mexican apparel products were reduced effective January 1, 1994, to lower than MFN levels and will be eliminated completely by 1999–2003. Non-originating Mexican apparel products are subject to preferential duty rates under tariff rate quotas. As illustrated by the following table, SSA apparel products are already at a substantial duty disadvantage compared to the same products imported from Mexico.

HTS No. (Category)	Product	Imported From Africa Under GATT		Imported From Mexico Under NAFTA	
		1998 Duty [In percent]	Reduced Duty by 2004 [In percent]	1998 Duty	Reduced Duty [In percent]
620520.20 (340)	Men's/boys' cotton shirts	20.5%	19.7%	3.3%	0% (1999)
620342.40 (347)	Men's/boys' cotton trousers	17.3	16.6	2.9	0 (1999)
620462.40 (348)	Women's/girls' cotton trousers.	17.3	16.6	2.9	0 (1999)
611020.20 (345)	Knit cotton sweathers	19.0	16.5	10.3	0 (2003)
620630.30 (341)	Women's/girls' cotton blouses	16.0	15.4	0	0
610821.00 (352)	Women's/girls' cotton panties	7.9	7.6	0	0

Thus, NAFTA grants Mexico preferential access—in terms of both quotas and duties—for its apparel and textile exports to the United States. Such preferential access for Mexican products is especially problematic for SSA apparel exports, because both Mexico and the SSA countries export many of the same types of apparel products to the United States, particularly cotton apparel. The quota and duty preferences assigned to Mexico under NAFTA are already taking a toll on SSA exports of cotton apparel to the United States, as Mexico's exports of these products have nearly doubled since NAFTA took effect, while SSA exports have actually declined slightly.

	U.S. Cotton Apparel Imports from Mexico (million sm)	U.S. Cotton Apparel Imports from Sub-Saharan Africa (million sm)
1995	381.449	97.589
1996	519.508	82.990
1997	705.281	96.327
Increase	84.8	<1.2%>

Source: 1995–1997 Major Shppers Reports.

While no one expects that enactment of the Africa Bill would make SSA competitive with Mexico, providing quota-free/duty-free access to SSA products will make SSA competitive with other regions and enable SSA to obtain reasonable access to the U.S. market in the face of the challenges presented by the Uruguay Round ATC and NAFTA.

III. TEXTILE/APPAREL IMPORTS FROM SSA POSE NO THREAT TO THE U.S. INDUSTRY.

The U.S. ITC has concluded that granting quota-free/duty-free access to apparel and textiles from SSA, under the terms proposed by the Africa Bill, would lead to an increase in apparel imports from SSA of between 26.4—45.9 percent, and an increase in textile imports of 10.5–16.8 percent.[5] In other words, implementation of the Africa Bill would cause apparel/textile imports from SSA to increase from 0.6 percent to approximately 1.0 percent.

To put this predicted increase in SSA exports into perspective, if SSA apparel/textile exports to the United States were to grow to 1.0 percent of total U.S. apparel/textile imports, the increase in total SSA exports would equal a mere 3.8 percent of the amount by which Mexico's apparel/textile exports to the United States grew during 1997 alone. In other words, there is no risk of the U.S. market being swamped with apparel imports from SSA.

Moreover, the types of products SSA would be likely to export confirms that there would be little, if any, harm to the U.S. apparel/textile industry as a result of the Africa Bill. Start-up apparel manufacturing operations, like those that would be established in SSA, almost always produce low-end products such as cotton T-shirts and underwear. The U.S. apparel industry, however, manufacturers primarily more sophisticated and more valuable products, and very little of the entry-level type products are currently produced in the United States. As a result, increased imports from SSA would displace imports from other countries, rather than U.S. production.

In addition, the Africa Bill has built-in safeguards to prevent injury to the U.S. apparel/textile industry. Section 9 of the Africa Bill provides that duty-free treatment will be accorded only to products that are found by the ITC not to be "import-sensitive." In other words, if imports from SSA of a particular type of apparel product are considered likely to cause harm to the domestic industry, such products will not be eligible for duty-free treatment, thereby eliminating most of the incentive to export such products. It has been suggested that massive illegal transshipment of Asian apparel through SSA will occur if SSA is granted quota-free/duty-free access to the U.S. market. The facts, however, prove the contrary.

Transshipment through SSA has not been a problem in Europe, where SSA apparel has had access for years similar to that proposed by the Africa Bill. Moreover, 46 of the 48 SSA countries already have quota-free access to the U.S. market. If SSA were an attractive opportunity for transshipment, one would suspect that the absence of quotas on these countries would already have led to significant transshipment. The U.S. Customs Service has recently confirmed, however, that transshipment is not a significant problem in SSA.[6] Indeed, the Customs Service's most recent list of transshippers identifies 73 companies known to have illegally transshipped apparel to the United States. Only one of the companies on the list is located in SSA.[7] By contrast, the Customs Service has identified four known transshippers in the CBI region, yet no one has suggested that the CBI is a hotbed of transshipment. On the contrary, the proposals currently before Congress that concern the CBI would expand its preferential access to the U.S. apparel market despite the track record of transshipment.

In 1995, Mauritius implemented a textile visa system, in close collaboration with the U.S. Customs Service, precisely for the purpose of ensuring that transshipment did not become a problem. The Africa Bill requires that the same sort of visa system be established in other SSA countries before they could qualify for quota-free access. The Mauritian visa system is working well to prevent transshipment; the Customs Service has not identified a single case of transshipment involving Mauritius since the visa system was implemented. In short, illegal transshipment through SSA will not be a problem under the Africa Bill.

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[5] Likely Impact of Providing Quota-Free and Duty-Free Entry to Textiles and Apparel From Sub-Saharan Africa, U.S. International Trade Commission, Investigation No. 332–379, Publication No. 3056 (September 1997) (hereinafter referred to as ITC Report).

[6] See May 15, 1998 edition of Inside U.S. Trade and reprinted letter from Janet L. Labuda, Director of International Trade Manager of the Customs Service. In her letter, Ms. Labuda chastised ATMI for distorting the facts in its submissions in opposition to the Africa Bill and stated: "While it is true that we have found some transshipment from Sub-Saharan countries, we would not consider these significant or part of an organized pattern. The most recent transshipment findings were isolated instances generally occurring prior to 1996."

[7] The one SSA transshipper was located in Togo, a country which exported no apparel to the United States—transshipped or otherwise—in 1996 and 1997, and exported only 1.1 million sm of shirts in 1994 and 1995 combined.

IV. THE 807A/809 PROGRAMS ARE NOT VIABLE ALTERNATIVES FOR SSA.

It has been suggested that the limited quota-free/duty-free apparel trade provisions of the Africa Bill should be replaced with the 807A and/or 809 programs.[8] The proponents of the 807A/809 alternative suggest that this approach should work in SSA because of the success of the 807 program in the CBI region.[9] The 807 program has indeed been a great success in the CBI, making the CBI countries, taken together, the number one supplier of apparel to the United States. The 807 program has worked in the CBI for three reasons: (1) direct involvement by U.S. apparel or textile companies—usually to the point of full or partial ownership of the operations in the CBI; (2) low transportation costs due to proximity to the United States; and (3) "quick response," i.e., the ability to complete and deliver orders in the shortest possible time. None of these factors is present in the case of SSA.

The 807 program is theoretically available to SSA today, but U.S. apparel and textile companies have shown no interest in establishing operations in SSA. Indeed, in testimony before the ITC in Investigation No. 332–379, Mr. Larry Martin, President of the American Apparel Manufacturers Association, admitted that, even under the quota-free/duty-free terms of the Africa Bill, U.S. companies were unlikely to establish operations in SSA, primarily due to the long distance from the United States:

> Vice Chairman Bragg: Thank you, Mr. Martin, for appearing before us today. Would U.S. manufacturers develop co-production with Sub-Saharan countries, as they have with Mexico and Caribbean? Do you foresee any type of shift or potential shift?
>
> Mr. Martin: I doubt it in the near future. It's difficult to predict what would happen on down the road, but right now, it's a long way away. It's difficult to do. . . .
>
> Vice Chairman Bragg: Did you say, do some of your members produce in Sub-Saharan Africa?
>
> Mr. Martin: Not that I know of.[10]

SSA exports are generally at a competitive disadvantage, compared to similar products exported from other regions, because of the considerably higher freight costs involved in shipping products from SSA to the United States:

> Overall, the countries of sub-Saharan Africa generally are at an important transport cost disadvantage relative to competitors. . . . [I]nternational transport cost have a significant adverse impact on the level of African exports.[11]

In its investigation of the textile provisions of the Africa Bill, the ITC likewise concluded that the African transportation cost disadvantage affects the apparel industry, with the cost of shipping apparel from SSA to the United States exceeding the cost of transporting like products from either Asia or the Caribbean by a significant margin.[12]

The proposed 807A/809 program for SSA would compound this existing freight disadvantage by adding the requirement that the fabric must first be transported from the United States to SSA. As a result of this additonal freight cost, the 807A/809 proposal would increase the total cost of finished garments made in SSA by at least 10 percent, as compared to the total cost of the same garment made from African-origin fabric.

This additional 10 percent freight disadvantage would be enough to render SSA apparel noncompetitive in the absence of preferential treatment. But even with duty-free treatment under the 807A/809 program, the additional transport cost makes the benefit of duty-free access illusory. After the duty reductions required by the Uruguay Round ATC, the average U.S. duty on SSA apparel will be approxiametly 14.1 percent.[13] The 10 percent additional transportation costs required by the 807A/809 proposal virtually wipe out the benefit of duty-free access.

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[8] Under the 807A program only apparel assembled in SSA from fabric that was made and cut in the United States would qualify for quota-free/duty-free treatment. Under the 809 program only apparel made in SSA from uncut U.S.-origin fabric would be eligible.

[9] Under the 807 program, preferential access and reduced duty treatment apply to apparel assembled abroad from U.S.-origin components.

[10] ITC Investigation No. 332–379, Transcript of May 1, 1997 hearing at 47.

[11] Alexander Yeats, Azita Amjadi, Ulrich Reinche, Francis Ng, *Did External Barriers Cause the Marginalization of Sub-Saharan Africa in World Trade,* World Bank (1996). The authors also observed that transportation costs are up to 25 percent higher for the 14 land-locked countries of SSA than for the coastal countries.

[12] ITC Report at 3–18–3–19.

[13] Peter Harrold, The Impact of the Uruguay Round on Africa, The World Bank, Report No. 311 (1995).

Equally important, the 807A/809 proposal would add considerably to the time required to produce apparel in SSA and deliver the finished product to buyers in the United States. It takes approximately 50 days to receive delivery of fabric from the United States to the 11 SSA countries located on the east coast of Africa, and transport time is even longer for the 14 land-locked countries of SSA. In the modern apparel industry, the time required between placing an order and receiving delivery of finished garments is critical and can make the difference between the buyer's choice of one supplier over another, all other factors being equal. Adding 50 days to the turn-around time for SSA apparel will place SSA exporters at another serious competitive disadvantage vis-a-vis Asian and Western Hemisphere producers.

In summary, none of the factors necessary for the 807A/809 program to succeed—involvement by U.S. companies, low transportation costs, and quick turn-around—would be present in SSA. The 807A/809 program, therefore, would be doomed to failure in SSA.

V. THE AFRICA BILL WILL BENEFIT AFRICAN WORKERS.

Certain opponents of the Africa Bill have made the incredible assertion that passing the bill will lead to a flood of non-African workers (allegedly from Asia) being imported to SSA to work in the apparel factories. These critics assert that African workers will not benefit from the Africa Bill.

This contention has no basis in fact. The countries of SSA have a huge supply of available labor. In some SSA countries, the unemployment rate is as high as 50 percent. Moreover, labor costs in most SSA countries are fully competitive with Asian wages. It makes no economic sense, therefore, for SSA apparel manufacturers to import foreign labor instead of utilizing the abundant and competitively priced local labor.

It has been pointed out that foreign labor is currently used in Mauritius. This is due to unique and temporary circumstances in Mauritius that are not duplicated elsewhere in SSA and that are currently being phased out in Mauritius. Mauritius is a small island off the east coast of Africa. It has a total population of only 1.1 million. Mauritius has a long history of stable and open democracy and respect for human rights, including strict protection of labor rights. Labor in Mauritius is unionized, the right to collective bargaining is guaranteed by law, the unions are quite active in protecting the rights of their members, and working standards and conditions are regulated by the government.

Because of growth in employment in both the apparel industry and other sectors, coupled with its limited labor pool, Mauritius has experienced a tight labor market in its apparel industry. Indeed, for most of the 1990's Mauritian has had almost full employment. No other country in SSA has a tight labor market. On the contrary, most of them have high unemployment.

As a result of these unique conditions in Mauritius, its apparel manufacturers were forced to employ a limited number of foreign nationals. Foreign workers have been used on a temporary basis while (1) the apparel industry has been making the transition from low-cost, labor-intensive manufacturing to higher value-added products that are more capital-intensive and (2) Mauritian companies develop apparel manufacturing facilitates in neighboring countries with abundant labor. Consistent with the regionalintegration objectives of the Africa Bill, Mauritian companies have opened or are currently investing in production facilities in high-unemployment countries like Madagascar, Lesotho, and Mozambique. These new plants employ workers from the depressed local labor markets, providing thousands of jobs. In Madagascar, for example, Mauritian companies have created 25,000 new jobs over the past five years.

The Government of Mauritius authorized the use of foreign workers on a temporary basis only, and it is expected that their use will be phased out altogether. Foreign workers constitute only 8.6 percernt of the apparel industry work force. Moreover, these workers receive standard Maurtion wages and are fully covered by the Mauritian labor laws.

There is no basis for the contention that local workers in SSA will not benefit from passage of the apparel trade provisions of the Africa Bill. On the contrary, the Africa Bill will provide tens of thousands of new job opportunities in SSA, and the benefits of these new jobs will go to the local workers, not to imported foreign labor.[14]

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[14] For example, the South African apparel industry has estimated that enactment of the African Bill would lead to the creation of 30,000 new apparel jobs in South Africa alone. See March 26, 1998 edition of The Cape Angus.

CONCLUSION

The apparel trade provisions of the Africa Bill present a unique opportunity to assist SSA apparel to become competitive in the U.S. market. The bill would lead to a modest increase in apparel imports from SSA, and it would create tens of thousands of new jobs in SSA. There is a limited window of opportunity for SSA apparel exports to establish themselves in the U.S. market, however, as the quotas on larger, lower-cost producers are being phased out pursuant to the Uruguay Round ATC. If SSA apparel exports have not managed to obtain a meaningful share of the U.S. market prior to 2005, when the quotas on major producers will have been eliminated, SSA apparel exports to the United States probably never will become anything more than a drop in the ocean. In that event, SSA will have lost one of the few proven foundations for sustainable economic development.

STATEMENT OF THE NATIONAL RETAIL FEDERATION

I. INTRODUCTION

The National Retail Federation ("NRF") is the world's largest retail trade association with membership that includes the leading department, specialty, discount, mass merchandise, and independent stores, as well as 32 national and 50 state associations. NRF members represent an industry that encompasses over 1.4 million U.S. retail establishments, employs more than 22 million people or 1 in 5 American workers, and had registered sales in 1997 of over $2.5 trillion.

The NRF strongly supports H.R. 1432—the "Africa Growth and Opportunity Act" because it offers much-needed incentives for American companies to work with producers in Sub-Saharan Africa in ways that will promote economic development in the region. Increased economic development and opportunities in Sub-Saharan Africa will benefit not only Africans, but also U.S. consumers, exporters (including those in the U.S. textile and apparel industries), and importers (including U.S. retailers). As a result, H.R. 1432 will enhance the competitiveness of countries in Sub-Saharan Africa as suppliers, and improve the attractiveness of their industries to American investors.

II. SUB-SAHARAN AFRICA FACES SIGNIFICANT HURDLES TO INTERNATIONAL COMPETITIVENESS

It is no secret that the obstacles to economic development in Sub-Saharan Africa are significant. Due to a variety of factors, including political and economic instability and poor infrastructure, many international investors and product buyers have historically shunned the region. Many producers in Sub-Saharan African producers have poor business skills, are relatively inexperienced with letters of credit, and fail to appreciate the importance of meeting delivery deadlines. Many cannot produce to U.S. order, size, and quality requirements. Distances to ports can be long and complicated by cumbersome customs controls that delay shipments unnecessarily, forcing many exporters to rely on more expensive air freight to ship product to the United States.

All these hurdles have one overriding effect—they raise the cost of doing business in Sub-Saharan Africa. A buyer risks delays that result in shortages during peak selling seasons. Special letters of credit and air freight costs raise product costs relative to competitors in Asia and Latin America. The need to ensure quality, guard against illegal transshipments, and a host of other pitfalls virtually demands that a U.S. retailer maintain a full-time presence in the region, adding to the cost of doing business in Sub-Saharan Africa.

III. THE UNITED STATES CAN DO MUCH TO OFFSET SOME OF THOSE HURDLES

Although there is relatively little the United States can do directly, at least in the near term, to eliminate political instability in Sub-Saharan Africa, or even to build or repair the transportation system or educate entire work forces, the United States can do much to lower costs of doing business in Sub-Saharan Africa in ways that would at least begin the process of economic development in the region. This includes providing dutyfree and quota-free access to exports of products exported from the region to the United States—including basic apparel, footwear, and home furnishings. These products in particular, have proven to be critical to the establishment of manufacturing capability in developing countries, which, in turn, gives these countries a basis for economic growth.

Indeed, there is something fundamentally flawed with current policy, which, with one hand distributes financial aid for development, but with the other, limits ex-

ports to the United States with quotas and some of the highest tariff rates in the U.S. schedule. For example, when a Sub-Saharan producer begins to establish itself as a competitive producer of a given basic apparel product, as have Mauritius and Kenya, the U.S. response is to limit those countries' exports with quotas. The quotas—even the prospect of new quotas—have a chilling effect on much-needed foreign investment in the region, as the case of Kenya demonstrates. As soon as the United States began to impose quotas on U.S. imports of men's and boys' cotton woven shirts and cotton pillowcases, U.S. retail interest in sourcing from Kenya virtually evaporated. The risks are simply too great that new orders will be restricted by quota.

IV. H.R. 1432 IS A CRITICAL STEP IN HELPING THE ECONOMIC DEVELOPMENT OF SUB-SAHARAN AFRICA

Sub-Saharan African producers have the potential to be good, reliable suppliers to the U.S. market for such products as basic apparel, footwear, and home furnishings. These are products generally in short supply because (a) U.S. manufacturers cannot meet all of U.S. demand for low-cost apparel and (b) other foreign suppliers are limited by quotas that fill regularly.

While most large U.S. retailers have explored the region's potential as a supplier of these products, many have backed away from committing large orders to Sub-Saharan African producers. Indeed, many have left the region altogether, in part, due to the problems mentioned above. While duty-free and quota-free benefits available under H.R. 1432 will not necessarily bring them back in droves, these initiatives in the legislation will help to rekindle interest in sourcing from Sub-Saharan Africa, particularly by several large retailers. These benefits could also be just the incentive that Asian apparel and footwear producers need to invest in the region, and thereby provide much-needed jobs and training to the work force and allow them to become good, reliable, and quality suppliers to the United States.

V. H.R. 1432 PROVIDES IMPORTANT TRADE BENEFITS TO SUB-SAHARAN AFRICA THAT SHOULD NOT BE UNDERMINED BY RESTRICTIVE RULES OF ORIGIN OR OTHER ONEROUS AND UNNECESSARY LIMITATIONS

The principal benefits of H.R. 1432 are the provisions liberalizing trade in textile and apparel products, and are designed to stimulate business activity between the United States and countries in the Sub-Saharan region. Thus, the bill is of great interest to the U.S. retail industry, which sells the majority of apparel imported into the United States. The following provisions offer the greatest incentives for the U.S. retail industry to expand business activity in the region and are of greatest value to beneficiary countries in Sub-Saharan Africa:

- Elimination of existing quotas on textile and apparel exports to the United States from Kenya and Mauritius after those countries establish visa systems adequate to guard against transshipment;
- A requirement that the President continue the existing no-quota policy with respect to textile and apparel imports from other Sub-Saharan African countries; and
- Authorization for duty-free treatment under the Generalized System of Preferences (GSP) to products from Sub-Saharan Africa that are currently excluded from the GSP program if the U.S. International Trade Commission (ITC) finds that those products are not sensitive to imports from Sub-Saharan African countries.

Some argue that H.R. 1432 should include a U.S.-fabric only rule in order for textile and apparel products from Sub-Saharan Africa to be eligible for trade preferences under the program. They argue that such a rule is necessary to minimize the adverse impact of increased trade on U.S. workers and to diminish the possibility of illegal transshipment from countries outside the region. The NRF views such a provision not only as unwarranted, but as negating the very benefits this legislation would provide Sub-Saharan African countries.

Given the many obstacles to doing business in Sub-Saharan Africa—distance, lack of infrastructure, undeveloped business culture—addition of a U.S. fabric-only rule would merely add one more hurdle making it harder, not easier, for American retailers to begin or expand business operations in the region. If such a rule were included in H.R. 1432, American retailers would have no incentive to increase their business activities in Sub-Saharan Africa compared to other, more advanced regions, such as Asia and Latin America. Thus, the very advantages that the legislation seeks to provide to Sub-Saharan Africa would be negated by inclusion of such a rule.

Nor is such a rule necessary. It is apparent that any adverse impact on the United States as a result of the trade benefits in H.R. 1432 would be minimal and would be greatly outweighed by the positive effect on both beneficiary countries in the region and the United States. Currently, the countries of Sub-Saharan Africa

account for less than 1 percent of total U.S. textile and apparel imports. Even if trade in these products triples, the region would still be a comparatively tiny supplier to the U.S. market—a view confirmed by the U.S. International Trade Commission, which estimated that increased trade as a result of the Africa Growth and Opportunity Act would adversely affect only about 700 U.S. textile and apparel jobs. In the meantime, increased trade with Africa could support thousands of other American jobs, particularly in the retail industry.

Finally, the bill already contains strong protections against transshipment. These protections include authority for the President to deny trade benefits under the program to otherwise eligible beneficiary countries if they do not provide sufficient protection against transshipment. Transshipment is a problem created mainly by our quota system for textile and apparel products. This problem should diminish substantially once those quotas are eliminated over the next seven years as required by the WTO Agreement on Textiles and Clothing and when China has finally become a full member of the WTO.

VI. CONCLUSION

In conclusion, America's retailers strongly support H.R. 1432 as passed by the House. The retail industry urges the Senate also to pass this important legislation without adding unwise and unnecessary provisions, such as a U.S. fabric-only rule, which would only serve to defeat the positive goals of the legislation and hurt the very people it seeks to help. Let us not continue in this legislation the current, short-sighted development policy for Africa that gives with one hand while taking away with the other.

STATEMENT OF THE REPUBLIC OF KENYA

[SUBMITTED BY HIS EXCELLENCY SAMSON CHEMAI]

Mr. Chairman and members of the Senate Finance Committee, I wish to take this opportunity, on behalf of my country, to thank you for your consideration of the African Growth and Opportunity Act (S. 778).

I applaud the various sponsors of the Bill, both in the House and Senate, as well as the Secretary of State, Honorable Madeleine Albright; the Secretary of Commerce, Honorable William Daley and other distinguished witnesses who have testified in support for articulating their views and proposals on Africa in a visionary manner that will bring about positive development in Africa. I join my African Diplomatic Corps colleagues who have, either individually or as a group, supported the overall provisions of the Bill, in expressing my Government's unswerving support for it.

Kenya is one of only two Sub-Saharan Africa countries whose exports of textiles and apparel are subjected to quotas by the United States. Therefore, I would like to share our experience and to convey to you our views on the Bill, specifically on the textile provisions. I hope that this will add to it another perspective.

Kenya's economy is largely dependent on agriculture, with export earnings generated mainly from coffee, tea and horticultural products. The prices of these primary products in the international markets tend to be unstable and production tends to fluctuate depending on weather conditions, making the planning process difficult. To break out of this recurrent cycle, the Government of Kenya hopes to diversify the country's production base and exportable products through more value added manufacturing. Through such industrialization process, national economic development process can be sustained and the export earnings stabilized. In pursuit of this objective, the Kenya Government has put in place appropriate incentives and policies to encourage investment into Kenya. It continues to review and improve on these.

On the onset, one of the sectors that responded positively to the policy incentives was textile manufacturing. This was spurred by the readily available skilled an easily trainable labour force. The textile industry, therefore, started to grow and exports to the United States were beginning to show appreciable growth when the US imposed quotas on imports of cotton shirts and pillow cases manufactured in Kenya in 1994.

Apart from the quotas, Kenya and the United States enjoy cordial trade and investment relations with the balance of trade being generally in favour of the US. Kenya is currently one of the United States major markets in Africa for manufactured products, which include aircraft, machinery, electrical goods, chemicals and pharmaceuticals. In 1997, Kenya's imports from the United States were valued at US$226 million as compared to exports of US$114 million (according to the US De-

partment of Commerce). At the same time, over 80 US firms have invested a total of US$300 million in various sectors in Kenya. The potential for further trade development and investment cooperation is, therefore, a reality. However, this requires that Governments of the two countries maintain constructive dialogue and create a level playing field for investment and trade by removal of unnecessary barriers.

The advent of quotas had a double negative effect on Kenya. First, it checked the amount of textiles that could be exported to the United States. For instance, whilst Kenya exported US$33.2 million worth of woven textile products to the US in 1994, this stood at US$25.7 million and US$30.7 million in 1996 and 1997 respectively, showing a drop in exports. Secondly and perhaps even more disastrous, the quotas had the psychological effect of discouraging would-be investors into Kenya while US importers stopped souring from Kenya for fear that their supplies would be interfered with the quotas. This is because the limit set for Kenya was too small compared to the production capacity of the country, even allowing a modest growth. Thus, quotas literally scared investors from Kenya.

Kenya's exports of textiles and garments to the US are currently a minuscule. In 1997, this accounted for less than one half of a percentage point of total US imports of over 70 billion dollars. These figures show that even if Kenya's exports to the United States were to increase tenfold, it would still be a drop in the ocean compared to the US multi-billion textile industry. In any case, any increase in Kenya's exports would not be competing with United States produced goods but those from other foreign countries, like Asian countries, which already dominate the import market. What the Bill does is very American, it gives Africa a chance. It avails a window of opportunity to Africa to increase and establish its share of the US import market before the unconditional removal of quantitative restrictions under WTO requirements in 2005, which threaten to shut Africa out of the US market altogether.

Indeed, the United States Trade Commission having visited Kenya in April 1997 to investigate the likely impact of providing Quota-Free and Duty-Free entry of textile and apparel from Sub-Sahara Africa, confirmed that the technological gap and scale of production are unlikely to allow a phenomenal growth of Kenya's exports in the immediate future. There will be no explosion of imports as the local US manufacturing industry fears.

Concerning the prospect of transhipment, I can assure you that the Kenya Government does not condone this practice at all and is willing to cooperate with the US authorities in developing a cost effective and watertight control system. It may interest the Committee to note that the Embassy has already approached the United States Trade Representative with a view to collaboration in this regard. The Government is intent and will ensure that offenders are severely punished to discourage such practice. Furthermore, I believe that the industry is capable of policing itself through the competition it will generate. In any case, considering that only 2 of the 48 Sub-Saharan African countries are subjected to quotas by the United States, the fear of transhipment is unwarranted. If this is a big problem, there would be on going transhipments through other Sub-Saharan African countries and this would have been reflected in rapid growth of Sub-Saharan African exports to the United States. This has not happened.

Textile exports are important for Kenya for two main reasons. First, the sector employs a large number of people, mostly women. Therefore, it has a profound and positive effect in improving the socio-economic well being of women folk in Kenya. This gender consideration is important for Kenya and an ingredient of majority of US current technical assistance programs to Kenya.

Second, Kenya sees the textile sector as a lead sector in manufacturing that should eventually give way to others. Indeed, examples from elsewhere in the world show that as costs rise, production will shift and the production pattern and exports composition will change. We expect the same for Kenya. But for now, textiles appear to be a key to the country's industrialization.

I believe that this Kenyan scenario will apply to other African countries at comparable stages of economic development and industrialization. If doors are closed on budding African exporters like Kenya, it will discourage others from following their footsteps.

By helping African countries to grow and earn more from their exports, the US will be increasing their purchasing power and helping them to become more viable markets for the United States. This will also reduce their dependency on aid. The African Growth and Opportunity Act as it reads now appears to bring about such a win-win situation based on partnerships and equal trade opportunities, instead of traditional donor-recipient relations. The Bill deserves support as it augurs well for Africa.

Thank you.

Statement of the Republic of Mauritius

[SUBMITTED BY AMBASSADOR CHITMANSING JESSERAMSING]

Africa Growth and Opportunity Bill: S778

1. BACKGROUND

Since the initial thrust to develop a comprehensive US trade and investment policy towards Africa as envisaged in Section 134 of the Uruguay Round Enabling Legislation Act of December 8th 1994, the Republic of Mauritius has supported actively all the initiatives to strengthen the economic ties between the United States and Africa. For historic reasons Africa has been marginalized from the world economy and at best has acted as a simple provider of primary agricultural and mineral products for the industrialized countries. Today, African countries are struggling against heavy odds to combat their growing isolation from the present economic globalization, to create sustainable economic growth that can provide for the basic needs of their populations, and to encourage more democratic environments to liberate the potentials of their peoples.

2. THE IMMEDIACY OF THE PROBLEM

A major obstacle to African countries in their fight to integrate the global economy is the limited window of opportunity that faces them. The post-Uruguay Round implementation of free trade measures and greater global economic integration is moving ahead apace. By the year 2005 the Multi Fiber Agreement (MFA) will be phased out, the Free Trade Area of the Americas (FTAA) will be in place, and NAFTA will have reached complete economic integration.

Time is certainly not on the side of the Sub-Saharan African (SSA) countries.

The Africa Growth and Opportunity Bill does provide a basis for the development of meaningful trade and investment opportunities between the United States and Africa. But just as importantly, it does provide for these opportunities in the immediate term.

The failure to enact this legislation will create serious delays that will certainly considerably hamper the efforts of the African countries to profit from the window of opportunity that is available at present. This in turn may have the consequence that finding solutions to problems in Africa in the future will be far more costly and daunting to the international community than speedy and effective action at the present time. It will certainly also mean that Africa will not be able to play its anticipated role as a developed partner in trade with the United States, providing markets for US goods and business opportunities for US companies.

This is why Mauritius urges the US Senate Finance Committee and the US Senate to pass the Africa Growth and Opportunity Bill with especially its trade and investment provisions intact, as soon as possible, for delay may be fatal to this legislation.

3. TRADE AND INVESTMENT PROVISIONS

This submission, while supporting unequivocally the whole Bill as it stands, will concentrate specifically on those two economic elements which can be of immediate effect on the Sub-Saharan African countries.

(a) OPIC Funds

The Africa Bill does provide for the setting up of funds for infrastructure projects and equity to be overseen by the Overseas Private Investment Corporation (OPIC). The poor situation of the infrastructure in Sub-Saharan Africa, particularly in terms of transport, with 14 land-locked countries, is a major handicap for our continent to participate in the growing international trade of the post Uruguay-Round world. The speedy enactment of this Bill would permit the use of these finds to improve in the immediate the physical infrastructure of the Sub-Saharan African countries.

(b) Textile and Apparel

However, the major element in the Africa Bill which would allow for the immediate development of some manufacturing basis in Africa, is the provision for quota and duty-free access to the United States for exports of textile and apparel from Sub-Saharan Africa. Mauritius is the main exporter of apparel to the United States in the SSA region and our experience has shown that this method of industrialization can help considerably to overcome some of the grave problems facing African countries today.

To create sustainable growth, to create employment for young job seekers, to gain foreign exchange and to develop an export-oriented economy, African countries have realized the necessity to develop their manufacturing base. History has shown that the cheapest and most quickly set up manufacturing industry is apparel production. Since some SSA countries are also producers of raw materials such as cotton, the development of the clothing industry could create a more solid integrated industry if it uses local fabric or regionally produced fabric from another SSA country.

However there are few SSA countries which have begun their textile or apparel industries, and those that have, are for the most part in an infant stage. Any SSA country wanting to develop its textile and apparel industry has only a very short time in which to do so for with the new Uruguay Round GATT Agreement and the setting up of the WTO, the quota restrictions on the world's major textile producers will be ended with the phase-out of the Multi-Fiber Agreement (MFA) on 1st Jan 2005.

Therefore on that date countries like China, India, Pakistan, Bangladesh, Vietnam which have massive cheap labour pools, raw materials and a long tradition of textile and apparel production will have unrestricted access into the markets of the developed countries and will clearly sweep away any competition from inexperienced competitors such as Sub-Saharan Africa.

This is the importance of the duty free element in the Africa Growth and Opportunity Bill, for with that duty at about 17% on average, the Sub-Saharan African countries could continue to compete if they have that advantage over the other exporters who would have quota free but not duty free and would still have to pay the 17% tariff.

(i) US International Trade Commission

The US International Trade Commission was asked by the US House of Representatives Ways and Means Committee to look into the effect on the US economy of providing quota-free and duty-free exports to the United States of Sub-Saharan African exports of textiles and apparel. Their conclusions published in the USITC Investigation No 332–379, Publication 3056 of September 1997 were as follows:

- Since SSA countries exports in these categories represented less than 1% of total global imports into the USA, even a doubling or tripling of such SSA exports would have little effect on the US economy;
- The USITC estimated that such measures would entail at most the loss of some 676 jobs in the United States.
- The USITC believed that at least 16 SSA countries would benefit immediately from these measures, and that others could benefit in the future if they set up such industries.

(ii) US Industry attacks against Africa Bill Textile Provisions

The ATMI is concerned that textile fabric from the Far East and Asia will be made up into clothing in Sub-Saharan Africa and will enter the USA quota-free and duty-free under the Africa Bill, thus undermining its own strategy of using the Caribbean and Mexico for apparel making from US textile fabric.

Therefore they have stated that the granting of quota-free and duty-free to SSA countries will have the following negatives for the US economy:

- US workers in the clothing industry, especially Afro-American, minorities and women will lose their jobs due to the Africa Bill;
- Asian exporters whose exports are controlled by quotas will use SSA countries illegally to transship their goods into the USA, stating that they were made in Africa when in fact they were made in Asia; and
- African countries will import Asian labour to produce the clothing and the Africa Bill provisions will not benefit African labour.

(iii) Responses to these Arguments

Job Losses

There has been a major loss of jobs in the US textile and apparel industries over the past twenty years. During that period SSA exports have represented less than 1% of total imports in this sector into the USA. The job losses in these industries have been principally engendered from the relocation of US companies to the CBI countries and Mexico.

The USITC has stated that complete quota-free and duty-free entry of textile and apparel from SSA would create not more than 676 job losses.

Even if SSA countries doubled or tripled their exports to the USA it would not cause major Job losses in the USA which is principally, due to higher wages, an up-market clothing producer, and not a cheap low-market producer as the African

countries would start of as. Any job losses would probably occur in Asia as production is shifted from there to Africa.

Transshipment

The US Customs have criticized the ATMI for their scaremongering statements in the ATMI's submission to the House Ways and Means Committee of the US Congress (see attached article and letter from Ms Janet L. Labuda, Director, International Trade Management, US Customs to the ATMI).

"I am very concerned by the fact that false and misleading information was disseminated and that this information was attributed to US Customs. To prevent this from happening again, I would request that your organization submit information or statements to US Customs prior to their public release when any information or statement is attributed to US Customs".

46 of 48 SSA countries have quota-free entry to the USA and all have quota-free and duty-free entry to Europe under the Lome Convention. Yet up till now neither the USA nor the EU have found any major transshipment through Africa to their markets. In fact the SSA exports to the USA represent less than 1% of all imports and so any transshipment, if there should be any, is minimal. US Customs have found no case of transshipment going through Africa since 1996.

The Africa Growth and Opportunity Bill does also provide for control against illegal transshipment through the introduction of a Visa system in partnership with US Customs. Furthermore heavy penalties are imposed on any company which is caught involved in illegal transshipment.

(iv) Foreign Workers

The ATMI in its attempts to de-rail the Africa Bill, as well as some US ngo's, have stated that the textile provisions will not help African workers but foreign, i.e., Asian workers, will be brought into Africa to carry out the production. They have based themselves on the experience of the Northern Marianas, islands which are part of the United States.

The whole purpose of encouraging the development of a textile and apparel industry in Africa is precisely because there is a very large unemployment problem there and it would be suicidal politically for mainland African countries to introduce foreign workers in place of their own unemployed. Furthermore the suggestion that foreign workers are needed in Africa is tainted with the concept that African workers cannot do the work, which is false.

Unfortunately the opponents of the Africa Growth and Opportunity Bill have claimed that Mauritius is a country that abuses foreign workers.

This is categorically false.

While there are foreign workers in Mauritius, due to the expansion in the economy there, they represented in 1997, 5.3% of the total work force and 8.6% of the textile and apparel industry work force. All foreign workers in Mauritius are governed by the local labour laws, and are protected by minimum standards of working conditions that are enforced by the Government of Mauritius. Furthermore, since these workers are under contract and so only temporarily in the island, the Government of Mauritius ensures that companies employing foreign workers have return air tickets for these workers to leave if and when they want, even before the expiry of their contract. Mauritius is a long time democracy with freedom of association, reflected in very free trade unions, freedom of speech reflected in a very free press, and any abuses of foreign workers' rights would be quickly brought to the notice of the general public. To state they are paid starvation wages is gratuitous and false.

It should be pointed out that foreign workers were brought to Mauritius at a time of full employment in the country. These foreign workers, who do not include any Vietnamese workers, as claimed by Transafrica, but do include "African" workers, particularly those from our larger neighbour, Madagascar, which has a serious unemployment problem.

A good number of Mauritian enterprises have also set up factories in other African countries creating jobs and sustainable economic growth: for example, in Madagascar where 25,000 jobs have been created by the 44 Mauritian companies in the Malagasy Free Zone, as well as in Lesotho, Mozambique and Tanzania.

Mauritian textile and apparel companies export to renowned up-market companies in the United States and Europe all of which require strict adherence to their Codes of Conduct for production, including: no child labour, no forced labour, no compulsory overtime, acceptable working conditions, and freedom of association.

4. CONCLUSION

The Africa Growth and Opportunity Bill comes at a decisive moment in the relations between the United States and Africa. The visits of President Clinton, Vice-President Gore, the First Lady, Hilary Rodham Clinton, Secretary of State Hon. Albright and other members of the Cabinet have focused attention on the real possibilities of increased economic partnership between Africa and the United States. The unprecedented Presidential visit to 6 Sub-Saharan African countries has certainly given the impetus for increased collaboration between the United States and Africa. The Congressional Delegation visit led by Congressman Charles Rangel, together with a large number of American businessmen from a wide panoply of companies, covering manufacturing, telecommunications, information and financial services, to several African countries in December 1997, also reflected this growing interest in economic relations between the United States and Africa. I am glad to state that the Congressional Delegation also included Mauritius in their itinerary.

The Bill comes at a historic moment as we enter together the 21st century with the sincere hope that Africa, having undertaken successfully its "Renaissance", may take its rightful place at the table of nations, no longer as a supplicant but as a mature participant capable of being a solid partner in international economic development.

However, the opportunity to achieve something of concrete, something of worthwhile, is only present for a short time and we must seize that time. Delay and disappointment today will cause greater problems in the future.

There are economic measures in this Bill which can create the necessary enabling environment for mutually beneficial business development between the United States and Africa. These measures are the essence of the Bill, and without them, the Bill would not be able to deliver its promises. While there is concern by the US domestic textile and apparel industries about these provisions, the facts are there to show that Sub-Saharan Africa will not be a major threat to the US economy, but in reality will be able to develop into an important source of jobs and exports for US companies.

STATEMENT OF THE REPUBLIC OF ZIMBABWE

[SUBMITTED BY AMOS B. MIDZI, AMBASSADOR]

Mr. Chairman, and Members of the Senate Finance Committee: Thank you for extending me the opportunity to make written submission on behalf of my colleagues, the African Ambassadors who are accredited to the United States of America on the African Growth and Opportunity Act (S. 778).

Mr. Chairman, the past few years have witnessed the African continent undergoing a dual process of economic and political reforms. These reforms have in many countries resulted in greater democratization and higher economic growth rates.

In the political sphere, democracy and good governance have taken root on our continent. We have in the past few years witnessed the emergence of governments committed to the political empowerment of their people.

In the economic sphere, economic structural adjustment programs have not only stimulated high growth rates of between five and 10 percent per annum, but they have also created an environment that is increasingly receptive to Foreign Direct Investment and greater participation of the private sector in these economies. Most countries have also entered into multilateral and bilateral investment treaties with both developed and developing countries.

In view of these political and economic developments and the range of policy priorities to which most African countries continue to commit themselves, the African initiative by the US Congress and the US President could not have come at a better time. It is relevant. It is the right thing to do.

The visit by President Clinton, Vice President Gore, First Lady, Hillary Rodham Clinton, Secretary of State, Madeleine Albright and other high level American Government and Congressional leaders have highlighted the level of focused attention which Africa is beginning to receive from the United States.

The African Growth and Opportunity Act offers the first step forward as it brings real prospects for meaningful partnership between the United States and Africa. The bill demonstrates a real philosophical shift in the way the United States views Africa.

While development assistance continues to be a viable vehicle in assisting many African countries address some economic and social issues, the fact remains that development assistance alone will not position Africa as an equal trading partner with the United States Trade and investment are critical.

The process of globalization is advancing rapidly and widely with decisive results. Africa is part of the globe. Africans live on the globe. It is therefore imperative that meaningful measures be taken to arrest any tendency toward the marginalization of Africans. The African Growth and Opportunity Act offers positive prospects to do just that.

According to Callisto Madavo and Jean-Louis Sarbib, Vice President Africa Region. The World Bank,—"Only gradually are many investors discovering what most have already learned in developing countries in other parts of the world: with sound economic policies open markets, clear rules, fair laws, and healthy, educated people, economic growth and market dynamism is not only possible, but inevitable. And as the case with other developing regions, the benefits of stability and economic growth are shared by everybody: The United States, for example, exported $5.4 billion worth of goods to Sub-Saharan Africa in 1995, supporting 108,000 US jobs. this market strength is linked directly to improved policies implemented over the past 5 years. Between 1990 and 1995, US exports to Africa grew by $1.3 billion, an increase of 33 percent.

The African Growth and Opportunity Act further African and American mutual interests. Indeed the passage of this bill by the Senate will be critical primarily in stimulating the US-Africa economic partnerships.

It is important to reiterate here that Africa seeks to encourage American investment in a continent whose exports to the rest of the world are dependent on primary commodities. 85% of all American imports from Africa are made up or primary products, mainly petroleum and minerals. The African Growth and Opportunity Act holds a key to the creation and strengthening of an industrial base which is critical as Africa works to move away from an overdependence on the export of commodities. A diversified economy strengthens links among the various sectors of the economy and leads to the development of other sectors of the economy such as transportation. communications and finance: African countries realize that both horizontal and vertical diversification of their economies is critical—the textile provision in the African Growth and Opportunity Act offers African countries a real path to diversification and job creation. Africa needs to create jobs. Any weaknesses such as transshipment of textile products would be detrimental to job creation in Africa.

As representatives of our countries in the United States we strongly believe that the passage of the Africa Growth and Opportunity act is crucial in strengthening US-Africa mutual interests.

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