H.R. 984, "THE CARIBBEAN AND CENTRAL AMERICAN RELIEF AND ECONOMIC STABILIZATION ACT"

HEARING

BEFORE THE

SUBCOMMITTEE ON TRADE

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTH CONGRESS

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CONTENTS

H.R. 984, "THE CARIBBEAN AND CENTRAL AMERICAN RELIEF AND ECONOMIC STABILIZATION ACT"

TUESDAY, MARCH 23, 1999

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE,
Washington, D.C.

The Subcommittee met, pursuant to notice, at 1:10 p.m., in room 1100, Longworth House Office Building, Hon. Philip M. Crane (Chairman of the Subcommittee) presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON TRADE

FOR IMMEDIATE RELEASE CONTACT: (202) 225–1721
March 11, 1999
No. TR–5

Crane Announces Hearing on H.R. 984, the "Caribbean and Central American Relief and Economic Stabilization Act"

Congressman Philip M. Crane (R–IL), Chairman of the Subcommittee on Trade of the Committee on Ways and Means, today announced that the Subcommittee will hold a hearing on the trade provisions of H.R. 984, the "Caribbean and Central American Relief and Economic Stabilization Act." The hearing will take place on Tuesday, March 23, 1999, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 1 p.m.

Oral testimony at this hearing will be heard from both invited and public witnesses. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee or for inclusion in the printed record of the hearing.

BACKGROUND:

The Caribbean Basin Initiative (CBI) was established in 1983 by the Caribbean Basin Economic Recovery Act (CBERA) (P.L. 98–67). CBERA authorizes the President to grant duty-free treatment to the imports of eligible articles from designated Caribbean Basin countries. Originally proposed by President Reagan, the basic purpose of CBI was to respond to political turmoil and economic crisis in the Caribbean and Central America by encouraging the development of democratic governments and healthy economies through the expansion of trade.

In addition to helping to promote peace and democracy in the region, CBI has successfully served to expand U.S. exports. Prior to enactment of CBI and during the first three years the program was in effect, the United States ran a significant trade deficit with the Caribbean Basin region. In the fourth year of the program, the trade balance shifted in favor of the United States and has remained in surplus since that time. The current annual surplus is $1.2 billion. The region is one of the few in the world with which the United States has enjoyed a sustained favorable balance of trade. U.S. exports grew from $5.8 billion in 1983 to $17.8 billion in 1997.

Benefits under CBI are conditioned on countries continuing to meet seven mandatory and ten discretionary conditions, including intellectual property protection, investment protection, improved market access for U.S. exports, and whether the country is taking steps to afford internationally recognized worker rights.

H.R. 984 was introduced by Messrs. Crane, Kolbe, Rangel, and Matsui to respond to the immediate and long-term needs of Caribbean and Central American nations affected by the devastation caused by Hurricane Georges in September 1998 and Hurricane Mitch in October 1998. The bill would authorize bilateral and multilateral assistance for nations in the region. Title I of H.R. 984, the "United States-Caribbean Trade Partnership Act," offers additional incentives for economic development in the region through enhancement of the CBI trade program.

Approximately 68 percent of the value of imports from countries in the Caribbean Basin currently enter-duty free under CBERA and other preferential trade programs. However, a number of products, mainly textile and apparel articles, are excluded from CBI duty-free treatment all together. H.R. 984 amends the CBERA to provide trade benefits to products currently excluded from eligibility for duty-free treatment under the existing CBI program. Affecting about 32 percent of the imports from the CBI region, the preferential duty and quota treatment established by the bill, which is similar to the treatment accorded to imports of these products from Mexico, would be in effect for a period of five years.

In announcing the hearing, Chairman Crane stated: "As an ardent supporter of CBI, I think it is important that the Subcommittee review the state of economic development in these neighboring countries, particularly in light of the catastrophic damage done to housing and economic infrastructure by the recent hurricanes. If left unaddressed, the resulting economic dislocation being suffered in the region threatens the future of democratic governments there."

FOCUS OF THE HEARING:

The focus of the hearing will be to examine: (1) the success of the Caribbean Basin Initiative, (2) the state of economic development in the Caribbean Basin region following Hurricane Georges and Hurricane Mitch, and (3) the benefits and costs to U.S. national security interests, and to U.S. firms and workers, of enacting H.R. 984.

DETAILS FOR SUBMISSIONS OF REQUESTS TO BE HEARD:

Requests to be heard at the hearing must be made by telephone to Traci Altman or Pete Davila at (202) 225–1721 no later than the close of business, Tuesday, March 16, 1999. The telephone request should be followed by a formal written request to A.L. Singleton, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. The staff of the Subcommittee on Trade will notify by telephone those scheduled to appear as soon as possible after the filing deadline. Any questions concerning a scheduled appearance should be directed to the Subcommittee on Trade staff at (202) 225–6649.

In view of the limited time available to hear witnesses, the Subcommittee may not be able to accommodate all requests to be heard. Those persons and organizations not scheduled for an oral appearance are encouraged to submit written statements for the record of the hearing. All persons requesting to be heard, whether they are scheduled for oral testimony or not, will be notified as soon as possible after the filing deadline.

Witnesses scheduled to present oral testimony are required to summarize briefly their written statements in no more than five minutes. THE FIVE-MINUTE RULE WILL BE STRICTLY ENFORCED. The full written statement of each witness will be included in the printed record, in accordance with House Rules.

In order to assure the most productive use of the limited amount of time available to question witnesses, all witnesses scheduled to appear before the Subcommittee are required to submit 200 copies, along with an IBM compatible 3.5-inch diskette in WordPerfect 5.1 format, of their prepared statement for review by Members prior to the hearing. Testimony should arrive at the Subcommittee on Trade office, room 1104 Longworth House Office Building, no later than Friday, March 19, 1999. Failure to do so may result in the witness being denied the opportunity to testify in person.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Any person or organization wishing to submit a written statement for the printed record of the hearing should submit six (6) single-spaced copies of their statement, along with an IBM compatible 3.5-inch diskette in WordPerfect 5.1 format, with their name, address, and hearing date noted on a label, by the close of business, Tuesday, April 6, 1999, to A.L. Singleton, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements wish to have their statements distributed to the press and interested public at the hearing, they may deliver 200 additional copies for this purpose to the Subcommittee on Trade office, room 1104 Longworth House Office Building, by close of business the day before the hearing.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be submitted on an IBM compatible 3.5-inch diskette in WordPerfect 5.1 format, typed in single space and may not exceed a total of 10 pages including attachments. Witnesses are advised that the Committee will rely on electronic submissions for printing the official hearing record.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. A witness appearing at a public hearing, or submitting a statement for the record of a public hearing, or submitting written comments in response to a published request for comments by the Committee, must include on his statement or submission a list of all clients, persons, or organizations on whose behalf the witness appears.

4. A supplemental sheet must accompany each statement listing the name, company, address, telephone and fax numbers where the witness or the designated representative may be reached. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press, and the public during the course of a public hearing may be submitted in other forms.

Note: All Committee advisories and news releases are available on the World Wide Web at 'HTTP://WWW.HOUSE.GOV/WAYS MEANS/'.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202–225–1721 or 202–226–3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Chairman CRANE. Will everyone please be seated? And welcome to this hearing on the status of U.S. trade relations with the Caribbean Basin region.

Our special focus today is on the damage suffered in the region as a result of Hurricanes Mitch and Georges this past fall, and on March 4, I joined with Mr. Rangel, Mr. Kolbe, Mr. Matsui, and Mr. Jefferson in introducing H.R. 984, the Caribbean and Central American Relief and Economic Stabilization Act.

H.R. 984 is broad, authorizing legislation that responds to the debilitating damage, economic dislocation, and severe human suffering caused by hurricanes.

It promotes U.S. economic and regional security interests by offering not only the necessary foreign assistance, but also meaningful trade incentives designed to promote stability in the region through the creation of long-term, enduring opportunities for trade and investment.

Purchasing about 70 percent of their imports from the United States or about $17.8 billion annually, Caribbean Basin countries already represent a larger export market for U.S. goods and services than China. H.R. 984 will accelerate the growth in U.S. exports to CBI countries, particularly exports of U.S. textile, apparel, cotton, and yarn products, by building on the highly successful Caribbean Basin Initiative which has tripled exports to the region since it was passed in 1983.

Economic dislocation and distress in these small countries on our borders means only one thing for U.S. cities and towns: declining export markets, mounting illegal immigration, and intensified drug trafficking. The United States has poured $17 billion in foreign assistance into the Caribbean Basin region since 1980 in order to stem the forces of civil war and political instability in our own backyard.

As the House considers a supplemental appropriation for aid to the CBI region, I urge my colleagues to recognize the necessity of including a trade mechanism as part of the U.S. response. This is what the countries have told us will help them the most.

H.R. 984 is in our national interest, because it will enhance the ability of these small nations to be good customers and able partners in securing our common borders.

In closing, I want to welcome the witnesses and apologize that we have only a few hours for today's hearing. Please summarize your verbal comments, and your written documents for the record if you wish.

We must stick closely to a 5-minute time limit for each witness. And with that, I want to yield to the Ranking Member of the full Committee and simultaneously the Ranking Member of the Trade Subcommittee, Charlie Rangel and Sandy Levin.

Mr. RANGEL. Well, thank you, my friend, Mr. Crane, as well as Mr. Levin. I welcome the opportunity to listen to our witnesses on H.R. 984. For the last 5 years, I have been a strong supporter for this legislation to our true friends and neighbors in this area and supported the President when he promised to make certain that the trade legislation was brought on parity with our agreement with Mexico under the North American Free Trade Agreement.

Hurricane Mitch and Georges brought terrible destruction to this region, a fact I witnessed when I visited the area. The First Lady has visited the area—as have many Members of Congress—and seen first-hand the terrible toll that it has taken on our friends. Waiting is not an option for us. America has to respond the same way we would with any neighbor who has seen their house washed away—we owe it to ourselves to lend a hand to them, and, more importantly, to keep our word.

In addition to the important CBI parity trade benefits, this legislation would provide immediate foreign assistance for Central American and Caribbean, including micro credit and agriculture assistance, OPIC supports and other forms of economic assistance. We have so many Americans that have roots in this part of the world, even though they don't exercise the same political influence. But I think, because America has always enjoyed just doing the right thing, that we should expedite this legislation, not only to ease the pain of the hurricane, but to fulfill our trade obligations to our friends in this part of the world that have been hit hard by the advantages that we gave to our neighbors to the south in Mexico, and I yield back to the Ranking Member of the Subcommittee, Mr. Levin.

Mr. LEVIN. I thank you, and thank you, Mr. Chairman. And a special welcome to our two congressional colleagues, Distinguished Members to say the least.

We are today going to hear much about the devastation that was wrought by Hurricanes Mitch and Georges. They dealt clearly a severe blow to the people of this already, at times, impoverished region.

And providing disaster assistance is one of the keys to helping them with their recovery. But clearly, aid should not be the only component of our assistance. In the long term, I think we all agree the most valuable way we can assist this region in promoting their own economic development and growth is to also encourage trade.

It is important as we do that, that we are sensitive to the impact on American businesses and workers. Economic integration between developed and developing economies that usually have very different capital and labor markets can have a profound impact on all countries, including our own. And as developing economies integrate more and more fully and deeply into the global trading system, we must take steps to ensure the result is to raise the living standards of all the people in those nations, as well as a strengthening and not undermining of living standards here in our own country.

These issues have long shadowed the debate over CBI expansion. It has languished in Congress for nearly 5 years, largely because we have been unwilling to address these issues adequately. In the last session, the approaches taken by the House and Senate, as we know, resulted in deadlock. In the approach taken by the Administration, this session clearly attempts to avoid recreating the deadlock of last year.

In the next few weeks, I hope that we will be able to sit down with our colleagues in the Senate as well as with the Administration to discuss these issues constructively and to work out differences in the various versions of the legislation. Early in this session, I urge my colleagues to keep this approach in mind as we in Congress and the Administration work to build a new consensus that will lead us to a renewal of a bipartisan approach on the broader issues of trade. And I hope that we can apply this approach to this bill. Thank you, Mr. Chairman.

[The opening statement follows:]

Opening Statement of Hon. Sander M. Levin, a Representative in Congress from the State of Michigan

Thank you, Mr. Chairman for convening today's hearing to discuss expansion of the Caribbean Basin Initiative. As my colleagues have stated, the devastation wrought by Hurricanes Mitch and Georges dealt a severe blow to the people of this already poor region.

Providing disaster assistance to this region will be key to assisting these nations with their recovery. Aid, however, should not be the only component of our assistance.

In the long term, the most valuable way we can assist this region is by promoting economic development and growth in these countries.

In turn, the path and strategies that have proven the most successful are those that provide a framework to ensure that development benefits the greatest number of people in the region.

It is also important that we are sensitive to the impact on American businesses and workers. Economic integration between developed and developing economies that usually have very different capital and labor markets can have a profound impact on all countries. As developing economies integrate more and more fully and deeply into the global trading system, we must take steps to ensure that the result is to raise the living standards of all the people in those nations, as well as strengthening, rather than undermining, living standards here in the United States.

These issues have long shadowed the debate over CBI expansion. CBI expansion has languished in Congress for nearly five years, largely because we have been unwilling to address these issues. In the last session, the approaches taken by the House and Senate resulted in deadlock; the approach taken by the Administration clearly attempts to avoid re-creating deadlock this year. In the next few weeks, I hope that we will be able to sit down with our colleagues in the Senate as well as with the Administration to discuss these issues constructively and to work out differences in the various versions of this legislation.

Earlier in this session, I urged my colleagues to keep this approach in mind as we in Congress and the Administration work to build a new consensus that will lead us to a renewal of a bi-partisan approach on the broader issues of trade. I hope that we can apply this approach with this bill.

Chairman CRANE. Thank you, Mr. Levin.

And now, I welcome our first two witnesses—our distinguished Senator Bob Graham from Florida, and the Honorable Jim Kolbe from Arizona. And if you gentlemen will proceed, and as I indicated before, try and keep oral testimony under five, and then all written testimony will be a part of the permanent record.

STATEMENT OF HON. BOB GRAHAM, A UNITED STATES SENATOR FROM THE STATE OF FLORIDA

Senator GRAHAM. Thank you, Mr. Chairman. My good friend, Congressman Kolbe, has deferred and asked me to go first. I assume that is a positive step on his behalf.

I want to express my appreciation for the opportunity to testify today on the Caribbean and Central American Relief and Economic Stabilization Act, which you and so many of your colleagues have introduced. As you suggested, Mr. Chairman, I would like to file my full statement for the record and will summarize it; and hope to stay within your time constraints.

Mr. Chairman, there are a number of reasons why we need to move expeditiously with the passage of this legislation. The first is humanitarian. I know Congressman Rangel has been into the region since the devastation of last fall's hurricanes. Congressman Becerra and I were in Central America within the last 30 days as part of the President's visit to that region. We know first hand the extent of devastation, loss of life, destruction of infrastructure, destruction of jobs, and economic opportunities. So we, as Americans, have a special role as the closest neighbors of these devastated friends to respond with assistance.

But this goes beyond humanitarian. It is also very much in our own national interest, as, Mr. Chairman, you have just said. We know what happens when the situation in the Caribbean and Central America turns bleak. We have seen it in the past. We have seen it in political instability—a decade of wars fought in the region in the 1980's. We have seen it in terms of flows of illegal immigrants. We have seen it in the use of the island nations and Central American countries as new sites for drug transportation.

We have also seen the positive that can happen when we build strong economic relationship. As recently as 1983, the United States had a trade deficit with the CBI countries, of $700 million a year. Eight years after the enactment of the CBI initiative, that $700 million deficit had gone to a $2 billion surplus. On a per capita basis, we have the highest level of trade surplus with the CBI countries that we do with any other region in the world.

So we have both negatives to avoid and affirmatives to expand by virtue of our relationships with the CBI countries. But, Mr. Chairman, I want to focus on a new issue which I think is extremely compelling and that is demonstrated by these two shirts. This shirt is manufactured in China. It is made with fabric that was woven in Chinese mills, of yarns spun in China from cotton grown primarily in China and other parts of Asia. This shirt costs approximately $4.75 to produce.

This shirt, identical to the Chinese shirt, was produced in Nicaragua. It was made from fabric that was woven in United States' mills, from yarn spun in the United States, from cotton grown in the United States. This shirt costs $5.00 to produce. Both of these shirts were imported into the United States for sale at U.S. retail stores at a price of approximately $19.50. That was the price which the market set for this particular type of shirt.

You might ask, why is there any market for the Nicaraguan shirt, when its cost of production is significantly lower than the cost of production in China. Well, there are several reasons.

First, transportation costs are less from the Caribbean than they are from China.

Second, the proximity of the Caribbean to the United States affords some benefit in terms of quick turnaround to respond to changes in the style, desires of the U.S. customer.

But the most significant reason, the most significant reason why there is a market for the higher cost of production shirt from the CBI is the fact that China is under a quota limit for its shirts. In fact, the quota limit for 1999 from China is 2,336,946 dozen of shirts just like this.

Imports of the shirts manufactured in CBI countries are not subject to quota limits. Mr. Chairman, I recognize I am going beyond my 5 minutes. I can assure you I am close to the conclusion of this analysis.

The significance of this point is that in the year 2005, when the old multi-fiber agreements terminate as a result of the Uruguay round of trade talks, there will be no more quota limits on shirts that can be imported into the United States from China. And the consequence of that is that this region of the world faces the prospect of having the tens of thousands of jobs that have been created through the CBI initiative eroded as shirt and other apparel manufacturers move their production from the CBI countries to the low-cost of production countries in the Far East.

And when they move, not only are the jobs lost in the CBI countries—lost, but all those jobs in the United States—growing that cotton, spinning it, producing it into textile, cutting it, shipping it to the Caribbean countries, and then returning for final assembly in the United States—all of those jobs are going to be lost.

Mr. Chairman, my thesis is that we had a 5-year window in which we can help, through informed policy, such as you are advocating, to increase the economic efficiency of the CBI countries so that when the year 2005 comes, and there is no longer a quota restraint on China and other Far Eastern countries, that the CBI will be able to survive because it has become more economically competitive than it is today.

The consequences of this are very significant for the United States. It is estimated that if we pass the enhancements that you have recommended that we will increase to 70 percent from the current 50 percent the percentage of our cotton shirts that come from the Caribbean. If we fail to pass the CBI enhancements, the number is estimated to drop to 30 percent. That will mean literally thousands and thousands of jobs in the United States and an equal or greater number in our neighbors in the Caribbean Basin.

So, Mr. President, for reasons of humanitarian considerations, for reasons that relate to our own national self-interest, as seen by past history, and by our national self-interest as seen by the future economics of the apparel industry, it is very much in America's interest to pass the legislation that you have introduced, and I hope that this Congress will see those interests and will move expeditiously. Thank you, Mr. Chairman.

[The prepared statement follows:]

Statement of Hon. Bob Graham, a United States Senator from the State of Florida

Good afternoon, Mr. Chairman, Mr. Rangel and Members of the Committee. I am pleased to appear before you today to testify on the Caribbean and Central American Relief and Economic Stabilization Act. I am happy to see the House believes Central American relief, as well as CBI enhancement, are essential priorities for the continued economic health of our nation and our neighbors in Latin America and the Caribbean. I thank you for holding this hearing.

There are several reasons why it is important that we quickly pass this legislation in both the Senate and the House. The first is humanitarian. I have made three trips to the region in the months since the devastation of Hurricane Georges and Hurricane Mitch. I know that many of you have also seen the destruction caused by these hurricanes. They have caused a level of death and destruction not seen in this hemisphere in over 200 years. You have all heard of the tremendous loss of life, economic disruption, and human suffering caused by these storms. As a neighbor, a friend, and a great nation, we have an obligation to respond with assistance that will help the region to recover as rapidly as possible.

A second reason to pass this legislation is that it is in our own interest. Experience shows us that providing trade benefits to the Caribbean basin is good for our economy. Following enactment of the Caribbean Basin Initiative in 1983, our trade position with the region improved from a deficit of $700 million in 1985 to a surplus of $2 billion in 1993. Between 1984 and 1992, U.S. exports to the region nearly doubled, while total imports into the U.S. from the region grew by only 10%. On a per capita basis, our surplus with the region has consistently out paced our surplus with any other region of the world. In fact, since 1995, U.S. exports to the CBI countries have increased by approximately 22 percent.

Our interest in reducing the flow of illegal drugs and illegal immigrants to the United States is also at stake. Without assistance to restart the regional economy and make it possible for people to provide for their families, these nations will be susceptible to the scourge of drug traffickers. It will also increase the pressure for illegal immigration.

It is critical to the security of the U.S. and the countries within the region that the people of the Caribbean Basin have real opportunities in the legal economy so they are not forced to turn to drug trafficking or illegal immigration to feed their families. There is also a risk of renewed political instability if governments are unable to respond to the needs of their citizens. The painful lessons of the 1980s need not be repeated. We can and must act to prevent it.

Today I want to focus on another reason why passing Caribbean relief legislation that includes CBI enhancement is absolutely critical. That reason can best be demonstrated by looking at these two shirts. This shirt is made in China. It is made with fabric that was woven in Chinese mills of yarn spun in China from cotton grown primarily in China or other parts of Asia. This shirt costs approximately $4.75 to produce.

This (other shirt) shirt was made in the Caribbean basin. It is made with fabric that was woven in U.S. mills from yarn spun in the U.S., from cotton grown in the United States. It costs approximately $5.00 to produce.

Both of these shirts were imported into the United States for sale in U.S. retail stores. There is no significant difference between either shirt, save the location where the shirts were manufactured and the components utilized in the production process. Each shirt sells for approximately $19.00 because that is the price the retail market in the United States will bear.

You might ask why there is any market for the Caribbean made shirt if the Chinese shirt can be produced at a lower cost. There are several reasons why a market for the Caribbean made shirt exists:

- Transportation costs between the Caribbean Basin and the United States are less than the transportation costs between China and the United States.
- The proximity of the Caribbean Basin to U.S. means the transit time for textile products manufactured in the region and destined for sale in the U.S. is significantly less than the transit time for Chinese textiles. This is particularly important to the apparel industry where styles rapidly change.
- But the most significant reason is, Chinese textile imports into the U.S. are restricted by quotas. The 1999 import quota for Chinese manufactured shirts like this one is 2,336,946 dozen per year. Imports of the shirt manufactured in Nicaragua (as well as other countries in the Caribbean Basin), with U.S. grown and processed cotton, are not restricted by quotas.

The differences represented by these two shirts will become much more apparent in 2005, a watershed year for the textile industry in the U.S. and the Caribbean Basin.

In 2005, import quotas currently applicable to Chinese textile products, originally imposed under the Multi-Fiber Agreement, now the Agreement on Textiles and Clothing, will be completely phased out. At that time, textile production in the Caribbean basin will be placed at a distinct and growing disadvantage. Disinvestment in the region will occur, reducing the incentive to use any material from U.S. textile mills or cotton grown in the United States.

Mr. Chairman, that is why passing CBI enhancement legislation now is critical to the U.S. textile and yarn industries, as well as to the U.S. cotton growers. Only by providing some incentives for us to develop strong relationships with apparel manufacturers in our hemisphere will we have any chance to have a market for U.S. cotton and textiles after the quotas are eliminated in 2005. Developing relationships with the countries of the Caribbean Basin will promote political stability in the region and benefit the U.S. economy.

The numbers are clear. According to the American Apparel Manufacturers Association, without CBI enhancements, U.S. textiles and agriculture will be adversely affected and the U.S. economy will suffer. Currently, 50 percent of the apparel consumed in the U.S. is manufactured with U.S. cotton. Industry estimates indicate this number will increase to 70 percent with the enactment of CBI enhancements. However, if we fail to produce CBI enhancement legislation, this number drops to 30 percent. Currently, the average U.S. cotton content of apparel products imported into the U.S. is 20 percent. By passing CBI enhancement legislation, we anticipate U.S. cotton content will increase to an average of 80 percent. Without these enhancements, U.S. cotton content will continue to decline as apparel producers look to reduce costs and move towards products made with cheaper labor and cheaper materials.

The impact of the Agreement on Textiles and Clothing and year 2005 changes on man made fiber industries will be comparable to the cotton situation. Without CBI enhancements, the U.S. man made fiber content of imported apparel will continue to significantly decline. Without CBI legislation and in the face of year 2005 quota reductions, producers of man made fibers will be inclined to relocate their production facilities in order to take advantage of lower wages and production costs. If we begin to work to establish stronger relationships with the nations of the Caribbean basin, we will be able to provide incentives to sustain these industries in our own hemisphere.

Inherent in our CBI enhancement efforts are public and private investment incentives that will increase productivity and the quality of life within the region. We anticipate the textile industry will provide investment capital targeted for the construction and maintenance of schools, health and child care facilities, and technology enhancements to increase the productivity of both workers and existing manufacturing facilities. A well trained and healthy workforce will be more productive and efficient as Caribbean basin producers compete for shares of the international textile market.

It is also anticipated that, as a result of CBI enhancements, industry with interests in the region will provide investment capital for public infrastructure development. These funds will likely focus on roads, drinking water, waste treatment and electricity. Frequent and recurring interruptions in electric service are a significant problem in the region. "Brownouts" cause production facilities to shut down, significantly impacting their productivity. Investment from both the public and private sectors, focusing on the construction of electrical production facilities, will reduce service interruptions. As interruptions in service are reduced and eliminated, textile facilities will become more efficient and productive. Increased productivity will result in higher wages for employees in the region and enhance the competitive position of the Caribbean basin textile industry in international commerce.

We have an unprecedented opportunity to strengthen our economic and national security through the enhancement of our trade relationship with our neighbors in the region. We must act prior to 2005 to build a dynamic, formidable Western Hemisphere trade alliance that encourages U.S. industry to invest in the region and to make commitments to rebuilding the industrial infrastructure in the region. This alliance will enhance the U.S. economy by promoting markets for U.S. agricultural and textile products and promote incentives for U.S. producers to maintain their operations in the United States and the region.

Chairman CRANE. Thank you, Senator.

Mr. Kolbe.

STATEMENT OF HON. JIM KOLBE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARIZONA

Mr. KOLBE. Thank you very much, Mr. Chairman. I appreciate this opportunity to testify and to be alongside my colleague from Florida whose leadership in these issues needs no further explanation from me, nor, I might add, Mr. Chairman, does your leadership in this—your leadership, along with that of Members who are up there—Charlie Rangel, Bill Jefferson, Bob Matsui—in introducing what I think is extraordinarily important legislation.

Let me put the Caribbean and Central American Relief and Economic Stabilization Act—that's a mouthful, so we just call it CCARES, in context.

A decade ago, you had a region that was paralyzed by economic stagnation and ideological division. It was fear and uncertainty that gripped the region. There was conflict. The nations searched for an economic and political paradigm which would free them from the chains of poverty and oppression. And most of the rest of the world stood by fairly helplessly. At best, we could influence change on the margins.

But today, we see a very different world. For the first time in 175 years of independence, the nations of Central America are at peace. For the first time, democracy is flourishing in Central America. And, until the devastation wrought by Hurricanes Mitch and Georges—and Javier Becerra and I were down in November on that region. We were advancing it for you for your latest trip there with the Vice President's wife. But before those hurricanes hit, the Caribbean and the Central American economies enjoyed strong economic growth, based on free market principles. So it was, indeed, a success story.

But, of course, as we know, that wasn't the end of the story. Almost overnight, Hurricanes Mitch and Georges wiped out a decade of economic progress. Honduras alone lost 60 percent of its infrastructure. Nicaragua lost a quarter of its GDP. Hurricane Georges caused more than a billion dollars in damage. And so once again, the nations of the world are striving to find a way back toward economic growth.

And that is why this legislation really is so important. Yes, we can and we should provide humanitarian relief, foreign aid debt relief, but what these countries really need is long-term economic growth, and that is what this legislation is about—extending duty-free treatment to the remaining 30 percent of the imports from the region that aren't covered by other preferential trade regimes. It gives them greater access to the largest market in the world so that they can really move along the road to recovery.

For us, nothing could really be better. Our historic ties to the region are deep. They are longstanding. And when they prosper, we prosper. When they falter, we feel the pain through increased immigration and drug trafficking.

And let us not forget our stake in continued democratic growth in the region and the consequences of inaction on our part. It was, in large part, the political fallout from the 1972 killer earthquake in Nicaragua that helped sweep the Sandinistas into power. We cannot let us not let a decade of progress disappear. We cannot repeat the mistakes of the past.

Let me just emphasize on one other thing here that has already been mentioned by Senator Graham, and that is this question of textiles. The heart of every political debate that we have about trade for Central America always seems to center around this issue. But even as we debate this, even as the debate rages in this country, we seem to forget that in 6 short years, no protection regime based on quotas will make any difference. And that is because, as Senator Graham has said, the multi-fiber agreement eliminates all national-based quotas by the year 2005. So the consequence, as he has pointed out so ably to you and I think by illustrating this way with the shirts, is going to be a shift in production to the lowest cost producers. And that would be likely to be Asia. And that is not in our best interest. It is far better to keep the production in this region, where our fabric, cotton, yarn and other inputs, are generated and integrated into the production process. Passing CCARES will enhance the competitive position of our neighbors vis-a-vis other regions of the world. By doing so, we enhance the competitiveness of our own region.

Mr. Chairman, this is a win-win bill. Whether we like it or not, we live in global economy. As a result, U.S. textile production is moving. It is going to move somewhere. There is nothing we can do about that. But we can enhance the competitive position of our neighbors to the south and help ourselves at the same time. It helps eliminate poverty and drug trafficking in this region. It helps stop the flow of immigration by providing opportunities at home for thousands of workers in Central America. And it helps us expand economic opportunities in our own country.

In conclusion, let me just read a couple sentences from a letter I just received today from Haiti Advocacy. It is a non-profit, NGO organization that assists the people of Haiti. In this letter, they wrote these words:

CCARES enables the economies of the region to grow by removing onerous tariffs and trade barriers to their products. It is shameful that the United States of America should maintain trade barriers against some of the poorest countries in the hemisphere. Trade relief for the poor is not just a commercial issue, but a humanitarian one that resonates deeply with the American people. Haiti Advocacy has received over 3,000 letters from its correspondents throughout the country, asking their representatives to eliminate trade barriers to the region.

Mr. Chairman, I will include with my testimony a list of over 200 organizations, from Erie, Pennsylvania, to Miami, Florida, to Gering, Nebraska, all asking for some kind of trade relief for the people of Central America and the Caribbean. There is broad support for this legislation, and I commend you for your work in bringing it to the Congress. And I urge the Committee, the Subcommittee, and all of our colleagues to support this bill and bring it speedily to a conclusion and to the President's desk. Thank you.

[The prepared statement and material follow:]

Statement of Hon. Jim Kolbe, a Representative in Congress from the State of Arizona

Mr. Chairman, thank you for the opportunity to testify today.

The Caribbean and Central American Relief and Economic Stabilization Act, or CCARES, is an important and visionary legislative initiative. I commend your leadership, and the leadership of Representatives Charlie Rangel, Robert Matsui, and Bill Jefferson, in sponsoring this legislation and holding hearings today to help illuminate the plight of our Central American and Caribbean neighbors.

Mr. Chairman, we could not lessen the winds or stop the waters that wrought devastation on our Caribbean and Central American neighbors last year. We could only watch helplessly as natural fury destroyed small but burgeoning economies throughout the Caribbean Basin. We could grieve for the loss of life and lament the material losses. And when the fury subsided, we did as Americans do, we extended our hand. Our government, working in harmony with secular charities, church groups and international organizations, took swift and vigorous action to blanket the cold and shelter the homeless. We should be justifiably proud of our response.

Now is time for us to show that our reaction goes beyond sympathy and charity. It is time for us to take nature's fury and declare it a catalyst. A catalyst to offer the smaller, protected economies of the Caribbean region an opportunity to participate with the United States in the magic of a free-trade economy.

Lets put CCARES in context. A decade ago, Central America was paralyzed by economic stagnation and ideological division. Fear and uncertainty gripped the region, as nations searched for an economic and political paradigm which would free them from the chains of poverty and oppression. The most powerful nation on earth, the United States, stood powerless. At best, we could influence change on the margins. We could provide tools and economic opportunities, such as the Caribbean Basin Economic Recovery Act, but the real choices had to be made by the people of Central America themselves.

Today, we see a very different world. For the first time in the 175 years of independence, the nations of Central America are at peace. For the first time, democracy flourishes. And, until the devastation wrought by Hurricanes Mitch and Georges, the Caribbean and Central American economies enjoyed economic growth, based upon free market principles. This is indeed a success story.

But it is just part of the story. Almost overnight, Hurricanes Mitch and Georges wiped out a decade of economic progress. Honduras alone lost 60 percent of its infrastructure. Nicaragua lost a quarter of is GDP. Hurricane Georges caused more than a billion dollars in damage. Once again, the nations of the region must strive to find their way back to economic growth.

That is why this legislation is so important. We can, and should, provide foreign aid and debt relief. But these nations need long-term economic growth. The legislation extends duty-free treatment to the remaining thirty percent of the imports from the region not already covered by other preferential trade regimes. It gives them greater access to the largest market in the world, so they may begin the long road to recovery.

For the United States nothing could be better. Our historic ties to the region are long and deep. When they prosper, we prosper. When they falter, we feel the pain through increased immigration and drug trafficking. And let us not forget our stake in continued democratic growth in the region and the consequences of inaction. It was in large part the political fallout from the 1972 killer earthquake in Nicaragua that helped sweep the Sandinistas into power. We cannot repeat the mistakes of the past. We cannot let a decade of progress disappear.

Let me just address the question of textile production in the United States. The multi-fiber agreement eliminates all national-based quotas by the year 2005. The likely consequence will be a shift of production to the lowest cost producers. Most likely, this will be Asia. Clearly, this is not in the best interest of the United States. It is far better to keep production in the region, where our fabric, cotton, yarn and other inputs are integrated into the production process. Passing CCARES will enhance the competitive position of our neighbors vis-a-vis other regions of the world. By doing so, it enhances the competitiveness of our own producers.

Mr. Chairman, this is a win-win bill. Whether we like it or not we live in a global economy. As a result, U.S. textile production is moving. There is nothing we can do about that. But we can enhance the competitive position of our neighbors to the south. This helps us. It helps us eliminate poverty and drug trafficking in the region through market-led economic growth. It helps us stop the flow of immigration by providing opportunities at home for thousands of workers in Central America and the Caribbean. And it helps us expand economic opportunity at home. The more the countries of the region grow, the wealthier they become. And the wealthier they become, the better able they are to buy our cars, computers, and candy. In the end, we all win.

I urge my colleagues to support this bill. Help the people of Central America and the Caribbean help themselves.

Thank you.

HAITI ADVOCACY, INC.
WASHINGTON, DC 20003
March 23, 1999

The Honorable Jim Kolbe
2266 Rayburn House Office Building
Washington D.C. 20515

Re: *The Caribbean and Central America Relief and Economic Stabilization Act (H.R. 984)*

Dear Congressman Kolbe:

Thank you for co-sponsoring the Caribbean and Central America Relief and Economic Stabilization Act (H.R. 984 or "CCARES"). As you know, Hurricanes Mitch and Georges piled catastrophe atop poverty and misfortune besetting our neighbors in this hemisphere. Nevertheless, their commitment to democratization and reform has not wavered. As the people of region struggle with the challenges of moving forward, they deserve our help.

CCARES responds to this challenge with generous foreign assistance but, more importantly, it enables the economies of the region to grow by removing onerous tariffs and trade barriers to their products. It is shameful that the United States of America should maintain trade barriers against some of the poorest countries in the hemisphere. I trust that Congress will overcome special interest protectionism and corporate welfare lobbies in order to remove these obstacles.

Trade relief for the poor is not just a commercial issue but a humanitarian one that resonates deeply with the American people. Haiti Advocacy has received over 3000 letters from its correspondents throughout the country asking their representatives to eliminate trade barriers to the region. As you can see by the attached list, the organizational affiliations of these correspondents span a wide range of more than 200 religious congregations and civic organizations.

Nationals of the region who are working in the United States and sending money to help their families back home are also shouldering a great deal of the burden of economic relief to the area. Many originally fled their homelands during periods of widespread violence and political instability. Measures to normalize their immigration status would round out the comprehensive package of CCARES.

Thank you very much for taking a stand for people who have sacrificed so much!
Yours,

MERRILL SMITH
Director

Organizational Affiliations of Endorsers of Elimination of Trade Barriers to Central America and the Caribbean (as of March 20, 1999)

Adrian Dominican Sisters, Garner NC
Adjunct Faculty Association of NYSUT Local #4896, Suffern NY
Alliance of Love/Alliance d'Amour, Topsham ME
American Friends Service Committee, Immigrant Rights Project, Newark NJ
American Immaculate Heart of Mary Province, Inc., Missionhurst C.I.C.M., Arlington VA
Annarundel Peace Action, Annapolis MD
Apostolado Hispano de Berks County, Reading PA
Archer, Senatus & Associes, Boston MA
Arts of Haiti Research Project, Ithaca NY
Associated Catholic Charities, Oklahoma City OK
Ayuda, Inc., Washington DC
Baltimore Action for Justice in the Americas, Baltimore MD
Becker & Poliakoff, P.A., Miami FL
Benedictine Sisters of Erie, Erie PA
Benedictine Sisters of Virginia, Bristow VA
Beyond Borders, Philadelphia PA
Bienveillance Barber Shop, Hempstead NY
Blessed Sacrement Catholic Church, Oakland City IN
Casa Multicultural, Raleigh NC
Casa Reina, Gallup NM
Catholic Center, Diocese of Bridgeport, Bridgeport CT
Catholic Diocese of Richmond, Richmond VA
Catholic Family Services, Inc., Lubbock TX
Catholic Social Services, Tucson AZ
Catholics for Justice-Latin American Task Force, Shawnee Mission KS
Center One, Ft. Lauderdale FL
Center for Constitutional Rights, New York NY
Centro Romero, Chicago IL
Chicago Metropolitan Sanctuary Alliance, Chicago IL
Children's Home Society, Miami FL
Church of St. Francis, Rochester MN
Church of St. Francis Xavier, South Weymouth MA
Coalition Against U.S. Intervention, New Haven CT
Community Alliance for Youth Action, Washington DC
Congregation of the Holy Ghost Provincialate, Bethel Park PA
Congregation of Sisters of the Immaculate Heart of Mary, Roosevelt NY
D.H.M. Christian Church, Indianapolis IN
E.W. Vedrine Creole Project, Dorchester MA
East Bay Sanctuary Covenant, Berkeley CA
Ecumenical Program on Central America and the Caribbean, Washington DC
Eglise Ste. Camilus, Rockville MD
Elizabeth House, Bernhards Bay NY
Episcopal Diocese of North Carolina, Raleigh NC
Ethical Culture Society, Brooklyn NY
Evangelical Lutheran Church in America, Deleware-Maryland Synod, Baltimore MD
Evangelical Lutheran Church in America, Southeastern Iowa Synod, Iowa City IA
Evangelical Lutheran Church in America, Southwestern Pennsylvania Synod, Pittsbugh PA
Farm Workers Association of Florida, Apopka FL
Federation of Communities, Big Stone Gap VA
First United Methodist Church of Coral Gables, Coral Gables FL
Florida Coalition for Peace and Justice, Jacksonville FL
Florida Immigrant Advocacy Center, Ft. Pierce FL
Florida Immigrant Advocacy Center, Miami FL
Florida Fair For All, Apoka FL
Fonkoze USA, Philadelphia PA
Foundation for International Community Assistance, Washington DC
Friends of Haiti, Oakland CA
Friends of the People of Haiti, Moline IL
Georges William Enterprises, Miami FL
Grassroots International, Boston MA
Great Lakes Asian Center for Theology and Strategies, Evanston IL
Greater Boston Legal Services, Boston MA
Haiti Advocacy, Inc., Washington DC
Haiti Communications Project, Cambridge MA
Haiti Outreach Project, Grand Rapids MI
Haiti Parish Twinning Program, Nashville TN
Haiti Solidarity Network of the Northeast, Newark NJ
Haiti Solidarity Group, Bowling Green OH
Haitian American Alliance, New York NY
Haitian American Tribune, Somerville MA

Haitian Studies Association, Valley Cottage NY
Helping Other People Everywhere, St. John's Church, Grafton ND
Holy Cross Church, Fort Branch IN
Holy Rosary Church, Alliance NE
Holy Spirit Church, Memphis TN
Holy Trinity Church, Peachtree City GA
Immaculate Heart of Mary, Monroe MI
Institute for Deep Ecology, Santa Rosa CA
Interfaith Coalition for Immigrant Rights, San Francisco CA
Interfaith Community Services, New York NY
Interhemispheric Resource Center, Albuquerque NM
International Human Rights Law Group, Washington DC
International Institute of Erie, Pennsylvania, Inc., Erie PA
Irish Immigration Center, Boston MA
John XXIII Center, Hartford City IN
Jubilee Partners, Comer GA
Kenny Scharf Studios, North Miami FL
Laura Korkin & Associates, P.C., Boulder CO
Law Offices of Allan Ebert & Associates, Washington DC
Law Offices of Alan S. Gordon, P.A., Charlotte NC
Liturgical Conference, Silver Spring MD
Loretto Community Latin America/Caribbean Committee, Englewood CO
Lutheran Family Services in the Carolinas, Greensboro NC
Lutheran Peace Fellowship, New York NY
Marianist Community, Baltimore MD
Maryknoll Fathers & Brothers, East Walpole MA
Maryknoll Sisters, Concord CA
Maryknoll Sisters, San Diego CA
Matrix Theater Company, Monroe MI
Medical Mission Sisters, Washington DC
Medical Mission Sisters, Philadelphia PA
Mennonite Central Committee, Miami FL
Michigan Committee for a Democratic Haiti, Southfield MI
Michigan Human Rights Committee, Detroit MI
National Lawyers Guild/ National Immigration Project, Boston MA
National Minority Supplier Development Council, New York NY
National Safe Kids Campaign/APF in Haiti, Washington DC
Nebraska Association of Farmworkers, Gering NE
New England American Friends Service Committee, Cambridge MA
New England Haitian Chamber of Commerce, Mattapan MA
New Jersey-Haiti Partners of the Americas, South Orange NJ
Norfolk Catholic Worker, Norfolk VA
Oaks Project, Colma CA
Oblate Conference, Washington DC
Ocean of Glory Community-Crofton, Gambrills MD
Office of the Americas, Los Angeles CA
Our Lady of Grace Church, Chelsea MA
Our Lady of Hope Church, Coal Township PA
Our Lady of the Lake Church, Hendersonville TN
Partners of the Americas, Rockland Community College, Suffern NY
Partners with Haiti, Barrington RI
Pax Christi, Bristow VA
Pax Christi New Jersey, Highland Park NJ
Pax Christi New Jersey, Morristown NJ
Pax Christi New York North Country, Clifton Park NY
Pax Christi Norfolk/ Catholic Worker, Norfolk VA
Pax Christi Radford, Radford VA
Pax Christi St. Louis, St. Louis MO
Pax Christi USA-Haiti Task Force, Clifton Park NY
Pax Christi USA-Haiti Task Force, Huddleston VA
Peace Action, Washington DC
Peace and Justice Commission, Countryside IL
Peace and National Priorities Center, Orchard Lake MI
Pexi Overseas, Miami FL
Proyecto Adelante, Dallas TX
Radio Soleil d'Haiti, Brooklyn NY
Rainbow Express, Worcester MA
Refugee and Immigration Services, Catholic Diocese of Richmond, Richmond VA
Refugee and Immigration Services, Norfolk VA
Rehn & Fore, CPA, East Setauket NY
Religious of Jesus and Mary, Mt. Ranier MD
Sacred Heart Church, San Antonio TX
Sacred Heart Rectory, Brockton MA
St. Alphonse Rectory, San Leandro CA
St. Bernard Church, Louisville KY
St. Cecilia Church, Glen Carbon IL
St. Francis Xavier's Parish, South Weymouth MA
St. George Church, West Falls NY
St. Henry Church, Saint Henry OH
St. Ignatius Loyola Church, Denver CO
St. John the Evangelist Church, Evansville IN
St. John's Church, Grafton ND
St. Joseph the Worker, Berkeley CA

St. Joseph's Church, York, PA
St. Joseph's Proto Cathedral, Bardstown KY
St. Jude Catholic Church, Christiansburg VA
St. Leo Church, Detroit MI
St. Martin Church, Chrisney IN
St. Martin de Porres Church, New Haven CT
St. Martin de Porres House, Hartford CT
St. Mary's Church, Anderson IN
St. Mary's Church, Evansville IL
St. Mary's Church, Greensboro NC
St. Michael Church, Remus MI
St. Patrick Church, Kokomo IN
St. Patrick Parish, Cedar Falls IA
St. Peter Catholic Church, Linton IN
St. Peter Church, South Beloit IL
St. Peter Claves, Philadelphia PA
St. Pius X Catholic Church, Conyers GA
St. Rose Convent, La Crosse WI
St. Simon's Church, Ludington MI
St. Theresa Church, Evansville IN
St. Thomas Church, Alpharetta GA
St. Thomas the Apostle, Naperville IL
Save Pine Bush, Albany NY
Seattle Voices for Haiti, Bainbridge Island WA
Seifert Law Offices, Olympia WA
Sisters of Charity, Chicago IL
Sisters of Charity, Detroit MI
Sisters of Charity of Nazareth, Nazareth KY
Sisters of the Holy Cross, Area III, Austin TX
Sisters of the Holy Cross, Nashua NH
Sisters of Mercy of the Americas, Burlington VT
Sisters of Mercy of the Americas, Regional Community of Connecticut, West Hartford CT
Sisters of St. Benedict, Piedmont OK
Sisters of St. Francis, Assisi Heights, Rochester MN
Sisters of St. Joseph, Springfield MA
Sisters of St. Joseph, St. Louis MO
Sisters of St. Joseph of Peace, Bellvue WA
SNJM Justice-Peace Committee, Santa Clara CA
Social Justice Ministry, Catholic Diocese of Syracuse, Syracuse NY
Society of the Precious Blood, Carthagena OH
South Texas Immigration Council, Harlingen TX
Southern Arizona Legal Aid, Inc., Tucson AZ
TapTap Restaurant, Miami Beach FL
Thomas Merton Center, Pittsburgh PA
Transfiguration Catholic Church, Marietta GA
Transfiguration of Our Lord, Goshen KY
La Troupe Makandal, Inc., Brooklyn NY
True, Walsh & Miller, Ithaca NY
Tulsa Pax Christi, Tulsa OK
Tuscon Ecumenical Council Legal Assistance Project, Tucson AZ
Unitarian Universalist Service Committee, Cambridge MA
Unitarian Universalist Service Committee, Somerville MA
United Faculty of Florida, Miami FL
U.S.-Africa Free Enterprise Education Foundation, Inc., Tampa FL
Washington City Church of the Brethren Soup Kitchen, Washington DC
Wayland United Methodist Church, Wayland MI
Witness for Peace-Mid-Atlantic Board, Willow Grove PA
Women's Commission, International Rescue Committee, New York NY

Chairman CRANE. Thank you, Mr. Kolbe, and I want to commend both of you for your leadership on this issue. Both of you traveled to the Caribbean Basin region since the hurricanes, and you have witnessed first-hand the devastation there. How much infrastructure has been lost?

Senator GRAHAM. Well, in the case of Honduras, between 200 and 300 bridges, which served as the network to bind one region of the country to the next. A substantial percentage of their schools; their health care facilities; significant damage to their road system. For a long time, their seaports were substantially degraded and unable to be the point of entry of the goods that were necessary to start the relief effort.

Mr. KOLBE. I would just add at least 100 percent of their banana production in Honduras has been wiped out for at least the next year, and a smaller proportion for the years thereafter. But it will take at least a year and a half for the banana crop to come back.

Senator GRAHAM. And because of the loss of roads and bridges, those agricultural areas that are still in production are having difficulty getting their crops to the market.

Chairman CRANE. As you know, we have had differences with our two bodies in trying to address legislation that would provide not only relief and help to those developing republics, but simultaneously would be beneficial to consumers here, and I know that there are differences that are still outstanding between the House and the Senate. I am aware that the President has transmitted a CBI proposal to Congress, although no Member on the House side has introduced it. Have you reviewed the new Administration proposal?

Mr. KOLBE. Mr. Chairman, I have read the summary of his proposal, and I think your bill, our bill, is much better. It is much more expansive. I mean, I think the key thing, again, is this textile issue. And I think you have got to not absolutely restrict it to fabrics that are grown in the United States or made in the United States. The natural course will be that we will have more of it if we do that. But that should not be the issue. We should not be hung up on that.

Senator GRAHAM. Clearly, apparel is the focal issue. In Honduras, for instance, where there are approximately 100,000 people employed in industries that benefit by the CBI, over 95 percent of them are employed in the apparel assembly industry. That is the significant target if the goal is to provide some early economic relief through diversification from the high levels of previous reliance on agriculture in Honduras and other countries.

I think this issue of 2005 has fundamentally change the argument. The issue to me is what do we need to do in our national self-interest in the next 5 years in order to increase the relative competitive position of the CBI countries in—specifically in apparel vis-a-vis the Far East. Because if we don't use this 5 years in a constructive way to narrow that competitive disadvantage, 10 years from now we won't have anything to talk about, because all the shirts are going to be produced in the Far East and not only will those almost 100,000 people in Honduras be out of a job, but a lot of American cotton farmers, a lot of American textile workers will also be out of a job.

Chairman CRANE. On three different Presidential trips, the Administration has promised the CBI region that it would work to try and develop CBI enhancement legislation. Based upon what you have seen thus far coming from the White House, do you think they are acting seriously on this issue?

Senator GRAHAM. Mr. Chairman, I was with the President in Honduras, Nicaragua, and Salvador, and he certainly made strong statements in each of those countries of his commitment to the goal of the United States not only providing humanitarian relief, but also assisting in the form of economic relief which CBI enhancement would provide. So I think the President is personally committed, has directed his people at the U.S. Trade Representative's Offices and those who deal with the Congress to give this a high priority.

Chairman CRANE. Well, Senator, did you read his proposal that he has sent to Congress? I am curious as to whether you think it bridges the gap between House and Senate differences?

Senator GRAHAM. In all candor, Mr. Chairman, I have not read the President's proposal. My feeling is that what we need to do is to get some bill passed here in this distinguished body, some bill passed in the Senate, and then let us get to conference. And if we in conference can focus on this question of what kind of bill will use this next 5 years most efficiently in order to help us survive economically in the apparel industry in the western hemisphere and specifically in North America and the Caribbean after the year 2005. I think we can come out with a very constructive result.

Mr. KOLBE. Mr. Chairman, if I might just add, in my view the President's proposal doesn't really help to bridge the gap between the two bills. The House bill is over here. The Senate bill is over here, and the President's bill is just off over there to the side a little bit.

I do believe the President is committed to this thing, but he really needs to put his shoulder to the wheel and that of everybody at USTR and in the White House on this, and work up here on Capitol Hill to get a piece of legislation that the two sides can agree on. And I think the President really needs to get involved in doing that.

Chairman CRANE. Thank you. Mr. Levin.

Mr. LEVIN. I thank you very much, and I very much agree that we need to work on this and see if we can bring it to a conclusion. Senator Graham, let me suggest an alternative approach to our passing a bill here, and then your passing bill there, and then see if the twains can meet in conference.

There is a substantial difference in the textile apparel provisions between the House and the Senate. In a word, to my friend, Jim Kolbe, the Senate bill doesn't accept your statement toward the end of your testimony, U.S. textile is moving. There is nothing we can do about that. The Senate bill suggests there is something we can do about it, and that is that there be requirements for the materials that are used we know what is in the Senate bill. And it is a serious position. And essentially what the President—I think, I haven't talked to him directly about it—I think the decision was to introduce or to present a bill that would suggest that we break the deadlock on this by coming out closer to the Senate provision than the House provision. And the fact that quotas will be eliminated in 5 years, it doesn't mean tariffs will be.

And I think essentially, Senator Graham, that what the President's approach does is to adopt your suggestion that these are 5 critical years, and that we have to develop strong relationships between the producers of the materials here and other facets of it, and those who are essentially putting it together elsewhere in the Caribbean. And I think you argue strongly, and I think quite persuasively, that these are 5 critical years.

Now, we can try to resolve—there are other issues in the CBI bill, but this, I think you will agree, is the most sensitive one. And I don't think we can resolve it by being insensitive to a sensitive issue. And I just want to suggest, I don't pretend to have any crystal ball on this or anything close to it, as the Chairman of the Subcommittee and I discussed a few months ago, an alternative strategy would be for us to see if we could have some discussions on this piece of the bill and perhaps others before it goes through here, because otherwise, I think, it might involve itself in a major battle, a major confrontation that would not necessarily help the eventual disposition, the eventual resolution of this bill. We clearly need to help Central American countries develop economically. They are showing they can evolve democratically, a dramatic contrast from a long time ago, when my father used to go to Central America, and it was in those days counselor general from a totally unknown country in Michigan—that was the Republic of Honduras. It was a pure dictatorship. They have evolved into democracies.

We have all kinds of reasons to try to be helpful, and I just want to throw out the suggestion that instead of just kind of playing, doing our thing here, and then doing your thing there, that we see if we can have some constructive discussions beforehand, because the two of you sit there united in your feeling we have to act, but with some differences as to what the content would be. And I don't think we will resolve the issue by trying to blur it or trying to evade it or finesse it. We need to meet it, I think, head on. And my own judgment is the sooner the better. I don't know if you want to comment on that, Senator or Mr. Kolbe, just to suggest.

Senator GRAHAM. Mr. Congressman, to tell you the truth, I have been introducing CBI enhancement legislation almost since I have been in the Senate. I will take any train that will get us to the destination of passage of a bill that will make a significant difference, particularly will allow us to be competitive after the year 2005. And your suggestion of maybe using the next few weeks, and I agree with you—the emphasis ought to be on the few to see if an agreement can be reached that both houses and the White House would agree will be the basis of our moving forward. I would like to buy a ticket on that train.

Mr. KOLBE. Mr. Levin, I would just say that I don't think there is any real fundamental disagreement at all on any of this among us here. We all want to get a bill passed. We are trying to strategize as to how we can do that. And if negotiations before we pass a bill on either side can help us do that, that is great. My only plea would be to downtown—to the White House to please get involved in that process. I think they can help us do that, and I just—and I am not trying to be critical, because I have worked with the Administration on this legislation and other trade legislation, as you know, but I just don't think they have been really engaged yet on this. We need their help. We are not going to do it unless we get their help.

Mr. LEVIN. I think your constructive feeling about that, however you describe their role up to this point, I think is very useful, and I hope we can proceed on that basis. Thank you, Mr. Chair.

Chairman CRANE. Mr. Houghton.

Mr. HOUGHTON. Well, Mr. Chairman, just very briefly. Clearly, our region is taking on a different hue. We need some legislation. We are not going to resolve the difference between the House and the Senate here. I agree with Senator Graham that almost any train is worth it, to hop on it, and we ought to do it. And I support the legislation which ultimately will come out of this Committee. Thank you.

Chairman CRANE. Mr. Rangel.

Mr. RANGEL. Thank you, Mr. Chairman. Thank both of you for your interest over the years. It seems like the equitable thing to do is after we have gone into a treaty agreement with our friends in this region that if, indeed, the NAFTA agreement gave them a disadvantage, that we would try to place them on parity. But I suspect that your offices, like mine, have received some opposition to this bill, indicating that No. 1, excuse me—that there has been no loss of trade with the Caribbean countries as a result of NAFTA, and No. 2, that this bill will cause an increase in the loss of American jobs if enacted into law.

Could I hear comments from both of you on that subject?

Mr. KOLBE. I'll begin this time. I have frankly not had a lot of letters or calls from people on this. This has been a fairly low-key issue, at least in my area. But I just would reject, Mr. Rangel, the argument that we are going to lose jobs as a result of it. I think the point that we need to keep making over and over again is that in 2005, all of these protections come off, and you will have no ability to control where it comes from. If we can now, in these interim years, give this kind of relief to Central America, it will help stimulate the investment in those countries that will make it possible for more of the jobs to be saved in this country, as we do make the fabric or the yarn or the thread here in this country.

So I do think that we can save jobs.

Senator GRAHAM. Mr. Congressman, in reference to the first question, I think the statistics which I would like to secure and submit for the record are quite persuasive that since the adoption of NAFTA, which has given to Mexico an eight to 10 percent differential in the cost of importing apparel products into the United States, that there has been a significant slowing of the investment in the CBI region and a commensurate rapid acceleration of investment in Mexico.

Second, in terms of jobs, I think we have got to look through the front windshield, not through the rear view mirror. And the front windshield looks out 5 years to what are the I think almost inevitable consequences if we do nothing, and that is that there will be such a competitive disadvantage between the Caribbean Basin and the Far East with no quota restrictions on importations of apparel from the Far East that there will be a strong incentive to relocate jobs from Honduras to Bangladesh, and that when that happens not only will the jobs be lost in Honduras, but all of the support industries, from the farmer to the textile worker in the United States will have their jobs and income affected.

Mr. RANGEL. And I suppose we should take in consideration the balance of trade with the increase imports coming from the United States into these neighboring countries. And that tradition has been over the years.

Mr. KOLBE. Mr. Rangel, could I—staff just handed me these figures. Since the introduction, since the implementation of NAFTA, there has been a 548 percent growth of apparel from Mexico into the United States. As a percentage of total exports to the United States—the CBI has always had more than Mexico. But Mexico's exports to the United States as a percent of CBI's exports to the United States have grown from 28 percent in 1993 to 75 percent in 1998. So I think the clear effects of NAFTA can be seen from that.

Mr. RANGEL. Thank you.

Chairman CRANE. Ms. Dunn.

Ms. DUNN. Thank you, Mr. Chairman. I want to tell you two gentlemen that I do agree and support your bill. But I want to ask you a couple of questions.

If we don't extend enhanced CBI benefits to the Caribbean Basin, aren't we, in some way, undermining democratic governments that have been established in this region by further undermining their economic stability?

Senator GRAHAM. Absolutely, Madam Congresswoman. I think one of the, one of the disturbing questions about the western hemisphere is the fact that the two oldest democracies on the continent of South America are Colombia and Venezuela. And if you would ask most informed observers today which are the nations that are in the most difficulty, it would be Colombia and Venezuela.

To me, one of the lessons from that is that it is not enough to have an election which are important to democracy and one of those is an economic system that will give people a sense of participation and hope in a more prosperous future for themselves and their families. And that is exactly the challenge before these new democracies throughout the hemisphere, but particularly those democracies which so recently were engaged in violent civil conflict, such as Guatemala, Salvador, Nicaragua. And building that economic base probably as much as any single factor will determine whether they continue on the path of democracy or revert back to the instability of civil violence.

Mr. KOLBE. My one word answer is yes. It would.

Ms. DUNN. Thank you. Also since passage of CBI, United States exports to the region have tripled to about $18.5 billion. Would enactment of your bill, H.R. 984, ensure that United States exports to the region would remain at high levels?

Mr. KOLBE. Ms. Dunn, I think my answer to that would be yes. I mean—none of us can predict with absolute certainty and certainly all of us have I think made errors in some predictions we have made about trends of trade after the adoption of GATT, the Uruguay Round of GATT, or after the adoption of NAFTA; and so I would be hesitant about making these—those predictions with absolute certainty. But I think the answer is yes, it does help to assure that the United States can continue to export the kind of infrastructure that supports the manufacturing and export industries in those countries. So I think we will benefit from it and will keep our export levels higher.

Senator GRAHAM. My answer is yes.

Ms. DUNN. Thank you very much, Mr. Chairman.

Chairman CRANE. Mr. Becerra.

Mr. BECERRA. Thank you, Mr. Chairman. And I really have no question other than to comment to say thank you to the two gentlemen for their work on this issue, and especially for their efforts to go into the regions affected by the recent hurricanes and to propose constructive legislation to try to resolve the matters. I agree with what both gentlemen have said on the issue of trying to get something to the table so we can get the President to sign something. Hopefully, it will be a good compromise that everyone can live with, and I am hoping that I will be one of those who gets to support it as well. Thank you, Mr. Chairman.

Chairman CRANE. Thank you, and I want to thank you gentlemen again, not only for your participation today, but your ongoing involvement in this issue, and look forward to hopefully to a successful conclusion this year.

Senator GRAHAM. Thank you so much.

Mr. KOLBE. Thank you very much, Mr. Chairman.

Chairman CRANE. And now I would like to ask our second panel to take seats. The Honorable Richard Fisher, Deputy USTR, and the Honorable Alan Larson, Assistant Secretary for Economic and Business Affairs.

And, gentlemen, after you have taken your seats, please proceed in the order I introduced you, and, as I indicated before, try to keep your oral presentations around 5 minutes. Any printed statements will be made a part of the official record.

And with that, we will start with you, Mr. Fisher.

STATEMENT OF HON. RICHARD FISHER, DEPUTY UNITED STATES TRADE REPRESENTATIVE

Mr. FISHER. Thank you, Mr. Chairman. My colleague, Assistant Secretary Larson, and I are here to answer Congressman Kolbe's plea and to begin the process of moving down the track that Senator Graham had mentioned. I would like to start by offering my thanks to you and to the Subcommittee for your consistent support of our mission to open markets, expand trade, and enforce trade laws and trade agreements. We very much appreciate our close working relationship with this Committee and the Subcommittee, and we hope to continue it well into the future.

Mr. Chairman, we in the Administration share the concerns you and others in Congress and the panelists that appeared before us have expressed regarding the need to support our neighbors in Central America and the Caribbean in the aftermath of last year's devastating hurricanes.

This is, of course, a humanitarian imperative, as mentioned by everyone who has commented on this process so far. It is also a matter of our national interest. As the Congresswoman implied in her question just now, strong, expanding economies and the ability to succeed in the international economy are essential for the Caribbean nations to create health markets for their own goods and services, to fight crime and narcotics, and to create—to your point, Congresswoman—stable, democratic societies.

And they are essential for us to create mutually beneficial trade relations with the region. As you mentioned, Mr. Chairman, in the introduction to this session, the Caribbean Basin Economic Recovery Act, better known as the Caribbean Basin Initiative, or CBI, has helped us toward this goal for some 15 years since its initiation during the Reagan Administration. Indeed, the CBI is the centerpiece of our trade relationships with Central America and with the Caribbean. Since 1994, CBI has complemented the peace process in Central America, assisted in the regions progress toward today's era of peaceful democracy, and stimulated two-way trade between the United States and CBI countries to our mutual benefit.

And this is evident, of course, in our trade statistics. Last year, the U.S. merchandise exports to CBI countries were more than $19 billion, 48 percent of which, parenthetically, were textiles. To put this in context, as you referenced, Mr. Chairman, in your introduction, last year our goods exports to China were $14.4 billion. Our goods exports to France were $16 billion. Our goods exports to Brazil were $16 billion. So, in short, we export more to the CBI countries than we do to the countries I just mentioned. Regarding our imports, as you referred to, Congresswoman, CBI beneficiaries exceed $17 billion.

Two-way trade with CBI, therefore, exceeds $36 billion. That is real money. The Caribbean Basin is a market of great importance to the United States, and we will all prosper from better two-way trade. That is the underlying premise.

In designing the legislation that we have put forward, the Administration, Mr. Chairman, has considered a number of issues: the evolving economic and trade situation in the Caribbean region; the need to help the region prepare for the initiative of the Free Trade Areas of the Americas, the FTAA; the need for the region to meet its commitments to the World Trade Organization; and to succeed in the world economy.

We also consider the constraints imposed upon us by budgetary considerations and the advice that we have received from our friends in Congress. As a whole, we believe that the package that we are putting forward is one of mutual benefit for the United States and the beneficiary nations. I want to stress that we look forward to working with you to further improve it, if necessary, and, as was just mentioned by the distinguished Senator and Congressman, to ensure its passage.

In an overall sense, the legislation authorizes enhanced temporary trade benefits to the Caribbean Basin countries for apparel products assembled from U.S. fabric and textile handicrafts, and all non-textile products currently excluded from the CBI program. These non-textile products are petroleum, with petroleum derivatives, footwear, certain categories of flat goods and gloves, leather apparel, canned tuna, and categories of watches.

As was mentioned earlier, the sticking point in these previous discussions have been textile and apparel provisions, so I would like to turn to that and summarize what is in the President's proposal.

The President's proposal provides eligible countries immediate duty-free and quota-free treatment for products that are (a) assembled in the CBI region of fabric, which was made in the United States from U.S. yarn and cut in the United States; (b) that are cut and assembled in the CBI region of U.S.-formed fabric containing U.S. yarn; or (c) handloom or hand-made or folklore articles. For non-textile products, the President would be authorized to cut tariffs of the rate applicable to Mexican goods under the NAFTA.

The benefits under the bill, Mr. Chairman, would apply for 21 months, from October 1, 1999 through June 30, 2001. We have many different types of eligibility criteria. I see that the red light is on. I will summarize them as quickly as I may, if I may continue.

There are basically two types of eligibility criteria in the President's proposal. One is mandatory, and the other is discretionary. With respect to mandatory requirements, countries may be designated beneficiaries only if they comply with existing CBI criteria and also demonstrate commitments to undertake their WTO commitments on or ahead of schedule, participate in the FTAA negotiations, and undertake other steps necessary for eventual accession to the Free Trade Area of the Americas, or, in its place, an equivalent free trade agreement.

There are 11 discretionary data, which are summarized, Mr. Chairman, in my written statement, and I won't take up your time today by reviewing them.

I want to say, though, that the legislation also has very strong provisions to prevent transshipment and other abuses that one might be tempted to entertain to exploit the provisions of this initiative.

Under the CBTA, if the President finds that goods from third countries are being transshipped through CBI's countries and are receiving duty-free preference that they should not be receiving, the U.S. Trade Representative, our office, may reduce the amount of any quota, including eliminating a country's access to the U.S. market for this product.

Furthermore, the Caribbean Basin Trade Enhancement Act contains a safeguard provision that enables the President to suspend duty-free treatment if temporary import relief is determined to be necessary due to serious injury to domestic industry.

In summary, Mr. Chairman, this proposal offers significant trade benefits to our partners in the Caribbean and Central America. It reflects a maturing relationship between the United States and the countries of the Caribbean Basin. It helps to promote the goals we share with CBI members and their full participation in regional and world trade. Its passage will help the region remain on a healthy track, and the track it has been on for the last years of CBI. Growing economies, stabilizing democracies, strengthening peace and close trade and other relations with the United States. And it will provide a source of hope and confidence in the future to the people who, as we speak, are rebuilding their homes and their farms and lives in the conclusion and aftermath of these horrible hurricanes.

Mr. Chairman, let me thank you, in conclusion, and the Members of this Committee and Subcommittee for your constant support of strong relations between the United States and our neighbors in the Caribbean Basin. Ambassador Barshefsky and I, all of us at USTR and in the administration look forward to working with you to ensure passage of meaningful CBI enhancement legislation this year.

As Congressman Rangel—excuse me for taking liberties, Charlie—mentioned earlier, waiting is not an option. We are eager to find a practicable solution to get a CBI initiative passed through the Congress. Mr. Chairman, I thank you for the time, and we look forward to working with you.

[The prepared statement follows:]

Statement of the Hon. Richard Fisher, Deputy United States Trade Representative

Mr. Chairman, Mr. Ranking Member, Members of the Subcommittee: I welcome this opportunity to appear before the Subcommittee today to discuss the Administration's proposed Caribbean Basin Trade Enhancement Act (CBTEA) and our desire to work with you to pass CBI enhancement legislation.

Let me begin by offering my thanks to the Subcommittee for your consistent support of our mission to open markets, expand trade, and enforce trade laws and trade agreements. We appreciate our close working relationship. We hope to continue it into the future.

INTRODUCTION

Mr. Chairman, we in the Administration share the concerns you and others in Congress have expressed regarding the need to support our neighbors in Central America and the Caribbean in the aftermath of last year's devastating hurricanes.

This is, of course, a humanitarian imperative: in the past months, hundreds of thousands of Central American families have lost their homes and livelihoods, and risks to health and nutrition in affected areas are high. It is also a matter of our own national interest. Strong, expanding economies and the ability to succeed in the international economy are essential to create healthy markets for our own goods and services, to fight crime and narcotics, and to create stable, democratic societies.

Thus, as we assist our neighbors in the Caribbean Basin by increasing market access for their products, we advance our trade agenda by encouraging them to continue to reform their economies and to move closer to our common goal of more open and fair trade and investment policies throughout our hemisphere; and to our broader national interest in a close relationship with our neighbors based on common interests and shared values.

The Caribbean Basin Economic Recovery Act (CBERA), better known as the Caribbean Basin Initiative (CBI), has helped us toward this goal for fifteen years since its initiation during the Reagan Administration. Indeed, the CBI is the centerpiece of our trade relations with Central America and the Caribbean. Passed by Congress in 1983 and implemented during 1984, CBI has complemented the peace process in Central America, assisted in the region's progress toward today's era of peaceful democracy, and stimulated two-way trade between the United States and the CBI countries to our mutual benefit.

This is evident in our trade statistics. Last year, United States merchandise exports to the CBI countries were more than $19 billion. To put this in context, last year our merchandise exports to France were $16.0 billion, to Brazil $15.9 billion, and to China $14.4 billion. Our imports from CBI beneficiaries exceeded $17 billion. Two way trade with CBI countries exceeds $36 billion. The Caribbean Basin is a market of great importance to the U.S., and prosperity in the region will help our two-way trade grow further.

In the aftermath of last winter's hurricanes, the Administration strongly supports enhancing the CBI's benefits. This will help increase international confidence in the long-term economic prospects of the Caribbean region, supporting investment both at this especially difficult time and over the long term. Let me stress at the outset, Mr. Chairman, that the Administration's primary goal with regard to CBI enhancement is to work together with you to pass a balanced, realistic and meaningful bill this year.

THE CARIBBEAN BASIN INITIATIVE (CBI)

Let me begin with some of the CBI's history.

Created in 1983, the CBI allows the President to grant unilateral duty-free treatment on U.S. imports of eligible articles from CBI beneficiary countries. Most recently, Congress amended the CBI in Title II of the Customs and Trade Act of 1990. Commonly known as CBI II, this Caribbean Basin Economic Recovery Expansion Act of 1990 made the trade benefits of the CBERA permanent by repealing the 12-year termination date of September 30, 1995. In addition, it made several improvements in the trade and tax benefits. These improvements included: a 20 percent tariff reduction on certain leather products, phased in over five years; duty-free treatment for Puerto Rican products imported from CBI countries; and duty-free imports from beneficiary countries for products made from 100 percent U.S. components, except for textile and apparel articles, and petroleum and certain products derived from petroleum.

Additional improvements provided in CBI II included: an increase in the duty-free tourist allowance from $400 to $600; an exception to the general cumulation rule, required under the antidumping and countervailing duty laws, for imports from CBI beneficiary countries; and a scholarship assistance program for the region.

Since then, as part of our effort to improve the program through administrative enhancements, Administrations have expanded the list of products eligible for CBERA duty-free treatment through two proclamations, intended to make the CBERA consistent with the Generalized System of Preferences (GSP). Effective September 28, 1991, 94 tariff categories, affecting 47 million dollars in 1991 imports, were provided new or expanded duty-free treatment. A second expansion was effective on July 17, 1992. Twenty-eight tariff categories were provided new or expanded status as CBI-eligible goods.

Principles of CBI Enhancement

That brings us to the present, when in the wake of last winter's natural disasters, the Administration proposes extending CBI benefits extended to products heretofore excluded by statute. In designing this legislation the Administration considered a number of major issues: the evolving economic and trade situation in the Caribbean Basin region; the region's role in the negotiations toward the Free Trade Area of the Americas; the region's commitments to the WTO; the constraints imposed upon us by budgetary considerations; and areas in which enhancement will benefit both the U.S. and the beneficiaries.

In the regional sense, the greater openness of most Caribbean Basin economies over the past decade, improved macroeconomic stability, and the growth of foreign direct investment has set CBI countries on a path toward improved economic growth. Our legislative proposal supports these reforms. We also considered the perception among some CBI countries that passage of the NAFTA placed them at a relative disadvantage vis-a-vis Mexico, especially in the textile and apparel sector. Finally, we wanted to construct the enhancement in a way that would help the region make the transition to the Free Trade Area of the Americas.

With respect to the trading system, today all but one of the CBI beneficiaries belong to the World Trade Organization. As WTO members they have undertaken a commitment to adhere to the rules of that organization. The CBI Trade Enhancement Act will promote compliance with those obligations, especially the new obligations emanating from the Uruguay Round. In many instances, the countries of the Caribbean and Central America will conclude their Uruguay Round transition periods during the period of the CBTEA.

Of course, the principal sector excluded from CBI until now has been the textile and apparel sector. The CBTEA has been constructed with the intention to respond both to the concerns of the CBI countries that feel they have been disadvantaged by Mexico having NAFTA benefits for apparel shipments to the U.S., and to the concerns of U.S. industry that their own investments and partnership production operations in the Caribbean have continued viability and success.

The key to CBI's success is that the trade it promotes provides benefits to both the U.S. and the Caribbean Basin countries. We should retain that feature of mutual benefit. The vast majority of our apparel imports from the Caribbean Basin countries contains substantial U.S. content. This means that our producers and our workers make fabric and the other inputs (linings, sewing thread, notions) that go into the CBI's apparel. Our companies employ people in manufacturing textiles and in cutting and distribution in the U.S., and facilities in the Caribbean and Central America employ people in sewing and assembling and some textile manufacturing. As a result of this complementarity, we have seen a declining share of U.S. market taken by imports from Asian sources in favor of production within the hemisphere. Last year in volume terms, imports of apparel from the CBI grew 8 percent, while imports from China declined by four percent. Moreover, the CBI countries, taken together, are our largest foreign supplier of apparel products. We fully expect the textile and apparel provisions of our proposed legislation to further expand such trade in a manner that will benefit the United States as well as the CBI beneficiary countries.

Thus, given the potential benefits for these countries and the changing economic and trade environment in the region, we have designed a program that would give countries the incentive to continue to make progress on trade policy. We have also given a great deal of thought to ensuring increased market access for U.S. businesses as we grant increased preferences to CBI countries. This bill does not create a one way street of open-ended trade preferences with no benefit to U.S. interests. It promotes a responsible partnership for prosperity and for shaping the hemisphere's economy for the new century, as it fulfills the President's commitment, reaffirmed during his recent trip to Central America, to work with the Congress to pass legislation that would provide enhanced trade preferences to countries in the region.

PROVISIONS OF THE CARIBBEAN BASIN TRADE ENHANCEMENT ACT (CBTEA)

Let me now discuss the specific provisions of the Administration's bill. In an overall sense, the legislation would authorize the President to provide enhanced temporary trade benefits to Caribbean Basin countries for: apparel products assembled from U.S. fabric; textile handicrafts: and all non-textile products currently excluded from the CBI program. Those non-textile products are: petroleum and petroleum derivatives, footwear, certain categories of flat goods and gloves, leather apparel, canned tuna, and a category of watches.

1. Textile and Apparel Provisions

The President's proposal would provide to eligible countries immediate duty-free and quota free-treatment for textile and apparel products if such products are:

(A) assembled in the CBI region of fabric which is made in the U.S. from U.S. yarn, and cut in the U.S. (i.e., 807–A program);

(B) cut and assembled (using U.S. sewing thread) in the CBI region of U.S. formed fabric containing U.S. yarn (known as the "809" program); or

(C) handloom, handmade, or folklore articles (as identified by President and properly certified by the exporting country).

For non-textile products, the President would be authorized to cut tariffs to the rate applicable to Mexican goods under the NAFTA. The benefits under the bill (e.g. 100 percent tariff reduction) would apply for 21 months, from October 1, 1999 through June 30, 2001.

2. Eligibility Requirements

Mandatory Eligibility Requirements. A country would be designated a beneficiary for the new trade benefits only after the President has determined that it has complied with a set of new eligibility criteria in the bill. (Every CBI beneficiary already must be complying with the criteria in the existing CBI law to continue to receive trade benefits.) The mandatory eligibility requirements are that a CBI country has demonstrated commitments to undertake its WTO obligations on or ahead of schedule; to participate in FTAA negotiations; and to undertake other steps necessary for eventual accession to the FTAA or an equivalent free trade agreement.

Discretionary Eligibility Requirements. The bill also provides eleven discretionary eligibility requirements to be examined in determining whether the benefits provided in the bill should be extended to a particular CBI country.

After the initial designation of CBTEA beneficiary countries based on the mandatory eligibility requirements, the President would examine these criteria to determine whether such countries should continue to receive 100 percent of the CBTEA tariff reduction benefits. The CBERA reports prepared by the Administration for the President to send to Congress would include recommendations concerning the extent to which each beneficiary country should continue to enjoy CBTEA benefits. In the event a country failed to demonstrate sufficient progress under these criteria, the country could have its level of benefits reduced during the period currently covered by the CBTEA or, should the CBTEA be extended beyond June 30, 2001, at a subsequent time. The eleven additional eligibility requirements are as follows:

- *International Trade Rules:* The extent to which a country follows accepted rules of international trade provided in the WTO Agreement, including compliance with WTO panel and Appellate Body determinations.
- *Intellectual Property Rights (IPR):* With respect to intellectual property rights, the bill includes eligibility criteria regarding a CBI nation's compliance with the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights, the provisions of Chapter 17 (Intellectual Property) of the NAFTA, and certain other IPR standards.
- *Investment:* With regard to investment, the bill includes an eligibility criterion based on a CBI nation's compliance with the provisions of NAFTA Chapter 11 (Investment). These conditions would encourage national treatment and other protection for U.S. investments.
- *Market Access:* Beneficiary countries would be expected to provide equitable and reasonable market access in product areas for which the CBI countries are receiving new benefits.
- *Worker Rights:* Beneficiary countries would be expected to observe internationally recognized worker rights, including the right of association, the right to organize and bargain collectively, a prohibition on the use of any form of coerced or compulsory labor, a minimum age for the employment of children, and acceptable condi-

tions of work with respect to minimum wages, hours of work, and occupational safety and health.

• *Environmental Protection:* The CBTEA would also take into account the extent to which the country adopts and enforces laws providing for a high level of environmental protection.

• *Narcotics Cooperation:* The President would consider whether the beneficiary country has met the narcotics cooperation certification criteria set forth in section 490 of the Foreign Assistance Act of 1961 for eligibility for United States assistance.

• *Corrupt Business Practices:* This legislation would encourage CBI nations to ratify the recently concluded Inter-American Convention Against Corruption. The President also could take into account whether, having ratified this Agreement, countries are taking necessary measures to implement the Agreement.

• *Government Procurement:* Our proposed eligibility criteria include a CBI country's support for the multilateral and regional objectives of the United States with respect to government procurement, including the negotiation of government procurement provisions of the FTAA and the work program in the WTO as agreed at the Singapore Ministerial Conference; and the extent to which the country applies transparent and competitive procedures in government procurement equivalent to those in the WTO Agreement on Government Procurement.

• *Customs Valuation:* The bill includes an eligibility criterion based on the provisions of the WTO Agreement on Implementation of Article VII of the GATT 94, which addresses rules for customs valuation.

• *Fair Treatment:* The President could take into account the extent to which those CBI nations that have entered an FTA with any other countries (i.e., beyond the members of CARICOM or the Central American Common Market) are prepared to grant the United States comparable access for commercially important products. This provision is intended to give the United States protection against discrimination in favor of partners outside the Caribbean region even as we grant a beneficiary country enhanced market access.

These eligibility requirements are not imposed for the purpose of excluding countries from the program. The intent is to encourage countries to pursue sound trade and investment policies that prepare them to assume the kinds of obligations that we expect to emerge from the FTAA negotiations. In some cases, of course, these requirements correspond to WTO obligations that these countries already have pledged to abide by. Thus, the eligibility requirements are essential to make the program a transition to a permanent, reciprocal relationship at the appropriate time.

3. Transshipment and Safeguard Provisions

It is essential that the benefits of CBI enhancement be confined to those countries for whom it is enacted. Accordingly, the legislation has strong provisions to prevent transshipment and other abuses. CBTEA customs enforcement is modeled on the NAFTA provisions, and NAFTA-type documentary requirements will apply. Under the CBTEA, if the President finds that goods from third countries are being transshipped through CBI countries and are receiving duty preferences that they should not, the United States Trade Representative may reduce the amount of any quota with the countries involved in transshipment.

The CBTEA also contains a safeguard provision which, as in NAFTA, enables the President to apply duties and/or impose quotas if imports of textiles and apparel are causing or threatening serious damage to domestic production.

4. Reporting Requirements

The CBTEA would coordinate the due dates of the reports to be prepared by the President, the ITC, and the Secretary of Labor under the CBERA and the Andean Trade Preferences Act. Under the CBTEA, the President would deliver the next CBERA report to the Congress on December 1, 2000, in sufficient time for the Congress to consider the renewal of the program prior to June 30, 2001. The report would include an evaluation of countries' compliance with the discretionary criteria. As noted, it is our expectation that countries identified as demonstrating inadequate progress under these criteria could have their benefits reduced below the 100 percent level. The President would, of course, be able to suspend a country's benefits at any time, if it failed to maintain satisfactory performance under the criteria.

Coordination with GSP Country Eligibility Reviews

The legislation would codify the existing practice of withdrawing or limiting CBI benefits when GSP benefits are withdrawn or limited as a result of a finding in a GSP Country Eligibility Review that a beneficiary country has failed to remedy a deficiency with respect to one or more eligibility requirements.

MATURING RELATIONSHIP

In summary, this is a balanced proposal. It provides significant trade benefits to our partners in the Caribbean and Central America, reflects the maturing relationship between the United States and the countries in the Caribbean Basin, and helps promote the goals we share with CBI members of their full participation in regional and world trade.

We can be very proud of the work we have done in partnership with the Caribbean Basin governments and people over the past fifteen years. Since the beginning of the Caribbean Basin Economic Recovery Act in 1984, regional trade has grown; all but one CBI beneficiary belongs to the World Trade Organization and all those that belong have agreed to implement all of the obligations needed for membership; and all of the countries in the region are involved in the FTAA process. During the same period, Caribbean standards of living have grown; democracy has stabilized in countries in which it was threatened; and peace has strengthened. This is a trend of immense importance, most of all to the Caribbean nations but also to the United States. This proposal will help us remain on that path.

In conclusion, Mr. Chairman, let me salute your constancy over the years in pursuit of stronger relations between the United States and the countries of this region. Ambassador Barshefsky and I and our colleagues in the Clinton Administration look forward to working with you and this Committee to craft meaningful CBI enhancement legislation that will pass the Congress and be signed into law this year. Thank you again for this opportunity to appear before this Sub-Committee.

Chairman CRANE. Thank you, Mr. Ambassador.

Mr. Larson.

STATEMENT OF HON. ALAN LARSON, ASSISTANT SECRETARY FOR ECONOMIC AND BUSINESS AFFAIRS, U.S. DEPARTMENT OF STATE

Mr. LARSON. Mr. Chairman and Members of the Committee, thank you very much for this opportunity to testify. I would like to complement Ambassador Fisher's testimony by stressing four points: first, that the United States has a large stake in seeing peace, prosperity, and democracy take root in Central America and the Caribbean; second, that the Administration's bill is a key part of a multi-faceted strategy to foster durable, private sector led economic growth in the region; third, that now, in the aftermath of Hurricane Mitch, quick passage of this legislation is all the more important in order to give hope to the region and guidance to investors; and, fourth, enactment of this bill will continue a tradition of enlightened bipartisan cooperation between the Congress and the executive branch on these issues.

Mr. Chairman, we need to promote peace, build democratic institutions, achieve prosperity, and raise the quality of life in this region. And these are goals that are shared by the people of Central America and the Caribbean. Growth in Central America and the Caribbean nations does not benefit only those countries; we benefit as well.

Trade with these countries has been bright spot. Between 1996 and 1998, United States exports to Central America increased by 44 percent. The U.S. exported nearly as much to CBI countries last year as it did to China and India combined.

Our relationship is marked by strong cultural and people to people ties. But the flow of people between the United States and the Caribbean Basin must be orderly. There are indications that in the aftermath of Hurricane Mitch, the flow of illegal immigrants to the

United States from Central America is increasing. Economic reconstruction and growth can provide economic opportunities to help persuade potential illegal migrants to stay home.

The fight against narcotics and other transnational crimes is a top U.S. priority. We are deeply concerned that traffickers will attempt to take advantage of the disruption caused by the hurricane to bring through this region even larger amounts of illegal drugs that will end up on our streets. This bill will strengthen the battle against illegal narcotics by encouraging legitimate job creation.

In recent years, we have taken a number of steps to encourage economic development in this region. We have cooperated in opening up the regional civil aviation market. Working with private U.S. companies and potential lenders, we are exploring a package to encourage telecom infrastructure reconstruction. We have concluded bilateral intellectual property rights agreements with Nicaragua and Honduras. We have negotiated bilateral investment treaties with many countries and are seeking ratification of new BITs with Honduras, Nicaragua, and El Salvador. We have encouraged the international financial institutions to be active in the region. And we have participated in multilateral debt rescheduling for many countries and pledged substantial debt forgiveness to Nicaragua, Guyana, Honduras, and Haiti.

But, Mr. Chairman, CBI enhancement legislation is a key element of this package, and it has so far been the missing element. Now, in the aftermath of Hurricane Mitch, the economic situation has become more urgent, and that is why quick action is needed.

The Administration's bill may not please everyone in every detail. But we cannot let perfect be the enemy of good. The Administration's bill balances various competing interests, and we believe provides a basis for early action.

Mr. Chairman, one of the most important chapters of this region's history has been the transformation of its economic policies from inward looking and state-directed policy toward export-oriented and market-based policies. The Ways and Means Committee has played a key role in making this possible. When the original CBI was being considered, a Presidential mission, composed of key Members of this Committee, made a crucial fact-finding trip to the region. As head of the embassy economic and commercial section in Jamaica, I had the privilege of observing first-hand how the Committee developed tangible evidence that extending trade benefits to CBI countries not only would create jobs in the Caribbean, but also would create jobs here at home as well. And this is as true now as it was then.

We have a proud history, Mr. Chairman, at helping others in times of disaster, and that is why the Administration is committed to working with Congress to achieve early agreement on an effective bill that provides the economic opportunity that this region needs and deserves. Thank you.

[The prepared statement follows:]

Statement of Hon. Alan Larson, Assistant Secretary for Economics and Business Affairs, U.S. Department of State

Thank you for this opportunity to testify on the proposed Caribbean Basin Trade Enhancement Act (CBTEA). The Department of State believes that early enactment of this legislation is of critical importance.

Ambassador Fisher will present a detailed description of the Administration's bill. I would like to complement his testimony by stressing four points: (1) the United States has a large stake in seeing peace, prosperity and democracy take root in Central America and the Caribbean; (2) for several years we have been seeking legislation like the CBTEA, because it is a key part of a multifaceted strategy to foster durable private sector-led economic growth; (3) now, in the aftermath of Hurricane Mitch, quick passage of this legislation is all the more important in order to give hope to the region and guidance to investors; and (4) enactment of this bill would continue a tradition of enlightened bipartisan cooperation between Congress and the Executive Branch in promoting economic development in this region.

The United States has a large stake in the Caribbean and Central America. Promoting peace, building democratic institutions, achieving prosperity, and raising the quality of life for all—these are the principal U.S. aims for the region and these goals are shared by the people of Central America and the Caribbean. As our close neighbors, the countries of Central America and the Caribbean have unique importance for us and they deserve our best efforts as we work together to achieve shared goals.

The United States and the countries of the Caribbean Basin are bound together geographically, politically, economically and socially. *Growth* in Central America and the Caribbean doesn't benefit only those countries; we benefit as well. The Administration's bill will stimulate the Caribbean Basin economies by providing new incentives for investment, exports and job creation. This increased economic activity, in turn, will benefit our own economy by increasing opportunities for our exports of both goods and services.

Despite the severe economic turbulence in the world economy over the last two years, trade with the Central American and Caribbean countries has continued to be a bright spot for the U.S. In 1998, when U.S. exports to Asia shrank, exports to the Caribbean grew modestly and exports to Central America expanded by 13%. In fact, between 1996 and 1998, U.S. exports to Central America increased by 44%. To put this in context, the U.S. exported nearly as much to CBI countries in 1998 as it exported to China and India combined. In addition, U.S. companies are the primary investors in the region.

Our economic interdependence and shared democratic ideals are underscored and reinforced by our *strong cultural and people-to-people ties.* Over two million citizens of the countries of Central America and the Caribbean live in the U.S., and an even larger community of U.S. citizens is of Central American and Caribbean origin. Over the years, communities of Central American and Caribbean immigrants in the United States have grown roots and are now a major component of the social, business and cultural fabric in the United States. This growing sector of American society also is increasingly finding its voice within the U.S. political system.

We want to assure that the flow of people between the U.S. and the Caribbean Basin is an orderly one. There are indications that, in the aftermath of Hurricane Mitch, the flow of *illegal migrants* to the U.S. from Central America is increasing. It is understandable that breadwinners would seek economic opportunities to help their families rebuild shattered lives. But illegal immigration stretches the resources of the U.S. Government while threatening the lives of the people who attempt it. Only economic reconstruction and growth can provide the economic impetus and opportunities to persuade Central Americans to stay at home.

The fight against *narcotics and other transnational crimes* is another U.S. priority. Before the hurricane, we had already noted an increase in narco-trafficking; in fact, it was estimated that over half of the cocaine entering the United States was coming in through the Mexico-Central America transit zone. In the aftermath of the hurricanes, we are concerned that traffickers will attempt to take advantage of the disruption to bring in even larger amounts through the region. The needs of recovery and reconstruction are putting enormous new demands on the resources of governments in the region.

With this in mind, the Department of State plans to increase significantly Embassy counter-narcotics budgets in the countries affected by Hurricane Mitch to address the increased vulnerabilities. But our counter-narcotics efforts will have much greater prospects of success in an environment of economic and social stability. The Administration's bill will strengthen the battle against narcotics in the region by encouraging job creation, which is the foundation of economic and social stability.

As the Congress examines this proposal, I urge that it keep in mind the enormous depth of the disasters that struck Central America and the Caribbean last October. Over 9,000 people died; over 9,000 remain missing; nearly 13,000 people were injured; at least 3 million people have been displaced. The U.S. Corps of Engineers has estimated the cost of repairing infrastructure alone at $8.5 billion, which does not include lost crops, lost businesses and the interruption of production. Nearly one person out of four in the countries hit by Hurricane Mitch was directly affected. There is no doubt that, one way or another, every individual in Honduras, Nicaragua, Guatemala and El Salvador has felt the impact.

The physical destruction of the hurricane also meant widespread destruction of jobs. The ability of the economies of this region to restore jobs and create them for new entrants into the labor markets will to a very large extent determine whether the new democracies of this region will survive.

This legislation is part of a multifaceted strategy to support durable, private sector-led growth. In recent years, the U.S. and the CBI countries have initiated a number of efforts that are laying the foundations for durable, private sector-led growth. In particular, we have taken steps to improve transportation and telecommunications links, to improve the climate for investment, to foster sound macro-economic policies and to relieve unsustainable debt burdens. CBI enhancement legislation is a key element of this strategy to foster sustained economic growth.

On transportation, we have cooperated successfully in recent years with our partners in Central America in opening up the regional *civil aviation* market. We signed Open Skies agreements in May 1997 with Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama.

Aviation liberalization is bringing tangible benefits in the form of greater competition, increased business and tourist traffic, and incentives for increased trade and investment. These benefits complement our efforts to promote economic reform and development with our partners in the region.

Since completion of these new agreements, flight choices to the region have increased, new carriers have entered the market and airfares have decreased. These benefits are shared by airlines, airports, communities, travelers and businesses in the U.S. and in Central America alike.

The Central Americans are helping themselves develop the infrastructure essential to long-term prosperity by opening the *telecom sector* to foreign capital. However, telecom infrastructure in Honduras and Nicaragua was badly damaged by Hurricane Mitch. In response, the State Department, working with private U.S. carriers and potential lenders, has developed a package of policy reform and external financing for telecom infrastructure reconstruction. By using a small portion of revenues generated by U.S. calls to Honduras and Nicaragua to back infrastructure loans, this package would provided needed private sector funds for reconstruction of the telecom infrastructure. Concurrent changes in bilateral settlement charges would lower fees paid by U.S. carriers—and ultimately, by U.S. consumers—for telephone calls to the two countries. We have invited Honduras and Nicaragua to hold experts talks to explore this package further.

The United States has concluded two bilateral *intellectual property rights* agreements in Central America—Nicaragua and Honduras. While problems remain, the ratification of the World Intellectual Property Organization Copyright Treaty and the WIPO Treaty on Performances and Phonograms by Panama and El Salvador, indicate the region's progress toward recognizing the importance of the protection of intellectual property as we move into the digital age. As Central American countries strive to diversify their economies in the wake of the recent hurricane, modern intellectual property protection, compliance with their obligations under the WTO Treaty on the Protection of Intellectual Property Rights (TRIPS) and judicial reform will create an improved environment for private investment.

We continue to seek to negotiate *Bilateral Investment Treaties* with CBI countries. These treaties lock in a high level of treatment for U.S. investors in these countries, including access to international arbitration when problems do arise. We have BITs in force with Grenada, Jamaica, Panama, and Trinidad and Tobago. We are also looking forward to working with the Senate to obtain its advice and consent to ratification of our BITs with Honduras, Nicaragua, and El Salvador. The BIT with El Salvador was signed this year.

The *international financial institutions* have also made a significant contribution to recovery and growth in the region. The Inter-American Development Bank (IDB) hosted a meeting of all donors December 10–11; more than 50 participating donor nations and multilateral agencies signaled support of roughly $6.3 billion. A follow-up meeting will be held May 25–28 in Stockholm.

In addition to organizing and contributing to the multilateral Hurricane Mitch relief effort, the *IDB* itself provided $1.58 billion in loans to CBI countries in 1998. The *World Bank* provided $465 million in loans to CBI countries for the fiscal year ending June 30, 1998.

For many developing countries, agreement with the *IMF* on a structural reform program (ESAF) is essential, both for the loans they provide and for the reforms that promote growth. Currently, Guyana, Haiti and Nicaragua are CBI countries with active ESAFs, and Honduras is in the final stages of negotiations. El Salvador has a Stand-by agreement, and Panama has an enhanced fund facility.

Even countries that adopt appropriate economic policies sometimes are still unable to fully service their international debt. Part of our strategy to assist in resolving that problem is *participation in multilateral debt rescheduling*, through the Paris Club. Thus, since 1990, we have participated in 17 Paris Club negotiations with 9 CBI countries, resulting in treatment of over 5 billion dollars of debt (including debt owed to other bilateral official creditors).

More recently, we have participated in new efforts to provide lasting solutions to the debt problems of the most heavily indebted poor countries (HIPC). This program provides substantial *debt forgiveness* to countries which demonstrate a track record of economic reform. Nicaragua and Guyana are well along in the HIPC process. Honduras and Haiti have also received "Naples terms" debt reduction from the Paris Club; Honduras is under review for possible participation in the more generous HIPC program.

The Administration has requested $41 million to implement an exceptional *three-pronged strategy to address the external debt problems faced by Nicaragua and Honduras*, the countries most severely hit by Hurricane Mitch: first, by a deferral of the bilateral debt service payments over the next 2–3 years; second by deeper bilateral debt forgiveness from the Paris Club; and third, by addressing the problem of IFI debt obligations. With respect to the IFI debt, the Administration is seeking appropriations to contribute to the Central American Debt Trust Fund to pay IFI debt service.

Finally, this week, Commerce Under Secretary for International Trade David Aaron is in Central America leading a business development mission. The 16 U.S. companies on the mission represent such key rebuilding sectors as construction, housing, and water purification.

Now, in the aftermath of Hurricane Mitch, quick passage of the CBTEA is especially important to give hope to the region and guidance to investors. CBI enhancement legislation has been a key element of our economic development strategy for several years. It is the missing piece of the foregoing set of measures to foster private sector growth. Now, in the aftermath of Hurricane Mitch, the economic situation has become more urgent. That is why quick action is needed to enact the CBTEA.

Ambassador Fisher is providing a more detailed description of the contents of the Administration's bill. But in general, the bill will authorize the President to provide enhanced temporary trade benefits to CBI countries for: apparel products assembled from U.S. fabric; textile handicrafts; and all non-textile products currently excluded from the CBI program.

Along with increased benefits, the bill also establishes mandatory and discretionary eligibility requirements. These provisions are meant to encourage the CBI countries to adopt sound trade and investment policies, to maintain high standards of environmental protection and workers rights and to cooperate with the United States in anti-narcotics efforts.

In sum, the bill is designed to provide both increased preferences to the CBI countries and greater market opportunities for U.S. businesses.

The CBI enhancement bill which is before this Committee is a key element of the Administration's overall reconstruction strategy. It is aimed precisely investment of job creation and private sector-led growth. The improved market access that this bill offers dovetails closely with our efforts to improve transportation and telecommunications links, to create a sound environment for investment and to mobilize support from international financial institutions.

The Administration's bill may not please everyone in every detail. But as Ambassador Fisher has pointed out, Congress and the Administration have been trying for more than six years to pass CBI enhancement legislation. This is an example of the perfect being the enemy of the good. The Administration's bill is one that balances various competing interests and, in our view, should command a consensus for early action. It is critical that we achieve some consensus to pass legislation as soon as possible.

The Central Americans and Caribbeans require an opportunity to help themselves. It is the nature of the apparel industry that companies can react quickly and positively to enhancements to CBI. One major apparel company told the State Department that it would employ additional Central Americans within a week of CBI enhancement. Early action would give hope to the region and would give investors the clear signals they need to make investment decisions.

Enactment of this legislation will continue a tradition of bipartisan leadership in support of the region's economic development. One of the most important chapters of the region's history has been the transformation of its economic policies from inward-looking and state-directed, toward export-oriented and market-based. Together with the movement toward democracy, this is the fundamental reason for the region's solid growth, which averaged about 3% during the 1990's. As a result of the success of these policies, there is now a broad consensus in the region for freer trade and market competition.

The original Caribbean Basin Initiative was an important factor in supporting the economic reforms of the 1980's and 1990's. Its expansion to provide duty-free treatment for virtually all products exported by the Caribbean Basin countries will reinforce the efforts of market-oriented reformers of the region, both in the private sector and in governments, to continue and deepen sound economic policies.

The Ways and Means Committee played a key role in making possible this historic transformation. In the early 1980s when the original CBI was being considered, a Presidential Mission composed of key members of this committee made a fact-finding trip to the region. At the time I was head of the Embassy's economic and commercial section in Jamaica and had the privilege of escorting the delegation on a tour of an apparel assembly facility. After the tour we all had to wait as Congressman Gibbons roamed around the factory asking questions and reviewing nearly every station and machine. When he finally came out, he told us that nearly all of the inputs in the factory—sewing machines, fabric, dyes and even light bulbs—came from the U.S. His inspection of this factory provided tangible evidence that extending trade benefits to CBI countries would not only create jobs in the Caribbean, but would create jobs here at home as well.

CONCLUSION

The United States has a proud history of helping others in times of disaster. Given our special relationship with the countries of Central America, we could do no less than provide immediate and extensive assistance. Hurricane Mitch took countless lives and undermined the economies of the region.

It has also threatened to divert efforts away from further consolidation of democracy. Resources that would be used, for example, to reform judicial systems, to build transparent financial sectors, or to ensure equal opportunities for all, now must meet basic needs. We simply must not permit Hurricane Mitch to uproot progress toward greater freedom and prosperity and in the process to create a fertile environment for instability crime and narcotics trafficking. By helping our neighbors and trading partners, we also help ourselves.

The Administration is committed to working with Congress to achieve early agreement on and effective bill that provides the opportunity that the region needs.

Chairman CRANE. Thank you, Mr. Larson. Mr. Larson, has the existing CBI program achieved its goal of stabilizing democracy in countries where they were threatened not only with economic instability, but civil wars as well, going back to the origins of CBI in 1983?

Mr. LARSON. Mr. Chairman, I think there has been very, very strong progress in stabilizing democracies and stabilizing economies. We have seen great progress in Central America where the peace process has resulted in demobilization and an end to the conflicts and the abuses of human rights that we have seen in the past.

We have now, in the region, a much, much brighter picture with respect to economic growth, strong institutions, and democracy than we were looking at in the 1980's.

Chairman CRANE. And, Mr. Ambassador, you mentioned that our exports to the Caribbean countries total approximately $19 billion.

Mr. FISHER. Yes, sir.

Chairman CRANE. And do you know what that translates into in terms of job creation here in the United States?

Mr. FISHER. Well, I don't have a specific number, Mr. Chairman, on top of my head, but, nonetheless, being able to export that volume obviously results in jobs in this country. And we have been growing a significant portion of our economy at the margin through exports. Again, it is important to bear in mind that the CBI countries represent a significant market. Often when we think of export markets, we think of France, and we think of Brazil, and we think of China—of course, we want China to grow even further. But one rarely does think that these CBI countries represents a significant chunk of change and such an important market for our output. We value it. It is job creating, and it is good.

Chairman CRANE. Well, based upon information we have received $1 billion in exports translates roughly into 20,000 domestic jobs, and the pay for those domestic jobs exceeds the national average. And so that would be into 350,000 or 375,000 jobs directly related to our exports to the Caribbean countries. And I think it is a message that has not been properly disseminated.

Let me get another question off to you quickly, Mr. Fisher, and that is, we have had a remarkable record of successes at the WTO, winning 18 cases and settling favorably in 10. The one dark spot on the USTR's record is in the textile area. And two out of the four cases the United States has lost in the WTO involve textiles. Did you personally review the Administration's CBI bill for its consistency with our WTO obligations?

Mr. FISHER. We believe, Congressman, that the proposal we have put forward is consistent with our WTO obligations.

Chairman CRANE. You don't see any potential problems erupting?

Mr. FISHER. I would be happy to reanalyze that for you if you wish me to, and get back to you on that. But I believe the way it is proposed and structured presently that it is in keeping with our commitment.

Chairman CRANE. Very good. All righty. Mr. Levin.

Mr. LEVIN. Thank you. Let me just raise a couple of questions, and it may well be that you will want to discuss them with us further some other time. It is not immediately pressing.

As you know, a summary of the Administration's bill was sent to us fairly recently, and I have just been—begun to look it over. But I did want to ask you, the bill has a set of mandatory eligibility requirements and then discretionary eligibility requirements, and I think, Mr. Fisher, this may be best directed to you. And, for example, one of the, one of the discretionary eligibility requirements is whether the beneficiary country has met the narcotics cooperation certification criteria, right?

Mr. FISHER. Yes, sir.

Mr. LEVIN. That is one of them. Another relates to intellectual property rights—whether they are complying with their obligations under the WTO; then another relates to worker rights and whether they are pursuing internationally recognized worker rights; and then there are a number of other important ones.

As I read the summary at least, and we are just working on the bill language itself, these are discretionary in the sense that the President or the Administration does not have to invoke them. Are there stated criteria as to when these and how these discretionary requirements would be implemented? Or is it just going to be under this bill something that is totally discretionary within the Administration.

Mr. FISHER. Well, first, Congressman, if I may, I would like to point out, because you listed in particular five criteria for deciding whether benefits should be limited or withdrawn as discretionary criteria, I would like to point out that the first five you mentioned are also in Congressman Crane's bill, in H.R. 984. We have an additional 6, but there are 11 total in our proposed discretionary criteria list. And, again, in terms of precise formula, there is no precise formula. This would be at the discretion of the President.

I would say that, to our knowledge presently, in terms of working with the current beneficiaries of this enhancement legislation that almost all of these discretionary variables are being addressed. But we would leave it up to the judgment of the President, and it would be fully discretionary and, hopefully, wisely applied.

Mr. LEVIN. All right. I think we need to——

Mr. FISHER. Also, Congressman, one thing I would offer to you, and, of course, the Chairman of the Committee, is I had a little spreadsheet prepared that distinguishes between the three different versions—our proposal, the Congressman's and his coauthors' proposal, and Senator Graham's bill for the Senate. I would be happy to share it with you afterwards. It goes through all the different aspects of the bill and compares the three, so we can look at them on one piece of paper.

Mr. LEVIN. All right. And let me suggest that, when we have our further conversations, that we do address the issue of implementation of discretionary requirements. I mean, just——

Mr. FISHER. We would, of course, under our formulation prepare a report to the Congress for December 2000 which would review these different variables. At the same time, the discretion may be invoked during the existence of the enhancement program. But I would be happy to follow up with that in detail, if you would like.

Mr. LEVIN. Right. I mean, even potential or likely conflict. I mean a discretionary requirement. And I think this is going to be of interest to people, and I don't think that anybody should assume that it's relevant only to our relationships with the CBIs. We all know these are issues that matter in varying degrees to various Members of the Congress, and I think are increasingly of concern to Members of Congress and to the Administration. And I do think we need to talk through how it would operate. And let me just leave it at that, partly because the red light is on. But even if it were yellow, I would leave it at that because we need to discuss it in greater length.

Mr. FISHER. Congressman, we would look forward to discussing that with you and others.

Mr. LEVIN. Thank you. With all of us, we need to talk about it.

Mr. FISHER. Thank you. Thank you very much.

Chairman CRANE. Mr. Rangel.

Mr. RANGEL. Thank you, Mr. Chairman. Mr. Larson, you mentioned that trip in the early 1980's to the Caribbean, which the Members of the Committee were on, including Sam Gibbons, who was the senior member of this committee. And you pointed out in your testimony that in Jamaica, Sam had examined the machines and the fabric and dyes and the light bulbs and had concluded that all of these had been made in America and were exported to Jamaica. I would like to add two things. No. 1, that as soon as you said that, Sam Gibbons entered the room. And, No. 2, that Sam did that in every country we visited. [Laughter.]

And the results were the same. Almost everything that they consumed had been imported from the United States.

I assume that by having the State Department report that you would indicate that this enhancement of the Caribbean Basin bill would be in our national interest?

Mr. LARSON. Very definitely, Mr. Congressman. If I could just add one point? Why I put that reference to the trip by the Presidential delegation in because it demonstrated so graphically to me a point that has been made by many others today, and that is that in this region a large share of the inputs to the production process are supplied by the United States. And so to the extent we're encouraging economic activity they're including in their apparel industry, we are creating a market for U.S. products.

Mr. RANGEL. Well, I suppose that both of your offices have heard from organized labor whose position would be that we have suffered tremendously, our economy has been hit hard under the existing CBI legislation. And to enhance it, to give it parity with Mexico, would cause us further economic harm. In addition to that, and I would like to get both of your reflections, the working conditions in these countries are far below the standard which Americans find acceptable. Have your office had the opportunity to review these observations and to report on them, Mr. Larson, Secretary Larson?

Mr. LARSON. First of all, let me take up your last point first, Congressman. I think that we just had a brief exchange about the discretionary criteria under the Administration's proposal. I think it is important that there is a reference in those discretionary criteria to workers' rights and the respect for internationally recognized core labor standards because that gives the United States a tool in the implementation of this legislation to encourage movement in the right direction on workers' rights.

I visited a number of the factories in the region now, and I have not found personally situations that I would regard as a violation of workers' rights. Obviously, some people in this part of the world have very low wages because that is part of being a very poor, underdeveloped country. But I think we would have the tools under this bill to be able to monitor and address those concerns.

On your first point, as others have pointed out today, we can expect that a significant part of what will happen as a result of this proposed legislation would be a transfer of economic activity in these industries from other parts of the world outside of the United States to the Caribbean and Central American countries. And it would largely be from countries elsewhere that don't use much U.S. content in their production to countries that do use a great deal of U.S. content in their production and that would be a plus.

Mr. FISHER. Let me add to that?

Mr. RANGEL. Sure.

Mr. FISHER. Congressman Rangel, if I may add to that? My diplomatic colleague was quite diplomatic in not mentioning which these countries are. We have seen a decline in Chinese exports of textiles to the United States. We've seen an increase on a compound constant basis from Mexico and from the CBI countries. The product that is produced in the Asian sphere typically lacks completely U.S. input whereas our producers and our workers make the fabric and linings and the threads and the notions that go into CBI apparel under the U.S. content rules. And, of course, our companies employ people in the cutting and distribution of those products.

I would like to just, if I may, take one aspect of this that the two previous gentlemen were referring to, the Senator and the Congressman, with regard to this 2005 issue. I think it's very important, in light of this competitive aspect with Asia, to understand that tariff benefits under the bill for CBI countries are a significant advantage over its duration. That is the bill that would give duty-free treatment to most CBI apparel exports whereas, by contrast, the average tariff for imports of apparel from the world is 13 percent, which Asian countries would still be paying while we provided these benefits to the CBI countries. I just wanted to add that in to correct a mis-impression that might have been given previously.

But the summary answer to your question, Chairman Rangel, is that we feel there is certainly a higher U.S. employment benefit for products that are cut, excuse me, products that are manufactured in the Caribbean area than the products that are manufactured in Asia which have no U.S. content whatsoever.

Mr. RANGEL. Well, I would appreciate if both of you could send me whatever material you have dealing with the dislocation or the impact on American textile workers as well as whatever information you have on the working conditions that exist in the Caribbean countries, and whatever you can get from the Trade Commission.

Thank you, Mr. Chairman.

Chairman CRANE. Mr. Jefferson.

Mr. JEFFERSON. Thank you, Mr. Chairman. I have a question which is just for clarification purposes. I noticed that the textile and apparel provisions in the bill submitted by the Administration are more restrictive, considerably more restrictive, than the ones in H.R. 984. The restrictive difference is to the extent that they don't seem compatible. Does that mean the Administration is not supportive of H.R. 984 and only supports the bill it submitted or what?

Mr. FISHER. Congressman, we have a different approach to this than H.R. 984. The difference is in the regional content question and U.S. content question of manufactured products in the textile area. This is, as was pointed out by the two previous witnesses you had, always been the divisive issue that we have had to deal with in trying to push forward CBI legislation. The reason for that, Congressman, is that 48 percent of the roughly $19 billion in exports that come from the CBI countries comes in the form of textile products. And, as Assistant Secretary Larson mentioned earlier, the majority of those have significant U.S. content. One estimate is that 80 percent already have U.S. content.

The difference of view here is largely a matter of what is practicable in terms of getting a bill through the Congress. And I want to reiterate to you, and I want to iterate to Chairman Crane, that we are eager to work with you to get passage of this bill because we feel that passage delayed is passage denied and that it's time to move on CBI, and we hope to square our corners with you on this issue. This is our considered judgment that approaching this critical area of textiles in this manner is the best way to get passage of CBI legislation, and we support the approach that we've initiated.

Mr. JEFFERSON. I understand you support your approach. I guess I was trying to figure—in previous years the Administration voiced its support for the approach of H.R. 984, and my question really was, I know you support what you submitted, and I'm not arguing whether that's the best approach or not to get it out of the Congress or whether it's the best approach on substance. I'm not arguing either one of those. I'm just trying to see where the Administration stands now on H.R. 984. Does it stand in opposition to H.R. 984?

Mr. FISHER. Again, Congressman, we've put forward our own initiative here. It has not materialized, as Chairman Crane said, yet in being put on the floor as a bill, but we have our different approach here. And there are differences from H.R. 984 and one would deduce from that that obviously we don't support H.R. 984 as it is currently drafted. The significant differences are the content provisions that deal with textiles. There also is a difference on the duration of the program and that's a budgetary consideration. And we would be eager to work with this Committee and with you, Mr. Chairman, and everybody else on the Subcommittee to try to figure out a way to extend that if we could, if we could find the budgetary wherewithal to get it done.

Mr. JEFFERSON. I yield back my time, Mr. Chairman. Do you have a comment on this issue?

Mr. LARSON. I would simply add, Mr. Jefferson, that we feel very strongly that this is a time when we can't let the perfect be the enemy of good. Fast action is necessary and we believe the Administration's bill balances all of the competing interests and provides an approach that could be susceptible of getting quick approval and then quickly bringing these economic opportunities to the benefit of the CBI nations.

Mr. JEFFERSON. Thank you. Mr. Chairman, I yield.

Chairman CRANE. Mr. Becerra.

Mr. BECERRA. Thank you, Mr. Chairman. Thank you, first of all, to the two of you for your testimony. Let me pick up on a point that Ranking Member, Mr. Rangel, made and ask that you really see if you can get us some information on the working conditions in a number of the countries that would be helped by CBI. I think that information would be helpful to allay the concerns of a number of Members who won't have the opportunity to sit through these hearings, to hear the testimony, hear about the positive effects tradewise that the United States stands to gain from going through a CBI process and expanding trade with these countries.

Maybe one of the two of you, or both of you, can give me a response to this. I'm hearing word from some American interests that while they want to continue doing trade in a number of these countries, CBI countries, their concern is that oftentimes they run into a bureaucracy in either getting fulfillment of a contract commitment, getting paid for work that they've done, and it becomes a nightmare trying to obtain remuneration for services rendered or products provided. Have any of you heard of any of these complaints and, if so, can you give me a sense of where we are with that?

Mr. LARSON. I can give you a fairly general response but I hope a helpful one. A lot of these countries are countries that have just come out of very serious difficulties, some of them economic alone, some of them political and economic together. That's one of the reasons why it has been so important for us to work with them on developing a strategy to build around private sector growth so it wasn't just a question of aid. In many cases, aid is necessary but it's not the total answer. We have worked to provide a better environment for U.S. business. We've negotiated bilateral investment treaties——

Mr. BECERRA. Mr. Larson.

Mr. LARSON. Yes.

Mr. BECERRA. Let me see if I can get you to respond just to the question because I'm going to run out of time and I want to ask the two of you a quick question. Are you familiar or have you heard any particular concerns expressed by American business interests that are not finding as hospitable an environment to actually see their work compensated?

Mr. LARSON. I have not heard of specific problems of getting paid for work that has been done. There are broad issues of the business environment that we're trying to work on.

Mr. BECERRA. And I think you were hitting——

Mr. LARSON. Yes, that's right.

Mr. BECERRA. And I think we have to recognize that some of the countries that have been hit hard by the hurricanes and so forth do require some assistance and some time to get themselves back and running again. So that's fine.

Second question, we focused on the more global aspect of this and quite honestly in terms of labor and environment and so forth, we focused on the various conditions more in terms of the Caribbean and Central American countries. Focusing here domestically, what do we see as the effect of expanded trade? I know we're going to increase exports and therefore jobs in those export industries, but now where we will see increased imports, what's the prediction in terms of job loss and, more specifically, I'm more interested in what the Administration is looking to do? We're going to be reauthorizing TAA this year, the Trade Adjustment Assistance, I would like to know what specifically, even though the impact will be small compared to a larger free trade agreement, what we're looking to do to try to offset the hurt of dislocation to American workers here?

Mr. FISHER. Well, first, with regard to the specific legislation that is being proposed, again, the majority of the products covered when you really go through the numbers are going to be textile related. The textile industry has been suffering from significant employment losses. Congressman Rangel referenced that earlier. I would submit that whether or not CBI legislation is passed, this trend will likely continue. We have some very low-cost competitors around the world. It's likely to occur, however, at a slower pace, Congressman, if we have a high U.S. content CBI partnership than it would otherwise because, again, there's little to no U.S. content from the Asian counterparts that come into this market. It's very,

very difficult to pinpoint a specific number that results specifically from this aspect of our textile trade. We just make the assumption, and it's a common sense assumption, that if we have a portion of U.S. content coming in the form of the legislation we've proposed, that it will have less damage and be more beneficial to our textile workers in the United States than it would be coming from Asia.

And, of course, if you receive product back in the final assembly, as it were, and also the distribution of those products, there are some numbers that have been calculated. For every 100 jobs created in the Caribbean, there are some 15 that get involved in the distribution system and so on. We can send to you our best estimates of this analysis.

Mr. BECERRA. That would be helpful.

Mr. FISHER. But I want to warn you, the numbers aren't terribly precise.

Mr. BECERRA. Understood. But that would be helpful to give us some sense of what you're projecting to be the extent of dislocation of American workers. I do appreciate that.

Chairman, thank you very much.

Chairman CRANE. Thank you, and I want to thank our witnesses. And before you depart though, I do want to ask that some questions be made a part of the record that we can submit to either one of you. And we thank you for your participation today.

[Questions submitted by Chairman Crane and Mr. Ramstad, and Mr. Fisher's responses are as follow:]

Question 1. Recently I was contacted by a company having trouble doing business in the Dominican Republic due to the Dominican Government's apparent refusal to pay for work performed pursuant to an existing contract. My understanding is that in 1994, Mundogas Americas Dominican, S.A. ("Mundogas"), signed a 15-year contract with the Board of Directors of Operadora de Puerta Viejo, S.A., an entity of the Government of the Dominican Republic (GODR), to supply 50% of the Dominican Republic's requirements for liquified petroleum gas. Since 1997, there have been numerous instances of delayed and incomplete payments and other contract manipulations. These, and other violations, which make it difficult for U.S. companies to do business in the Dominican Republic, are described in the attached document. Can you please comment on your impressions of these apparent unfair business practices that the Government of the Dominican Republic seems to be participating in? In your view, are they a threat to United States companies seeking to invest in this country?

Answer. Officials from Mundogas and their Washington counsel have met with officials from my staff in the Office of the U.S. Trade Representative (USTR) to discuss the situation. We understand Mundogas has also met with officials from the U.S. State Department and other appropriate U.S. agencies. We are also aware that officials from the U.S. Embassy in Santo Domingo have been working closely with Mundogas in the Dominican Republic to resolve the company's complaints. We support our embassy's efforts.

Subsequent to our meeting with Mundogas, we spoke with the Dominican Republic's Ambassador to the United States, Bernardo Vega, to inform him of our concern and to urge him to seek a fair and expeditious resolution of this dispute. We will continue to coordinate with Mundogas' representatives in pursuit of a solution to this problem.

Question 2. Ambassador Fisher, a very serious situation has recently developed in Guatemala. I know your office is aware of the situation, but for everyone else here, I want to summarize what has happened.

As you know, on May 11th, a Guatemalan trial court unfairly and improperly convicted Cargill de Guatemala, a subsidiary of Cargill, Inc., and its financial officer on four counts of fraud and tax fraud. Cargill manager, Daniel Tabora, was sentenced immediately to 4 years, 11 months in prison.

The charges in this case stem from the fraudulent activities of a Guatemalan supplier, who fled Guatemala with the $80,000 in valued-added taxes Cargill paid him (note: Guatemalan law does not permit exporters to pay the VAT directly to the government). Rather than pursue the perpetrator of the crime, however, the Guatemalan government has focused on Cargill. Standard operating procedures have not been followed in the trial, which was moved up on the calendar twice. Prosecutors produced no witnesses and introduced no evidence proving Cargill's knowledge of or even intent to avoid tax payments. Even though many companies have been duped by this Guatemalan supplier, Cargill is the only company that has been brought to trial (coincidentally all the other companies who have not faced similar punishment are Guatemalan). And, the employees who have testified truthfully on behalf of Cargill, are now being threatened with prosecution for perjury.

While I strongly question whether Guatemala should receive any of the reconstruction and disaster mitigation funds as provided in the bill, the reason I raise this issue today is because one of the basic purposes of CBI was to encourage the development of democratic governments and health economies. I generally support CBI, but I strongly believe the eligibility requirements for this preferential treatment should be closely and carefully followed. Benefits under CBI are conditioned on countries continuing to meet seven mandatory and ten discretionary conditions and the President may withdraw or suspend a country's designation or the application of duty-free treatment on any article at any time, if he determines the criteria are not being met.

In my opinion, these actions of the Guatemalan government *do not* reflect a democratic government. In addition, they raise serious concerns about their treatment of U.S. companies and foreign nationals in general, as well as their ability to abide by internationally recognized standards of trade. Can you please comment on how closely you review questionable behavior on the part of a CBI beneficiary nation?

Under Section 108 of the bill, USTR will report to Congress on economic development and market-oriented reforms in each participating country. USTR will assess the extent to which the country provides equitable access to the markets of that country, macroeconomic reforms in the country, how the country treats foreign investment whether the country has moved trade liberalization measures and the extent to which the country works to accommodate market access objectives of the US. Would questionable activities by a country be outlined in this report to Congress?

Answer. Officials from Cargill and their Washington counsel have met with officials from my staff in the Office of the U.S. Trade Representative (USTR) to discuss the situation. We understand Cargill has also met with officials from the U.S. State Department and other appropriate U.S. agencies. We are also aware that officials from the U.S. Embassy in Guatemala City, Guatemala, have made numerous interventions on behalf of Cargill in the past year.

Subsequent to our meeting with Cargill, we spoke with representatives of the Guatemalan Government in Washington and communicated our awareness of the situation and our concern that it be resolved fairly and expeditiously.

As a matter of policy and law, the Administration actively monitors and reviews actions taken by CBI and GSP beneficiary nations. Reports on these programs are prepared regularly by the U.S. International Trade Commission and by USTR. In the past, the U.S. has suspended benefits for some beneficiary nations pending actions taken to correct behavior that is not consistent with the conditionality of the program. We will continue to monitor this case and enforce scrupulously the provisions of the CBI program.

Question 3. I recently met with a representative from the Canadian Consulate General in my Minnesota office. One of the issues we discussed is a bill before the Canadian government to make it a criminal act for foreign-owned magazines to include ads aimed at Canadian consumers. It is my understanding the government of Canada is justifying it under the guise of protecting Canadian culture. What is USTR planning to do about this issue?

Answer. Should Canada have implemented C–55 as proposed, USTR had announced that we were prepared to withdraw trade benefits of an equivalent commercial effect. However, on May 26, United States Trade Representative Charlene Barshefsky announced that the United States and Canada successfully resolved outstanding differences relating to Canada's magazine trade practices and its controversial legislation—Bill C–55. The agreement addresses concerns that led the United States to file and win a WTO case, and includes commitments from Canada in the areas of investment, tax and market access for U.S. periodicals carrying advertisements directed primarily for the Canadian market. In return, the United States committed not to take action under the WTO, NAFTA or section 301.

Under the agreement, U.S. magazines exported to Canada will be able to carry 12 percent of total ad space with advertising aimed primarily at the Canadian market—something C–55 as originally proposed would have prohibited entirely. Within three years, this percentage will grow to 18%. Canada has also committed to provide non-discriminatory tax treatment under section 19 of their Income Tax Act. Previously, section 19 prohibited advertisers from receiving the standard business deduction if they advertised in foreign-owned publications. Canada will eliminate the nationality requirement within one year. In addition, Canadian advertisers will be able to place ads in any magazine regardless of the nationality of the publisher or place of production. Canadian advertisers will also be eligible for half of the tax deduction if they place ads in foreign magazines with zero to 79% original editorial content or for the full deduction if the magazine contains 80% or more original editorial content. Finally, Canada agreed to permit 51% foreign equity in an enterprise, up from the current 25%, within 90 days and will permit foreign investors to own 100% of an enterprise after one year.

Chairman CRANE. And with that, I would now like to invite the next panel. Ambassador Bernardo Vega from the Dominican Republic; Ambassador Francisco Aguirre-Sacasa from Nicaragua; Ambassador Rene Leon from El Salvador; and Ambassador Jaime Daremblum from Costa Rica.

And if you gentlemen will take your respective seats? And when you are seated, we will proceed in the order in which I presented you. And, as in the case of our other witnesses, if you will, please, try to keep your oral presentations to approximately 5 minutes. You don't have to be exactly on the target, but then any printed statements will be made a part of the permanent record.

And with that, we will start with you, Ambassador Vega.

STATEMENT OF HIS EXCELLENCY BERNARDO VEGA, AMBASSADOR TO THE UNITED STATES FROM THE DOMINICAN REPUBLIC

Mr. VEGA. Honorable Chairman Crane and Distinguished Members of the Subcommittee, ladies and gentlemen, I am pleased to be able to testify before the U.S. Congress on a subject matter so important to my country, more now after Hurricane George. But CBI enhancement legislation is also a win-win proposal. It helps our region, but it also helps the U.S. economy and creates U.S. jobs.

Last week Washington's press reported, again, a record U.S. trade deficit. Yet, the United States has had a trade surplus with the CBI region for the last 12 years, as you can see from the graph I'm presenting. This U.S. surplus is the eighth biggest in the world, surpassed only by that with seven countries: The Netherlands; Australia, Belgium, Brazil, United Kingdom, Saudi Arabia, and Argentina.

The U.S. trade surplus with the CBI region only started to occur in 1986, precisely 2 years after the Caribbean Basin Initiative legislation was passed in Washington, as you can see from the graph.

The more new jobs that are created in CBI countries, the more new jobs that are also created in the United States, simply because approximately 60 percent of every dollar that our countries spend on non-oil imports are spent on imports from the U.S.A. CBI countries are the sixth biggest purchasers of U.S. goods worldwide, surpassed only by the two NAFTA countries, Japan, United Kingdom, and Germany. Ambassador Barshefsky very correctly pointed out recently that 360,000 jobs in the United States depend on trade with our region.

Allow me to get into some specifics. The CBI region is the tenth biggest importer worldwide of U.S. cars, surpassed only by the two NAFTA countries, Japan, Germany, Saudi Arabia, United Kingdom, Australia, Austria, and Belgium.

Our region is the fifth biggest importer of U.S. cereals, surpassed only by Japan, Mexico, Egypt, and Korea.

Because of the importance of our apparel exports to the United States, we are the biggest importer of U.S. sewing machines after Mexico. But recent exports of U.S. sewing machines to our region have decreased by 3 percent, while those to Mexico have increased by 44 percent because of the trade deviation created as a result of more advantageous import and quote textile regimes granted to Mexico under the NAFTA.

In telecommunications equipment, we are the seventh biggest purchaser worldwide, surpassed only by the two NAFTA countries, Japan, United Kingdom, Hong Kong, and The Netherlands.

In U.S. exports of fats and vegetable oils, our region is the third biggest consumer worldwide.

We purchase more U.S. air conditioners than any other country in the world, with the exception of Canada, Mexico, and easily explainable Saudi Arabia.

The next graph I'm showing shows how Mexico's apparel exports have zoomed after the NAFTA came into effect, while those of the CBI region have very much slowed down and in some cases have even decreased because of the trade deviation caused by the NAFTA. For us to keep purchasing U.S. goods, we need to increase our apparel exports to you.

Haiti is probably the country that can mostly benefit from CBI enhancement. Before its political problems affected its investment climate, its exports of apparel to the United States were only $80 million less than those of its neighbor, the Dominican Republican. Yet, today, as you can see from the next graph, Dominican exports of apparel exceeded those of Haiti by $2 billion. Thus, CBI enhancement could mean thousands of new jobs in Haiti, helping to stabilize its political situation, and reducing today's illegal migratory pressures. Eighty-three percent of all of Haiti's exports of goods are today made up of apparel. So any increase means a lot to that nation.

All WTO member nations, including the United States, are under the obligation to eliminate quotas on textiles 6 years from now. Together with the very big recent Asian devaluations, this commitment poses a double threat to U.S. producers of cotton, textile fibers, cloth, and apparel. The way for the U.S. industry to prepare itself for this challenge, resulting from globalization, is to form a strategic alliance with CBI countries, through CBI enhancement legislation, by sending U.S.-made cloth to our region to be cut and converted into apparel which would be shipped back to the United States. Eighty-nine percent of CBI exports of apparel are today made with U.S. components, predominately U.S. fabric.

Under this mechanism, U.S. production of cloth could compete with Asian apparel imports. Practically all apparel that comes from Asia is made, of course, from Asian cloth. China and Hong Kong, after Mexico, already are the two biggest exporters of apparel to the United States. Thus, U.S. cloth producers in effect depend on

CBI enhancement legislation in order to be able to face globalization a very few years from now.

Last year, U.S. imports of apparel grew by 13 percent. But from Mexico alone, they increased by 28 percent—from South Korea, 44 percent; from Thailand, 18 percent; while from CBI countries, only 8 percent.

Textile assembly is the third biggest source of foreign income in the Dominican Republic after tourism and money remittances, and 93 percent of that assembly is made with U.S. components, predominately U.S. fabric. One hundred and forty thousand Dominicans assemble U.S. cloth. Our country is no longer the plantation economy of a few years ago and most of those who convert cloth into apparel are women. Their new and important contribution to family income has been the most stabilizing social phenomena in the last 15 years in our country. If we can increase this figure, there would be less pressure to migrate, illegally or legally, less temptation to act as a transit point for illegal drugs from South America into the United States. Ninety percent of the value of all Dominican exports of apparel are made in factories which comply with the voluntary code of conduct with respect to labor practices that U.S. companies, for whom they are made, require of them. These so-called "terms of engagement" are subject to internal and also third party monitoring.

More jobs mean more political stability and a better climate for U.S. investment and U.S. tourism. The same applies to the rest of the region. U.S. national security objectives with respect to its southern neighbors would thus be strengthened.

For all these reasons, CBI enhancement, I repeat, is a win-win situation for the Caribbean and Central America and also for the United States.

I thank Chairman Philip Crane and Congressman Charles Rangel, Jim Kolbe, William Jefferson, and Robert Matsui for having introduced H.R. 984 and urge quick approval of the same.

Thank you.

[The prepared statement follows:]

Statement of His Excellency Bernardo Vega, Ambassador to the United States from the Dominican Republic

Honorable Chairman Crane and distinguished Members of the Subcommittee, Ladies and Gentlemen: I am pleased to be able to testify before the U.S. Congress on a subject matter so important to my country, but CBI enhancement legislation is also a win-win proposal. It helps our region, but it also helps the U.S. economy and creates U.S. jobs.

Last week Washington's press reported, again, a record U.S trade deficit. Yet, the US has had a trade surplus with the CBI region for the last twelve years (Graph No. 1). This U. S. surplus is the eighth biggest in the world, surpassed only by that with seven countries: The Netherlands, Australia, Belgium, Brazil, United Kingdom, Saudi Arabia and Argentina (table No. 1).

The U.S. trade surplus with the CBI region only started to occur in 1986, precisely two years after the Caribbean Basin Initiative (CBI) legislation was passed in Washington. (Graph No. 1).

The more new jobs that are created in CBI countries, the more new jobs that are also created in the U.S., simply because approximately 70% of every dollar that our countries spend on non oil imports, are spent on imports from the U.S.A. CBI countries are the sixth biggest purchasers of U.S. goods worldwide, surpassed only by the two NAFTA countries, Japan, the United Kingdom and Germany (table No. 2). Secretary Barshefsky very correctly pointed out that 360,000 jobs in the U.S. depend on trade with our region.

Allow me to get into some specifics. The CBI region is the 10th biggest importer, worldwide, of U.S. cars, surpassed only by the two NAFTA countries, Japan, Germany, Saudi Arabia, United Kingdom, Australia, Austria and Belgium (table No. 3).

Our region is the fifth biggest importer of U.S. cereals, surpassed only by Japan, Mexico, Egypt and Korea (table No. 4). Because of the importance of our apparel exports to the U.S., we are the biggest importer of U.S. sewing machines, after Mexico, but recent exports of U.S. sewing machines to our region decreased by 3%, while those to Mexico increased by 44% (table No. 5), because of the trade deviation created as a result of more advantageous import and quota textile regimes granted to Mexico under the NAFTA.

In telecommunication equipment we are the seventh biggest purchaser worldwide, surpassed only by the two NAFTA countries, Japan, United Kingdom, Hong Kong and The Netherlands (table No. 6).

In U.S. exports of fats and vegetable oils, our region is the third biggest consumer (table No. 7).

We purchase more U.S. air conditioners than any country in the world, with the exception of Canada, Mexico and easily explainable Saudi Arabia (table No. 8).

Graph No. 2 shows how Mexico's apparel exports have zoomed after the NAFTA came into effect, while those of the CBI region have slowed down, and, in some cases, decreased, because of the trade deviation caused by the NAFTA. For us to keep purchasing U.S. goods, we need to increase our apparel exports to you.

A WAY OUT FOR HAITI'S ECONOMY

Haiti is probably the country that can more benefit from CBI enhancement. Before its political problems affected its investment climate, its exports of apparel to the U.S. were only US$80 *million* less than those of its neighbor, the Dominican Republic. Yet, today, Dominican exports of apparel exceed those of Haiti by US$2 *billion* (Graph No. 3). Thus, CBI enhancement could mean thousands of new jobs in Haiti, helping to stabilize its political situation and reducing today's illegal migratory pressures. Eighty three percent of all of Haiti's exports of goods are today made up of apparel, so any increase means a lot to that nation.

A STRATEGIC ALLIANCE

All WTO nations, including the U.S., are under the obligation to eliminate quotas on textiles six years from now. Together with the very big recent Asian devaluations, this commitment poses a double threat to U.S. producers of cotton, textile fibers, cloth and apparel. The way for the U.S. industry to prepare itself for this challenge, resulting from globalization, is to form a strategic alliance with CBI countries, through CBI enhancement legislation, by sending U.S. made cloth to our region to be cut and converted into apparel which would be shipped back to the U.S. Eighty nine percent of CBI exports of apparel are today made with U.S. components, predominantly U.S. fabric.

Under this mechanism, U.S. production of cloth could compete with Asian apparel imports. Nearly all apparel that comes from Asia is made from Asian cloth. China and Hong Kong, after Mexico, already are the two biggest exporters of apparel to the U.S.A.

Thus, U.S. cloth producers in effect depend on CBI enhancement legislation in order to be able to face globalization a very few years from now.

MORE JOBS MEAN LESS MIGRATION AND LESS DRUGS

Textile assembly is the third biggest source of foreign income in the Dominican Republic (after tourism and money remittances), and 93% of that assembly is made with U.S. component, predominantly U.S. fabric. One hundred forty thousand Dominicans assemble U.S. cloth. Our country is no longer the plantation economy of a few years back. Most of those who convert cloth into apparel are women. Their new and important contribution to family income has been the most stabilizing social phenomena in the last fifteen years in our country. If we can increase this figure, there would be less pressure to migrate, illegally or legally, and less temptation to act as a transit point for illegal drugs from South America into the U.S.A. Ninety percent of the value of all Dominican exports of apparel are made in factories which comply with the voluntary code of conduct with respect to labor practices that U.S. companies for whom they are made require of them. These so called "terms of engagement" are subject to internal and third party monitoring.

More jobs mean more political stability and a better climate for U.S. investments and U.S. tourism. The same applies to the rest of the region. U.S. national security objectives with respect to its southern neighbors would thus be strengthened.

For all these reasons CBI enhancement is a win-win situation for the Caribbean and Central America and also for the U.S.

I thank Chairman Philip M. Crane and Congressmen Charles B. Rangel, Jim Kolbe, William J. Jefferson and Robert T. Matsui for having introduced H.R. 984 and urge quick approval of the same.

Table 1.—U.S. Balance of Trade—Biggest Surpluses (January–November)

[Millions of U.S. Dollars]

Rank	Country	1997	1998
1	Netherlands	11,460	10,386
2	Australia	6,859	6,119
3	Belgium	5,095	5,131
4	Brazil	5,531	4,471
5	United Kingdom	3,555	4,410
6	Saudi Arabia	2,086	3,726
7	Argentina	3,211	3,373
8	**-CBI-**	**1,553**	**2,597**

Source: Global Trade Information Services, Inc.

Table 2.—U.S. Exports (January–November)

[Millions of U.S. Dollars]

Rank	Country	1997	1998
1	Canada	138,043	141,671
2	Mexico	65,046	72,467
3	Japan	60,408	53,246
4	United Kingdom	33,133	36,168
5	Germany	22,468	24,174
6	**-CBI-**	**16,926**	**18,381**
7	Netherlands	18,055	17,330
8	Taiwan	18,152	16,485
9	France	14,509	15,994
10	Korean Republic	23,387	14,146

Source: Global Trade Information Services, Inc.

Table 3.—U.S. Exports of Vehicles (January–November)

[Millions of U.S. Dollars]

Rank	Country	1997	1998
1	Canada	28,963.1	28,730.1
2	Mexico	7,061.4	7,384.4
3	Japan	3,054.1	2,440.6
4	Germany	2,048.0	2,176.7
5	Saudi Arabia	1,011.0	1,057.7
6	United Kingdom	794.9	1,049.0
7	Australia	987.8	1,031.9
8	Austria	698.6	1,014.1
9	Belgium	1,127.6	938.6
10	**-CBI-**	**665.5**	**909.8**

Source: Global Trade Information Services, Inc.

Table 4.—U.S. Exports of Cereals (January–November)

[Millions of U.S. Dollars]

Rank	Country	1997	1998
1	Japan	2,672.3	2,029.8
2	Mexico	809.0	1,179.7
3	Egypt	701.4	636.8
4	Korean Republic	643.2	618.4
5	**-CBI-**	**682.3**	**616.1**
6	Taiwan	770.2	485.5

Table 4.—U.S. Exports of Cereals (January–November)—Continued

[Millions of U.S. Dollars]

Rank	Country	1997	1998
7	Colombia	189.8	237.1
8	Philippines	310.8	232.3
9	Canada	222.5	227.4
10	Venezuala	180.0	163.6

Source: Global Trade Information Services, Inc.

Table 5.—U.S. Exports of Sewing Equipment (January–November)

[Millions of U.S. Dollars]

Rank	Country	1997	1998	Percent Change 98/97
1	Mexico	96.0	138.4	44.21
2	**-CBI-**	**86.5**	**83.9**	**–2.93**
3	Canada	28.2	28.1	–0.27
4	Honduras	24.5	24.1	–1.62
5	Dominican Republic	30.9	22.3	–27.65
4	Germany	12.5	14.8	18.66
7	Guatemala	5.9	12.7	117.76
5	Brazil	22.0	12.2	–44.42
9	El Salvador	7.0	11.6	66.17
6	Japan	10.9	10.4	–4.71
7	Colombia	5.9	7.4	24.95
12	Costa Rica	10.6	7.3	–30.86
8	Hong Kong	8.9	7.1	–20.25

Source: Global Trade Information Services, Inc.

Table 6.—U.S. Exports of Telecommunication Equipment (January–November)

[Millions of U.S. Dollars]

Rank	Country	1997	1998	Percent Change 98/97
1	Canada	1,249.3	1,336.5	6.98
2	Mexico	569.3	874.4	53.59
3	Japan	793.0	748.2	–5.65
4	United Kingdom	429.5	548.7	27.75
5	Hong Kong	315.4	331.4	5.09
6	Netherlands	244.0	305.3	25.12
7	**-CBI-**	**158.3**	**240.7**	**52.06**
8	Germany	200.4	201.2	0.41
9	Taiwan	145.8	198.4	36.12
10	China	169.5	196.3	15.77

Source: Global Trade Information Services, Inc.

Table 7.—U.S. Exports of Fats and Vegetable Oils (January–November)

[Millions of U.S. Dollars]

Rank	Country	1997	1998
1	Mexico	328.7	415.2
2	China	167.5	282.5
3	**-CBI-**	**182.8**	**217.0**
4	Canada	195.9	180.2
5	Hong Kong	116.7	171.2
6	Turkey	117.1	99.4
7	Japan	88.9	89.8
8	Spain	37.3	74.8
9	Korean Republic	63.8	72.2
10	Saudi Arabia	51.2	60.9

Source: Global Trade Information Services, Inc.

Table 8.—U.S. Exports of Air Conditioning Equipment (January–November)

[Millions of U.S. Dollars]

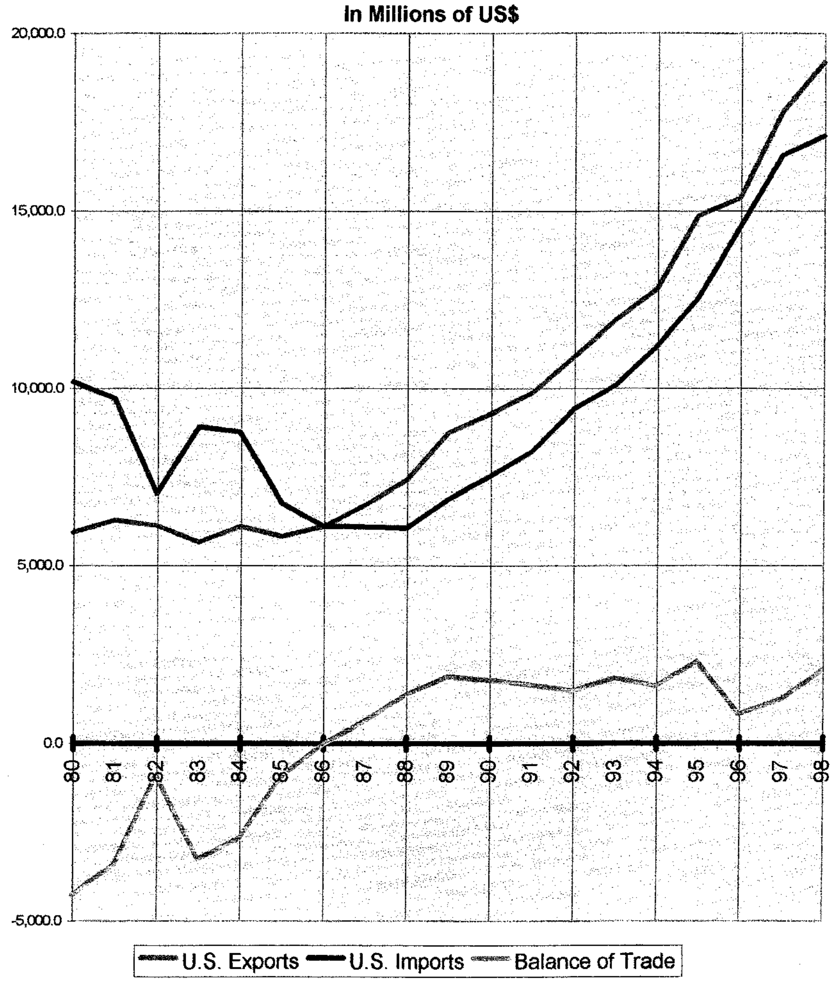
Rank	Country	1997	1998
1	Canada	880.6	941.3
2	Mexico	291.5	309.0
3	Saudi Arabia	101.6	79.7
4	**-CBI-**	**57.0**	**72.1**
5	Venezuala	41.8	58.0
6	Japan	35.4	56.3
7	United Arab Emirates	46.8	42.5
8	Brazil	37.6	41.4
9	Germany	25.2	39.5
10	France	41.8	35.3

Source: Global Trade Information Services, Inc.

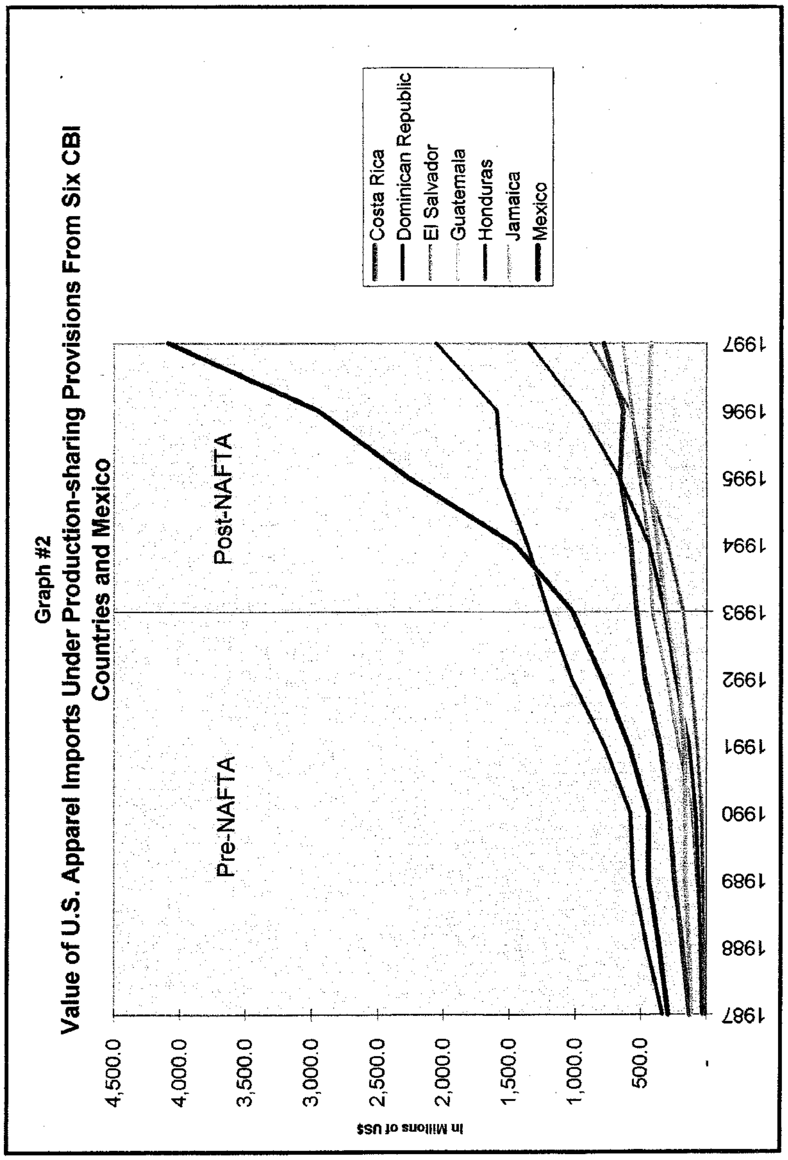
Graph No. 1

Trade between the United States and the Caribbean Basin Countries

In Millions of US$



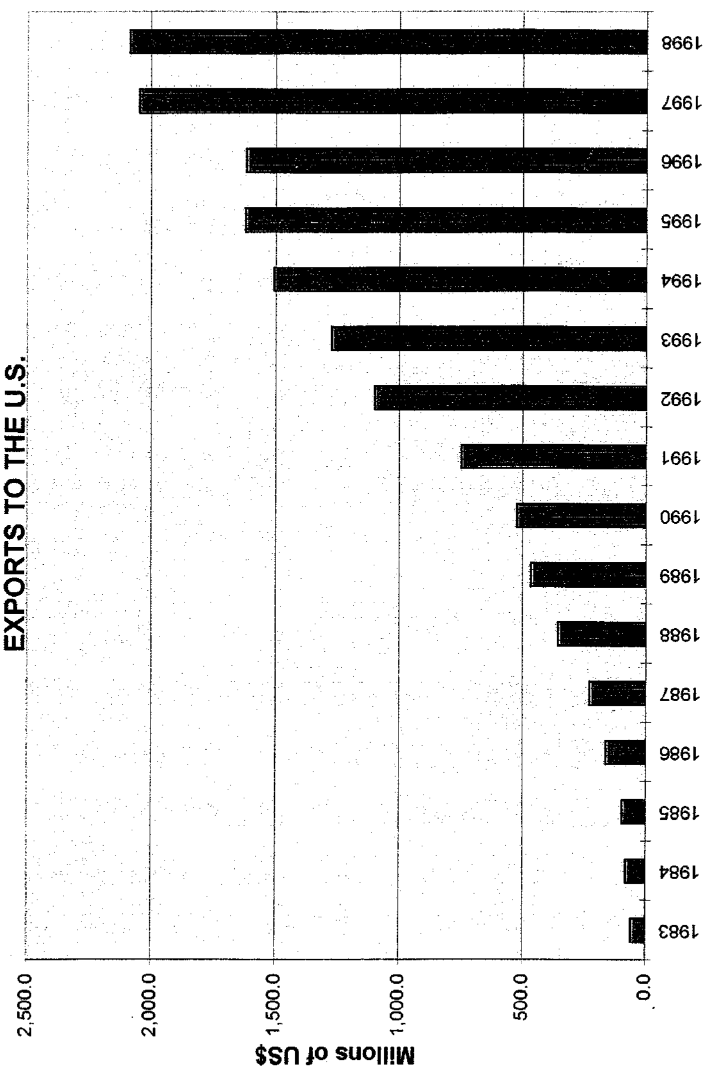
Source: U.S. International Trade Commission



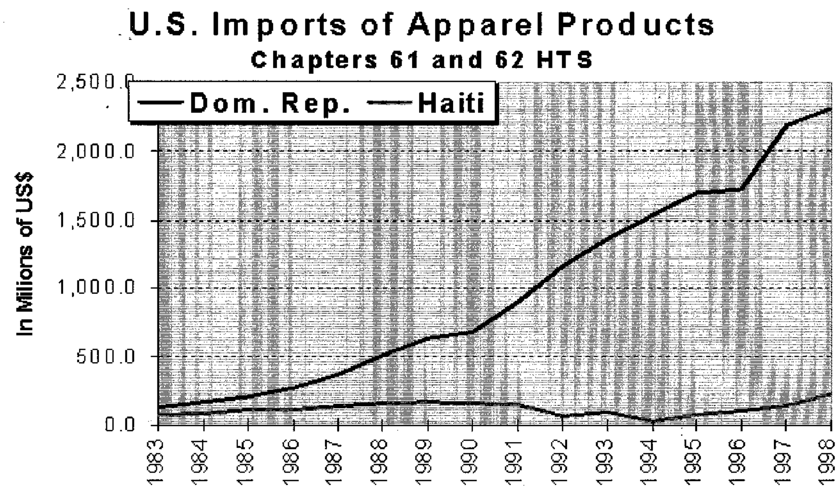
Source: Office of Textiles and Apparel

Graph #3

GAP BETWEEN DOMINICAN AND HAITIAN APPAREL EXPORTS TO THE U.S.



Source: From Data of the U.S. Department of Commerce


U.S. Imports of Apparel Products
Chapters 61 and 62 HTS
Dom. Rep.
Haiti
In Milions of US$
2,500.0
2,000.0
1,500.0
1,000.0
500.0
0.0
1983
1984
1985
1986
1987
1988
1989
1990
1991
1992
1993
1994
1995
1996
1997
1998

Imports by the United States.—Chapters 61 and 62 of the HTS (Apparel)

[Millions of U.S. Dollars]

Year	Dominican Republic			Haiti		
	61	62	Total	61	62	Total
1983	32.50	101.10	133.60	23.30	53.30	76.60
1984	38.50	129.90	168.40	29.80	58.90	88.70
1985	43.70	167.30	211.00	31.80	83.90	115.70
1986	54.20	221.30	275.50	33.00	83.10	116.10
1987	74.70	297.40	372.10	51.90	93.50	145.40
1988	109.30	405.80	515.10	58.00	101.90	159.90
1989	139.90	498.20	638.10	64.20	108.40	172.60
1990	178.40	507.30	685.70	73.10	89.90	163.00
1991	218.10	681.60	899.70	74.60	76.70	151.30
1992	308.90	854.00	1,162.90	38.10	26.70	64.80
1993	348.10	1,019.00	1,367.10	48.50	46.20	94.70
1994	390.20	1,147.60	1,537.80	17.70	13.50	31.20
1995	465.60	1,232.10	1,697.70	47.60	29.50	77.10
1996	538.30	1,181.80	1,720.10	68.40	36.10	104.50
1997	687.30	1,501.80	2,189.10	102.10	41.20	143.30

Source: United States Department of Commerce

Chairman CRANE. Thank you.

And our next witness is Mr. Aguirre-Sacasa. Mi Espanol es muy malo [speaking briefly in Spanish].

STATEMENT OF HIS EXCELLENCY FRANCISCO X. AGUIRRE-SACASA, AMBASSADOR TO UNITED STATES FROM THE REPUBLIC OF NICARAGUA

Mr. AGUIRRE-SACASA. Muchas gracias, Senor Presidente and members of the Trade Subcommittee. Let me open by thanking you for giving us this opportunity to come and testify before you today and for the great interest that you take in the recovery of the countries that have been affected by Hurricanes Georges and Mitch in Central America and the Caribbean.

At today's hearing you will hear from many people, but I may be the only one who was an eyewitness to the hurricane itself for I arrived in Managua on the 29th of October on the last commercial air flight before the airport was shut down for several days, and I will never forget what I witnessed. I saw creeks that swelled to 100 times their normal flow, farms and range lands that were flooded, the desperate faces of homeless campesinos who had lost everything, and roads swallowed up by rock slides, and most ominously of all, I recall the emergency cabinet meeting when we got the first unconfirmed reports of a major mud-slide which had wiped out the farming community of Posoltega in western Nicaragua.

The rest is history. Hurricane Mitch proved to be the most destructive natural calamity ever in our hemisphere. It left over 10,000 dead, three million homeless, and over $8 billion in destruction in its wake. In the two hardest hit countries, Honduras and Nicaragua, rainfall exceeded 60 inches in 4 days. That's nearly three times what San Francisco gets in a normal year, Mr. Chairman. And coming as it did at the end of a copious rainy season, Mitch caused enormous material damage. According to the U.S. Army Corps of Engineers, destruction in Honduras and Nicaragua came to the equivalent of 75 and 65 percent respectively of each country's GDP. And that's as if the United States had suffered over $5.5 trillion in losses as a result of a natural disaster.

The countries of Central America, especially Honduras and Nicaragua, were battered but not broken by Mitch. The resilient peoples of the region are slowly and quite literally digging out from under the mud, and our societies and governments have successfully carried out the critical emergency phase of the recovery effort with the help of the international community and especially of the people and the Government of the United States. For this generous support, America has earned the everlasting gratitude of our peoples.

Mr. Chairman, we are now entering the reconstruction phase. As President Aleman of Nicaragua has often said,

> Our governments and peoples do not merely want to reconstruct the region as it was prior to Mitch. Instead, we are determined to transform our nations into more robust, better societies where democracy and the rule of law will be strengthened and where economic growth will be accelerated and the fruits of that growth will be more equitably distributed.

We understand that we bear primary responsibility for getting our countries back on their feet. But we also realize that the enormity of our losses mean that we cannot go it alone. We urgently need the help of the international community and especially of the United States, our closest friend and partner. Give us the tools and we will get on with the task of transforming our societies.

What do we require? The top priority is quick approval of the supplemental aid bill for Central America to help us jump-start the reconstruction effort. Let me stress, Mr. Chairman, that all of our countries, but especially Honduras and Nicaragua, need passage of the aid package now. Our rainy season begins in 2 months and we need to get the aid in place prior to then to plant our next crops.

Our countries also need fairer access to the U.S. market for our exports. This would allow the Central American economies to prosper, to create more jobs, thus cutting down on illegal immigration, and to buy more U.S. exports. And American consumers would benefit from high-quality goods at affordable prices creating, as Ambassador Vega has mentioned, a win-win situation for all concerned.

I urge the Congress to approve therefore a CBI enhancement bill such as H.R. 984 quickly. And I encourage the Administration to sign it into law before the end of 1999. To wait until 2000, an electoral year, will, I fear, doom this initiative to failure.

Mr. Chairman, allow me to end by saying a few words about what is at stake.

In the 1980's, Central America was in turmoil. The region, which is nearer to Washington, D.C. than California or Nevada are, was being ripped apart by civil war, ideological confrontation, and dictatorship. Economic chaos was the order of the day as were human rights violations. Hundreds of thousands of our citizens voted with their feet against these conditions by emigrating illegally to safe havens in the United States.

Today, this has changed. For the first time since the Central American countries gained their independence almost 200 years ago, all five of our republics enjoy popularly elected democracies and live in peace. The process of national reconciliation is being deepened and prior to Mitch, all of our countries were enjoying economic growth based on free-market policies. Illegal emigration to the United States was down as conditions in the region improved.

Today, Central America, Mr. Chairman, is a success story that we can all take pride in. Central American blood, courage, patriotism, and vision helped us to forge this remarkable turnaround. So did the investment of American treasure and American perseverance. But Central America is still a fragile work in progress which must be carefully nurtured especially in the wake of a killer storm like Mitch. By passing the supplemental aid bill and a good CBI enhancement bill quickly, Congress and the Administration, working in concert, have an extraordinary opportunity to safeguard a major foreign policy achievement. They can also help ensure that this success story grounded in so many basic values which we share with the United States will be preserved and strengthened.

Thank you very much.

[The prepared statement and an attachment follow:]

Statement of His Excellency Francisco X. Aguirre-Sacasa, Ambassador to the United States from Nicaragua

Mr. Chairman, members of the Trade Subcommittee: By the time today's hearing is concluded, you will have heard from many people, but of all those who will testify, I may be the only one who was an eyewitness to the hurricane itself.

I arrived in Managua on the 29th of October on the last commercial flight before the airport was shut down for several days and will never forget what I witnessed during the next four days. I saw creeks swell to a hundred times their normal flow, farm and rangelands flooded, the desperate faces of homeless campesinos, and roads closed by rockslides. And, most ominously of all, I was at the emergency Cabinet Meeting when we got the first unconfirmed report of a major mudslide which had wiped out the farming community of Posoltega.

I saw, Mr. Chairman, the first videos brought back by air force pilots who flew helicopters over devastated areas. These showed only mud and debris where once villages had stood. And I'll never forget when President Aleman declared three days of mourning when the magnitude of the death toll began to become apparent.

The rest is history. Hurricane Mitch proved to be the most destructive natural calamity in our Hemisphere, ever. It left over 10,000 dead, three million homeless and over $8 billion in destruction in its wake. In the two hardest hit nations—Honduras and Nicaragua—rainfall exceeded 60 inches in four days, three times what San Francisco receives in a normal year! And coming as it did at the tail end of a copious rainy season, Mitch caused enormous material damages. According to estimates by the U.S. Corps of Engineers, destruction in Honduras and Nicaragua came to the equivalent of 75% and 65%, respectively, of both countries' GDP. To put this into some perspective, that is as if the United States had suffered over $5.5 trillion in losses as the result of a natural disaster.

Mr. Chairman, the countries of Central America—especially Honduras and Nicaragua—were battered but not broken—by Mitch. The resilient peoples of the Region are slowly and quite literally digging out from under the mud. And our societies and governments have successfully carried out the critical emergency phase of the recovery effort with the help of the international community and, especially, the people and the government of the United States. For this, your people and government have earned the everlasting gratitude of Central America.

Mr. Chairman, we are now entering the critical reconstruction phase of the disaster. As President Aleman of Nicaragua has often said, our governments and peoples do not want to reconstruct the Region as it was prior to Mitch. Instead, we are determined to transform our countries into stronger, better societies where democracy and national reconstruction will be strengthened, where the rule of law will prevail and where economic growth will be accelerated and the fruits of this growth will be more equitably distributed.

We understand that we bear primary responsibility for getting our countries back on their feet. But we also know that the enormity of our losses also mean that we can not go it alone. We urgently need the help of the international community, especially that of the United States our closest friend and neighbor. If you give us the tools, we will get on with the task of transforming our societies.

What do we require? The top priority is *quick* approval of the $960 million supplemental aid bill for Central America to help us jump start the reconstruction effort. Let me stress, Mr. Chairman, that all of our countries—but especially Honduras and Nicaragua—need passage of the aid package *now*. Our rainy season begins, once again, in three months and we need to get as much of the aid in place prior to then to plant our next crops.

Our countries also need fairer access to the U.S. market for our exports. America already is Central America's most important trading partner. Your exports to CBI countries come to over $18 billion annually and hundreds of thousands of American jobs depend on this trade. Freer commerce would allow the Central American economies to prosper, to create more jobs thus cutting down on emigration, and to buy more U.S. goods. And American consumers would benefit from high quality goods at affordable prices creating a "win-win" situation for all concerned. I urge the Congress to approve, therefore, a CBI enhancement bill quickly and I encourage the Administration to sign it into law before the end of 1999. To wait until 2000, an electoral year, will—I fear—doom this initiative to failure.

Mr. Chairman, allow me to end by saying a few words about what is at stake.

In the 1980s, Central America was in turmoil. The Region, which is nearer to Washington, D.C. than California or Nevada, was being ripped apart by civil war, ideological confrontation and dictatorship. Economic chaos was the order of the day as were human rights violations. Hundreds of thousands of our citizens literally voted with their feet against these conditions by emigrating illegally to safe haven in the United States.

Today, this has changed. For the first time since the Central American countries gained their independence 175 years ago, all five of our republics enjoy popularly elected democracies and peace. The process of national reconciliation is being deepened and all of our countries were enjoying economic growth based on free market policies before Mitch. Illegal emigration to the U.S. was down as conditions in the Region improved.

Today's Central America is a success story that we can *all* take pride in. Central American blood, courage and vision helped to forge this remarkable transformation. So did American treasure and perseverance. But our success story is still a fragile "work in progress" which must be carefully nurtured, especially in the wake of a killer storm like Mitch. By passing the supplemental aid bill and a good CBI enhancement bill quickly, Congress and the Administration—working in concert—have an extraordinary opportunity to safeguard a major foreign policy achievement. They can also help ensure that this Central American success story—grounded in so many basic values which we share with the United States—will be preserved and strengthened.

Many thanks.

EMBASSY OF THE REPUBLIC OF NICARAGUA
1627 NEW HAMPSHIRE AVENUE, N.W.
WASHINGTON D.C. 20009

March 29, 1999

The Honorable
Charles B. Rangel
United States House of Representatives
Washington, D.C. 20515

Mr. Dear Mr. Rangel:

When the Central American ambassadors testified before the Trade Subcommittee of the Ways & Means Committee on March 23, you and Congressman Becerra inquired whether American firms were encountering any difficulties in doing business in the CBI countries.

The answer to your question in Nicaragua is a resounding "no." Realizing the importance of private investment to our development, Nicaragua offers foreign private firms one of the developing world's friendliest business environments. Moreover, our economic policies are amongst the best in Latin America and are strongly supported by the World Bank, the IMF and the Inter-american Development Bank. And they are paying off. Prior to Mitch, Nicaragua was enjoying the fastest economic growth of any Central American nation.

Conditions in Nicaragua have given rise to renewed interest in investing in Nicaragua by U.S. firms. Amongst the "blue chip" companies that are making major investments in the country are Bell South (in cellular phones); Enron and Coastal Power (in power generation); and Bayer Clothing (in the apparel industry).

Thanks, once again, for your interest in Central America and its reconstruction, and I look forward to seeing you upon your return after Congress' Spring recess.

With best personal regards.

Sincerely,

Francisco X. Aguirre-Sacasa
Ambassador

Identical letter sent to Hon. Xavier Becerra

Chairman CRANE. Thank you, Mr. Ambassador.
Our next witness, Ambassador Leon.

STATEMENT OF HIS EXCELLENCY RENE A. LEON, AMBASSADOR TO THE UNITED STATES FROM THE REPUBLIC OF EL SALVADOR

Mr. LEON. Mr. Chairman, Members of the Subcommittee, thank you for providing me this opportunity to appear before the Trade Subcommittee regarding the proposed Caribbean and Central American Relief and Economic Stabilization Act.

I would like to begin by thanking you, Mr. Chairman, as well as Congressman Kolbe, Rangel, and Matsui, for introducing this legislation which is urgently needed for the expeditious and sustainable economic recovery of the Central American region from Hurricane Mitch. I would also take this opportunity to recognize the leadership that you have provided on CBI over the years.

While direct financial assistance is greatly needed, we believe that the key to a successful economic recovery from Hurricane Mitch lies in expanding trade with our most important trading partner, the United States.

El Salvador fully supports the immediate passage of the Caribbean and Central American Relief and Economic Stabilization Act. Enactment of this legislation will create economic, social, and national security benefits for both Central America and the United States.

Enhanced trade will expand economic opportunities that are urgently needed to preserve our region's stability, creating employment, and encouraging international and domestic investment. It will also help us to preserve our most precious achievements: peace after long periods of domestic conflicts, functional and strong democracies based on governments elected by the people, full respect for human rights, and market-oriented reforms. Furthermore, economic expansion will permit our countries to provide attractive jobs to our people, thus discouraging them from emigrating outside of the region to seek better living conditions.

Enhanced trade will strengthen the positive trend that we have seen in trade between our region and the United States in the past decade. We did some research, Mr. Chairman, during the week on the Internet and we got the latest 1998 figures, preliminary figures for the trade between our region and the United States. U.S. exports to CBI countries, among which exports to Central America are predominate, have more than doubled since 1989 from $9 billion to $22.7 billion in 1998 creating more than 400,000 jobs in the United States according to a ratio of one billion to 20,000 jobs that you have just mentioned earlier. By comparison, U.S. exports to China in the same year, 1998, were only $14.3 billion. And to India and Russia combined, only $7.1 billion. The United States maintains a growing deficit with those countries, whereas it enjoys a trade surplus of $2.7 billion with the CBI region.

Enhanced trade will also help maintain and improve the competitiveness of the U.S. industries vis-a-vis Asian competitors. The financial crisis in Asia has created difficulties for the textile and apparel industries in the United States. The trade incentives provided in H.R. 984 will allow U.S. firms operating in the CBI region to remain competitive in textile and apparel market segments where otherwise they would be displaced by increasingly inexpensive Asian products.

Finally, enhanced trade will increase purchase of U.S. raw materials and capital goods from the CBI region. In the period from 1994 to 1998, U.S. exports to the CBI countries have increased 78 percent. In 1998 alone, approximately 57 percent of total imports from the Central American countries came from the United States. The region's high propensity to import goods and services from the United States, which is approximately 75 cents per each additional dollar exported by the CBI countries, which by comparison, let me tell you that in Asia, for the Asian region, it's only 2 cents; and our dependency on U.S. imports will translate into more exports and jobs in this country.

Mr. Chairman, I would like to close by pointing out that H.R. 984 addresses the key trade interests of the Central American countries. This bill provides tariff and quota treatment equivalent to NAFTA to products currently excluded from CBI. Thus, will eliminate the consequences of trade and investment deviation that our countries have been experiencing in the past 6 years.

By granting apparel products made with regional yarns and fabrics, tariff and quota treatments, similar to that granted to Mexican products under NAFTA, the bill addresses the concern of El Salvador as well as other countries in Central America that have a textile industry. Let me just point out that this textile industry does not represent a threat to U.S. interests due to its relatively small size. It does employ more than 18,000 people and supports about $850 million worth of exports which are critical to preserve.

And, finally, this is a textile industry that complies with the rule of origin of NAFTA and also it is a textile industry that imports all its raw cotton from the United States.

Finally, Mr. Chairman, this legislation is fully consistent with Central America's trade policy objective to negotiate a free trade agreement with the United States similar to NAFTA even before the deadline for the creation of the Free Trade Area of the Americas in the year 2005.

The United States has invested hundreds of millions of dollars to make the region what it is today: peaceful, democratic, economically vibrant, and a good friend of America. The magnitude of the Mitch disaster demands a strategic policy for the region to preserve this reality. The expansion of trade and investment opportunities through the enactment of a flexible and comprehensive CBI legislation is a sine qua non component to help Central America rebuild and recover in the wake of Hurricane Mitch.

Thank you, Mr. Chairman.

[The prepared statement follows:]

Statement of His Excellency René A. León, Ambassador to the United States from the Republic of El Salvador

Mr. Chairman, Members of the Subcommittee, thank you for providing me this opportunity to appear before the Trade Subcommittee of the House Ways and Means Committee regarding the proposed "Caribbean and Central American Relief and Economic Stabilization Act." I would like to begin by thanking you, Mr. Chairman, as well as Congressmen Kolbe, Rangel and Matsui for introducing this legislation, which is urgently needed for the expeditious and sustainable economic recovery of the Central American region from Hurricane Mitch. I would also take this opportunity to recognize the leadership that you have provided on CBI over the years.

While direct financial assistance is greatly needed, we are convinced that the path to regional growth and sustainable development lies in the region's ability to help itself. In this regard, we believe that the key to a successful economic recovery from Hurricane Mitch lies in expanding trade with our most important trading partner, the United States.

Therefore, El Salvador fully supports the immediate passage of the "Caribbean and Central American Relief and Economic Stabilization Act." We regard this legislation as vital to the reconstruction of the region in the wake of Hurricane Mitch and as a critical step toward the creation of a free trade area between the United States and Central America. Enactment of this legislation will create economic, social and national security benefits for both Central America and the United States.

Enhanced trade by granting our exports the most favorable tariff and quota treatment will expand economic opportunities that are urgently needed to preserve our region's stability, creating employment and encouraging international and domestic investment. It will also help us to preserve our most precious achievements: peace after long periods of domestic conflicts, functional and strong democracies based on governments elected by the people, full respect for human rights and market oriented reforms. Furthermore, economic expansion will permit our countries to provide attractive jobs to our people, thus discouraging them from emigrating outside of the region to seek enhanced living conditions.

Enhanced trade between the United States and the region will strengthen the positive trend that we have seen in trade between our region and the United States in the past decade. U.S. exports to CBI countries—among which exports to Central America are predominant—have more than double since 1989, from $9.0 billion to $22.7 billion in 1998, creating more than 360,000 jobs in the United States. By comparison, U.S. exports to China the same year were only $14.3 billion and to India and Russia combined only $7.1 billion. The United States maintains a growing deficit with those countries, whereas it enjoys a trade surplus with the CBI region. This surplus, was $3.3 billion in 1998, up 73% from the previous year, which compares favorably with the trade deficit of $700 million the U.S. had with the CBI region in 1983. The implementation of this legislation, will ensure that this positive trend in trade with the CBI region continues.

Enhance trade will help maintain and improve the competitiveness of the U.S. industry vis-a-vis Asian competitors. The financial crisis in Asia has created difficulties for the textile and apparel industries in the United States. The trade incentives provided in H.R. 984 will allow U.S. firms operating in the CBI region to remain competitive in textile and apparel market segments, where otherwise they would be displaced by increasingly inexpensive Asian products.

Finally, enhanced trade will increase purchases of U.S. raw materials and capital goods from the CBI region. In the period from 1994 to 1998, U.S. exports to the CBI countries have increased 78%. This figure, constitutes one of the more dynamic growth rates experienced by U.S. exports worldwide. In 1998 alone, approximately 57% of total imports from the Central American countries came from the United States. The region's high propensity to import goods and services from the United States (approximately 79 cents per dollar) and our dependency on U.S. imports, will translate in more exports and jobs in this country.

Mr. Chairman and members of this subcommittee, there is overwhelming evidence that show that the approval and implementation of H.R. 984 will bring expanded growth and prosperity for the United States and its citizens. And at the same time, by expanding trade and investment in the CBI region, will permit us to restore economic growth rapidly. Enactment of this bill, without any doubt, places the United States and the CBI countries in a win-win situation.

Mr. Chairman, I would like to close my intervention by pointing out that H.R. 984 addresses the key trade interest of the Central American countries:

- This bill provides tariff and quota treatment equivalent to NAFTA to products currently excluded from CBI. Thus, will eliminate the consequences of trade and investment deviation that our countries have been experiencing in the past 6 years.
- By granting apparel products made with regional yarns and fabrics, tariff and quota treatment, similar to that granted to Mexican products under NAFTA, the bill addresses the concern of El Salvador, as well as other countries in Central America, that have a textile base, that does not represent a threat to the U.S. textile industry. Support for the Central American textile industry is important, because it is one of the most dynamic economic activity in the manufacturing sector of our economies, and one of the most reliable sources of employment, that could help economies to a faster recovery in the wake of Mitch. It would also mean supporting a high

value added economic activity, which is critical to our apparel industry and U.S. firms to remain competitive vis-a-vis their Asian competitors.

- Finally, this legislation is fully consistent with Central America's trade objective to negotiate a free trade agreement with the United States similar to NAFTA, even before the deadline for the creation of the Free trade Area of The Americas in the year 2005.

Mr. Chairman and members of this Subcommittee: El Salvador is committed to foster its economic reforms in order to keep our ability to meet the criteria to undertake the obligations of NAFTA or any other similar agreement, and our obligations under the WTO. Let me assure you that, El Salvador and the rest of the Central American countries already fulfill those requirements.

The United States has invested hundreds of millions of dollars to make the region what it is today: peaceful, democratic, economically vibrant and a good friend of America. The magnitude of the Mitch disaster demands a strategic policy for the region to preserve this reality. The expansion of trade and investment opportunities through the enactment of a flexible and comprehensive CBI enhancement is a sine qua non component of legislation that aims at helping Central America rebuild and recover in the wake of Hurricane Mitch.

Thank you, Mr. Chairman.

Chairman CRANE. Thank you.

And our final witness is Ambassador Daremblum from Costa Rica and we would like to ask you to please give our best regards to Sonia Pecado who accompanied us on a trip to Costa Rica, our Trade Subcommittee, back in 1995.

STATEMENT OF HIS EXCELLENCY JAIME DAREMBLUM, AMBASSADOR TO THE UNITED STATES FROM COSTA RICA

Mr. DAREMBLUM. Delighted, Mr. Chairman.

Mr. Chairman, Congressman Rangel, I appreciate the opportunity to testify in favor of H.R. 984 to provide enhanced access to the U.S. market for exports from the Caribbean Basin in order to restore the benefits of a proven trading relationship between the United States and the nations of Central America and the Caribbean. H.R. 984 is necessary because it creates the most jobs in the region, because it creates the most incentives for businesses to thrive in the region.

I thank you, Mr. Chairman and Congressman Rangel, as well as the other cosponsors of this legislation, for advancing it as a part of your response to the devastation of Hurricanes Mitch and Georges which impacted the entire region leaving thousands dead and millions without shelter, health care, education, and social services. Most important, millions lost their means of livelihood, their employment swept away in flood waters.

Mr. Chairman, my country, Costa Rica, was spared the utter devastation suffered by our neighbors in the region but we were affected as well, and we continue to bear an ever increasing burden as a result of Hurricane Mitch. Costa Rica suffered more than $100 million in infrastructure damage from Mitch but the greatest impact is the influx of thousands of refugees into our Nation from our neighbors, of people who are desperately looking for a way to restore and sustain life shattered by the unspeakable horror of the storm that has shattered their homes, their communities, and, most importantly, their capacity to earn a livelihood for themselves and their families. Costa Rica has become the host to an estimated 600,000 refugees, many of whom had entered our Nation fleeing social and political turmoil and economic conditions during the course of the last decade in our neighboring nations.

The Government of Costa Rica recently granted amnesty to 400,000 undocumented refugees, allowing them to become legal residents and eventually full citizens. Given that the population of Costa Rica is 3.5 million, in the United States such an amnesty would be the equivalent of offering green cards to an additional 30 million people. We, in Costa Rica, have and will welcome these refugees because the people of Costa Rica have a reverence for humanity and the protection of human rights.

The laws and traditions of our Nation provide that each and every refugee entering Costa Rica be given what is necessary to sustain life: food, clothing, shelter, education, and the hope for gainful employment. We thus have no choice and no desire to do anything other than to provide for the many refugees from neighboring nations who have come and are continuing to come to Costa Rica in search of hope.

Parallel to this, recent data indicate a more than 30 percent increase in refugees from the south into Mexico en route to the United States since Hurricane Mitch. We're witnessing the beginning of what threatens to be a flood of humanity fleeing poverty and hopelessness. That is why the Central American nations need to be given enhanced access to the U.S. market equal to that enjoyed by the U.S. NAFTA partners, notably Mexico, so that they can obtain the investment needed to rebuild their economies.

At present, we are seeing new investment go to Mexico and even worse are experiencing the loss of existing investments and jobs from our region to Mexico. The Crane-Rangel bill is for these purposes the most advantageous of the proposals for CBI enhancement that have been advanced in response to the hurricanes to date. We need to allow access to the U.S. market for apparel, manufactured from material produced in the region, because we want to maximize the job creation effect of enhanced access. Otherwise, we will be undermining jobs in the region given as we strive to create new opportunities for employment.

Mr. Chairman, I would like to personally thank you and your colleagues for your efforts to promote free trade among our nations. In addressing the critics of this common sense proposal, let the economic performance of our relationship speak to their heads and let the humanitarian needs of their neighbors speak to their hearts.

Thank you again for the invitation to testify before this Subcommittee, and I look forward to working with this Subcommittee and your colleagues on the full Committee toward passage of this meaningful trade legislation.

Thank you very much.

[The prepared statement follows:]

Statement of His Excellency Jaime Daremblum, Ambassador to the United States from Costa Rica

Chairman of the Trade Subcommittee of the Committee of Ways & Means Cong. Crane, Ranking Democrats of the full committee Cong. Charles Rangel and of the Trade Subcommittee Cong. Levin, and the other distinguished members of the Committee on Ways & Means, I am Jaime Daremblum, the Ambassador of Costa Rica to the United States, and I thank you for the opportunity to provide testimony in support of the Crane/Rangel legislation to enable the nations of the Caribbean to have enhanced access for our exports to the United States market. I join my fellow

Ambassadors from the region in asking for passage of this legislation as an essential element of the relief of the United States is supplying in response to the unprecedented devastation caused in the region by Hurricanes Mitch and Georges.

My nation, Costa Rica, was spared the utter devastation suffered by our neighbors in the region, but we were affected as well and we continue to bear an ever increasing burden as a result of Hurricane Mitch. Costa Rica suffered more than $100 million in infrastructural damage from Mitch, but the greatest impact is the influx of thousands of refugees into our nation from our neighbors, of people who are desperately looking for a way to restore and sustain lives shattered by the unspeakable horror of a storm that has shattered their homes, their communities and, most importantly, their capacity to earn a livelihood for themselves and their families. Costa Rica has become host to an estimated 500,000 to 600,000 refugees, many of whom had entered our nation fleeing social and political turmoil and economic conditions during the course of the last decade in our neighboring nations.

The Government of Costa Rica recently granted amnesty to 400,000 undocumented refugees, allowing them to become legal residents and eventually full citizens. Given that the population of Costa Rica is only 3.5 million, in the United States such an amnesty would be the equivalent of offering green cards to an additional 30 million people. We in Costa Rica have and will welcome these refugees because the people of Costa Rica have a reverence for humanity and the protection of human rights. The laws and traditions of our nation provide that each and every refugee entering Costa Rica be given what is necessary to sustain life: food, clothing, shelter and the hope of gainful employment. We thus have no choice, and no desire, to do anything other than to provide for the many refugees from neighboring nations who have come and are continuing to come to Costa Rica in search of hope.

In this way, we share the guiding principles of the United States, as your constitution and tradition calls upon you to "give me your hungry, your poor, those yearning to be free" and impels the humanitarian impulse which you have exhibited since the early aftermath of the disastrous hurricanes which afflicted our region. Recent data indicate a more than 30% increase in refugees from the South into Mexico enroute to the United States since Hurricane Mitch. We are witnessing the beginning of what threatens to be a flood of humanity fleeing poverty and hopelessness. That is why it is absolutely critical that the United States Congress enacts President Clinton's hurricane relief request and, along with it, enacts the Crane/Rangel bill to provide the enhanced access to the United States market required to attract the investment needed to rebuild the affected economies and create the jobs to provide hope and a reason to remain home.

I submit for the record excerpts from an editorial written by my President which appeared in the *Washington Post* on November 24, 1998, which expressed our gratitude for the assistance provided by the United States and then raised the issue which we are addressing in today's hearing.

> "In the aftermath of Hurricane Mitch we, the people and leaders of the nations of Central America, are still counting the cost and trying to comprehend the extent of the devastation we have suffered . . . Even as we struggle to alleviate the human suffering with the assistance of the international donor community, we are filled with growing apprehension for the future of the survivors who have been deprived of their ability to earn their livelihood. . . . [W]e are aware that the suffering we have experienced in the wake of Hurricane Mitch is only the beginning of a continuing tragedy that will produce multiplied suffering unless we are able to find a way to restore our economies. The path to our recovery from Hurricane Mitch must be through the restoration and recovery of our economies.
>
> We will need the help of our friends in the United States to restore our capacity for economic growth as much as we require the emergency assistance you are providing us now in our hour of need. We will have to attract private capital to our economies from the United States and other developed nations to enable us to create new means of production and opportunities for employment.
>
> The competition for private investment capital, however, is global and intense, especially now in the wake of the losses suffered by United States investors in some of the emerging markets which has made investors leery and reluctant to invest abroad. In addition to the challenge of attracting foreign investment in a time of disillusionment with emerging markets, we in Central America suffer from the disadvantage of being disabled by not being a part of the North American Free Trade Agreement (NAFTA), which has superseded our existing trade relationship with the United States under the Caribbean Basin Initiative.
>
> The CBI has been responsible for a decade of unparalleled growth in trade between the United States and the nations of the Caribbean Basin, acting as

a catalyst for exports, investments and employment creation in the United States as well as in nations of the region such as my own Costa Rica. The Caribbean Basin has become one of the best markets in the world for United States products, with each of the nations in the region importing an average of 75% of our goods and services from the United States. The Caribbean Basin is the area of the world in which United States exports have grown most rapidly in recent years. Since the CBI was enacted in 1984, the United States has developed a growing trade surplus with CBI nations. From 1983 to 1995, United States exports to the region surged by nearly 300% from $5.7 billion to $15.3 billion. Since each United States $1 billion of United States exports to the Caribbean Basin generates 20,000 new direct jobs in the United States, this means that the increase in purchases by Caribbean Basin nations such as Costa Rica of United States goods and service from the initiation of the CBI in 1983 to 1995 helped to create more than 300,000 trade-related jobs in the United States Thus the trading relationship developed under the CBI has been to our mutual benefit for more than a decade. The CBI proved that trade, not aid, is the key to economic development and political stability in the region. Today the strong democracies and, prior to Hurricane Mitch, growing economies of the nations of Central America, are proof of the benefits of the enhanced trade relationship under the CBI.

* * * * *

I am asking our friends in the Administration and the [United States] Congress to enable us, through providing parity of access to the United States market, to attract investment to our economies with the same urgency as the mobilization of emergency resources to relieve the victims of Hurricane Mitch. It is difficult at this time of sorrow to associate this tragedy with anything good or promising for the future but, if we keep our faith and obtain the full commitment of our friends, we may be able to build and secure an economic future that is much better than what we have experienced in the past."

As my President stated in his opinion editorial, we in Costa Rica support legislation to provide enhanced access to the United States market for exports from the nations of Central America and the entire Caribbean Basin. We know that such access is the only way for us to achieve the new investment that will be needed to create new capacity for production in the region and the new jobs that will be needed to replace the thousands of jobs lost, literally swept away, by Hurricanes Mitch and Georges. It is estimated that it will take close to 5 years to restore the capacity to produce the agricultural exports that have been the primary exports from the nations of Central America. Thousands of people have lost their ability to earn a living and we must restore that productive capacity. We can meet this challenge if the United States Congress will enact the Crane/Rangel bill to enhance the benefits of the Caribbean Basin Initiative. I ask the members of this Committee to report this legislation favorably to the U.S. House.

Caribbean Parity Needs to be a Part of a Meaningful Hurricane Relief Legislative Package

The path to recovery from Hurricanes Mitch and Georges must be through the restoration and recovery of the devastated economies. The nations of the region will have to attract private capital to their economies from the United States and other developed nations to enable them to create new means of production and opportunities for employment. The Central American nations need to be given enhanced access to the United States market equal to that enjoyed by the United States' NAFTA partners—notably Mexico—so that they can obtain the investment needed to rebuild their economies. At present, we are seeing the bulk of new investment go to Mexico and are experiencing the loss of existing investment and jobs from our region to Mexico.

The Crane/Rangel bill is the most deserving of support of the proposals for CBI enhancement that have been advanced in response to the hurricanes to date. We need to have enactment of the Crane/Rangel bill because it will preserve the thousands of jobs in the nascent textile industry in the region as well as stimulating the needed investment to create new jobs. We need to allow access to the United States market for apparel manufactured from materials produced in the region because we want to maximize the job creation effect of enhanced access. Otherwise, we will be undermining jobs in the region even as we strive to create new opportunities for employment.

The CBI has benefitted the United States economy, while stimulating economic growth in the Caribbean Basin, and this benefit is measurable as shown in the following Tables I and II evidencing the growth in United States exports to the region and the number of jobs created in the United States economy from exports to the Caribbean. It is also measurable on a state-by-state basis that the benefits derived from Caribbean trade have been shared by the state economies in the nation with every state enjoying a healthy trade surplus in the region (see Annex 1).

US/CBI Trade Statistics (1985–1995)

[Millions of U.S. Dollars]

Year	U.S. Imports	Exports	Annual Export Trade Growth [In percent]	Balance
1985	6687	5942	–	745
1986	6065	6362	7.1%	297
1987	6039	6906	8.6	867
1988	6061	7690	11.4	1629
1989	6637	8290	7.8	1653
1990	7525	9569	15.4	2044
1991	8372	10013	4.6	1641
1992	9627	11263	12.5	1636
1993	10378	12428	10.3	2050
1994	11495	13441	8.1	1946
1995	12673	15306	13.8	2633

Source: International Trade Commission on the CBERA Thirteenth Report 1997 Investigation No. 332–227 USITC Publication 3132 September 1998.

Number of US Workers Dependent on Trade with the Caribbean Basin Nations

Year	Total No. of U.S. Workers	No. of New U.S. Jobs Created Per Year
1985	118,840	-
1986	127,240	8,400
1987	138,120	10,880
1988	153,800	15,680
1989	165,800	12,000
1990	191,380	25,580
1991	200,260	8,880
1992	225,262	25,002
1993	248,552	23,290
1994	268,814	20,292
1995	306,120	37,306

Source: The International Trade Commission Report on the CBERA Thirteenth Report 1997 Investigation No. 332–227 USITC Publication 3132 September 1998.

The CBI has been responsible for 15 years of unparalleled growth in trade between the United States and the nations of the Caribbean Basin, acting as a catalyst for exports, investment and employment creation in the economies of the United States and the nations of the Caribbean Basin.

As the growth process in CBI economies has been strengthened by increased United States investment and market access, their import capacities have increased, resulting in increased purchases of United States goods and services. Each dollar spent by the nations of the Caribbean Basin for imported goods and services generates 60 cents worth of United States exports, while that same dollar spent on imports by Asian nations would only generate 10 cents per dollar of United States exports. In addition, the jobs created in the Caribbean Basin have often been in industries such as apparel manufacture where United States employers can no longer offer globally competitive products if all phases of production are carried out in the United States.

In this regard, the CBI has served as a first and vital step in the path leading to expanded trade, investment and growth with the United States. The CBI has supported economic reform to create genuine market economies in the region and has laid the groundwork for mutual prosperity through sustained growth and stronger commercial links.

The Significance of United States-Caribbean Trade

(1) Since the CBI was enacted in 1984, the United States has developed a growing trade surplus with CBI countries: from 1985 to 1995, United States exports to the region almost tripled from $5.9 billion to $15.3 billion.

(2) Each $1 billion of United States exports to Latin America generated 20,000 new direct jobs in the United States. This means that the increase in CBI purchases of United States goods and services from 1985 to 1995 has created approximately 200,000 new direct jobs in the United States. USTR Charlene Barshefsky currently estimates that almost 400,000 new U.S. jobs have been created as a result of the trade surplus the U.S. enjoys with the nations of the Caribbean Basin.

(3) Of every dollar of income received by the average Central American and Caribbean person, close to 60 cents go to buy American products, as compared to Asia which spends only 10 cents on the import of American goods.

(4) CBI industries also have a strong propensity to buy American raw materials, machinery and equipment. On average, 45% of the imports of CBI countries come from the United States.

(5) While CBI countries send over 50% of their exports to the United States, a total of $7.6 billion, this represents only 1.5% of total United States imports in 1990.

(6) In contrast, United States imports from the newly industrialized economies of Japan and East Asia combined to export $150.2 billion to the United States, which represents 30% of total United States imports. These countries represent 58% of the United States trade deficit, while the United States has a surplus with the CBI.

In addition to the tangible measurable benefits from trade with the Caribbean, the United States has benefitted from increased economic growth in the region, producing greater social stability and a reduction in poverty. The negative consequences of poverty, instability, and social unrest in the region are clear: increased pressure upon the United States borders from illegal immigration and an increase in the flow of dangerous narcotics from the region into the United States The United States thus has a real stake in the kind of economic growth and poverty reduction which has been the positive contribution of the CBI beyond its measurable economic benefits.

We in Costa Rica, as I indicated earlier, have a similar stake because many thousands of these refugees will turn South rather than North and enter Costa Rica. We have proven in Costa Rica the ability to attract foreign investment to create employment, including recently the investment of high tech firms in our nation. We are, however, suffering from the some competitive disadvantage as the rest of the region and we need enhanced access to the United States market in order to meet the challenge of creating employment opportunities for the refugees arriving from neighboring states. In today's world, trade, jobs, immigration and the preservation of the environment have become integrally intertwined. By granting enhanced trading opportunities for the Caribbean Basin in the United States, we will be providing the means for an economic recovery that meets the humanitarian imperative of creating jobs and hope for the impoverished people of the region.

The Time to Enact Caribbean Parity is Now

President Clinton and many in the United States Congress have recognized that the strength of our economies and democratic governance is the best defense for the United States against trafficking in illegal narcotics and a flood of illegal immigration. Recognizing that the CBI had been undermined by the NAFTA, President Clinton promised the restoration of equality of access to the United States Market for Caribbean Basin nations to that afforded Mexico under the NAFTA at the Miami Summit in 1995 and at a Central American regional summit in 1997. The leadership and members of the Committee on Ways & Means and the United States Congressional leadership have supported legislation to provide the nations of the Caribbean Basin with enhanced access to the United States market in the past, but the legislation has been caught up in the fight over the granting of 'fast track' authority to the President to expand the NAFTA. Now we have the opportunity to advance the enactment of legislation to provide Caribbean Basin Initiative enhancement as an important, even necessary, part of a program of recovery of the economies of the region as a top priority.

Mr. Chairman and Members of the Committee, enhanced trade and investment with the region will enable the creation of jobs that will restore hope and provide the opportunity for the people of Central America to remain at home.

[Attachments are being retained in the Committee files.]

Chairman CRANE. Thank you, Mr. Ambassador.

And, Ambassador Leon, you've recently had very successful elections which highlight the dramatic transition to democracy in your country. Why do you believe a trade component is essential to the U.S. hurricane relief package?

Mr. LEON. Yes, sir, thank you very much for that recognition. And basically we believe that it is essential simply because it will create the job opportunities that we need to deliver what the benefits of the market are supposed to be. Otherwise, it has been said here in this Committee during this session that democracy is not only the act of voting, of people going to the polls and elect presidents or authorities to rule a country. And we believe that this will provide us with tools to deliver what the people in our countries need and this is a good economic opportunity to find a good job and with better salaries. And it will bring also the additional benefits, not only in terms of stabilization for our country but for the United States because it would curtail the incentive to seek for a better future outside our region.

Chairman CRANE. Second question, what would the effect be on your factories in El Salvador of a bill that mandated the use of U.S. fabric?

Mr. LEON. I think that it will create disruption for about 4,000 jobs in El Salvador and it will create disruption conditions for about $350 million worth of exports that use regional yarns—I mean local yarns and regional fabrics in El Salvador. The total figure for Central America, sir, will be over 18,000 jobs and about a figure close to $900 million that could be just disrupted if any CBI legislation just allows 807, 809 trade to benefit.

Chairman CRANE. And for Ambassador Daremblum, Costa Rica has had a leadership role in the summit with the Presidents of the United States and Central America earlier this month. What was the reaction of leaders in the region to the Clinton administration's recent proposal on CBI?

Mr. DAREMBLUM. Mr. Chairman, my government issued a statement right after the summit in which it summarizes what the position is concerning the Administration's proposal. We feel that even though it's a step in the right direction because it addresses the chapter of trade within the context of the strategy for the reconstruction of Central America, there are some aspects in that bill which are very worrisome and that are of concern to us. First of all, the restrictions included there concerning the fabric and the yarn, do not help to correct the distortions that have led to investment being diverted to Mexico in this area.

Second, there is a limitation as to time because it only provides incentives for 21 months which is not very effective for investors.

And, third, it creates and introduces greater conditionalities that exist today in the present or in the current CBI legislation. For all these reasons, we don't feel that it's an effective instrument to really encourage the long-term reconstruction of our area.

Chairman CRANE. Thank you. Mr. Rangel.

Mr. RANGEL. Thank you, Mr. Chairman. I think that all of you will agree that the United States has felt it necessary to reach out and try to do as much as we can do to repair some of the harm that has been done by the natural disasters in that area. And certainly when we first enacted the Caribbean Basin Initiative, it was because we not only wanted to support democracy, but we felt that it was trade that was necessary, rather than just economic assistance and all of the governments have agreed to that. And it has caused a great deal of stability and, indeed, has enhanced and improved the exports of the United States as a result of it. But whenever there's change, we do have a great deal of problems where those changes take place.

And so I need you to prepare to send to me, since we don't have time to get it this morning, the number of American firms that are operating in your countries because I would assume that these firms are also operating in the United States of America? And as a result of their investment in your countries, we are assuming that they have increased their trade and increased their employees and increased their taxes? But to be honest with you, I don't really believe they're speaking on behalf of the host countries the way you would expect that they would.

Ambassador Vega, who would you just normally believe is the largest American business presence in the Dominican Republic without having to be accurate, just in thinking about U.S. firms that are there?

Mr. VEGA. If it's in terms of investment, Mr. Congressman, it would be sugar—in the sugar industry and in banking because most of the textile assembly in my country is done by Dominican-owned companies who receive orders from U.S. companies to produce for them and ship back.

Mr. RANGEL. So one would assume that these U.S. companies, enhancing their business as a result of the CBI parity, would be in a sense lobbying on your behalf? Do any of you discuss with the U.S. presence in your countries how important this legislation is to you and, therefore, to them? I know Ambassador Leon and I have discussed this earlier. Is my point clear? Yes, Ambassador?

Mr. DAREMBLUM. Congressman Rangel, the American Chamber or the Costa Rican-American Chamber of Commerce has been lobbying for a long time very actively here in the United States for CBI enhancement. Twice a year or once a year, they come up here, a big delegation, that includes very prominent American companies doing business in my country. And they come up here and they have been really promoting and supporting this type of legislation.

Mr. RANGEL. OK, well, let me give you lobbying 101. And that is that Chambers of Commerce don't influence anybody because we don't know who they are or where they're located. It's the members of the Chamber of Commerce who have companies and firms and plants in the United States because in the United States it would be located in what—Congressional districts? And so, therefore, it would mean that if these companies are successful in your countries in expanding their ability to hire more people, it would be in Members' districts. And Chambers don't have Members except in the District of Columbia. And so it would seem to me to make a lot of sense for these companies not to come down here in large groups and impress nobody, but to have their members that have plants and companies throughout the United States to explain to their Member of Congress how important it is that this legislation be passed.

Let me say this, there has been some criticism that the working conditions have not improved in many of your countries, that the workers' rights, notwithstanding the general system of preferences, are not enforced. I would appreciate whatever information each of you could send to me as to what the conditions of working, any evidence of improvement, whether or not the trade unions are active, whether there has been an increase in wages, and whether or not the workers have been the recipients of the increase in trade rather than just management. And, of course, where we have allegations of sweat shops, conditions that are abhorrent to those of us in the Congress, where you've read those allegations or heard about them, it would be helpful if without waiting for the questions, you could come forward and share with us how proud you are of the improvements or what you're doing to make the improvements?

Would anyone just like—I would expect that all of you would be sending me materials in connection with that. But if there is anyone that feels strongly that they would like to make a short comment now, it would be helpful? Yes, Ambassador.

Mr. AGUIRRE-SACASA. Congressman Rangel, I will make a comment on the sweat shop issue because there was a series here called Hard Copy about a year ago alleging that in Nicaragua sweat shop conditions existed. The allegation was that we did not pay minimum wage, that we had young kids working in our apparel factories, that we prohibited labor unions, and that there was sexual harassment, a whole series of very inflammatory comments which worries me a great deal. I worked for many years at the World Bank, was in charge of industrial development in parts of Africa and parts of Latin America. And when I saw that particular show, I rushed down to Nicaragua to look into the reality.

I will be glad to send you the information, but the facts are the following. In our own country of Nicaragua, we do have free association of labor unions and they exist in our free trade zones. No one in the free trade zone is under 18 years of age and that is confirmed. And the average age, because of very low employment levels, is about 25 or 26. The average worker in the free trade zones in Nicaragua earns more than a doctor, than a policeman, or than a teacher. The wages are low by comparison by U.S. standards but that is a sad legacy of the conditions in our country and the very low per capita income that we have. And I could go on and on, but the point is that in Nicaragua, we have a code of conduct, I know our neighboring countries do as well, in the free trade zones and that that particular series, that Hard Copy mauling and mugging of reality in Nicaragua couldn't be further from the truth.

Mr. RANGEL. Well, my time has expired but where you have written evidence of the allegations, you might want to share your responses because it could very well be that this Subcommittee may want to make a visit not to see what you're doing and to perform oversight, but we're here to help to improve the quality of life for people and countries and not just businesses. And I know that all of you, and those of you I know personally, share that view.

So I regret the shortness of our time here, but all of you know you should feel free in coming to see me to provide this information so that we can have further discussions because I know that the attacks on working practices on your countries bother you individually as well as your national sovereignty, and I want to make certain I give you ample time to respond.

Thank you, Mr. Chairman.

Chairman CRANE. Thank you. Mr. Becerra.

Mr. BECERRA. Thank you, Mr. Chairman. Let me welcome my friends from the various countries that are represented today here in Congress. I have had a chance to work with all of you in one capacity or another and visit your home countries as well except Costa Rica. I have not had a chance to go to Costa Rica, and I do hope to have an opportunity at some point soon.

I want to thank you for the work that you've done during this entire several month process of trying to raise the level of understanding here in this country of what actually occurred throughout Central America and in the Caribbean with regard to the devastating storms. It's the voices of the representatives from the various governments, and especially those of the Ambassadors, that educated us very eloquently. I know I saw on many occasions many of you on our news programs explaining the devastation and what needed to be done. So I want to thank you for that.

I think we've made some progress, and I appreciate all that has been done so far from your home countries to move the process forward here in Congress. As I said before when Mr. Rangel made a remark, I will say again: he raised something very important. There are going to be those here in Congress who will not have an opportunity to really review these legislative packages, and they're going to very quickly make a decision yes or no on something very important to your countries, whether it's the aid package or CBI. And I would very much urge you to get us information that will help us respond to some of the concerns that might be raised, whether it is in regard to the working conditions in the country or environmental concerns.

And, Ambassador Aguirre, the point you make about the relative earnings is an important one. If you can make the point in fact that folks that work in some of these zones that you mentioned are earning as much, if not more, than a professional, that is something that we could not dispute. I think that's an extremely crucial point to be able to make that while the wages may seem low relative to U.S. standards, when you compare them to the wages of others, especially professionals, that it's really a decent wage. That really helps your cause.

And the other point I tried to raise when our administration was testifying, I've been—I don't know if my colleagues have—but I have been approached by some American business interests that have said it has been difficult at times to work in some of the countries in the Caribbean and in Central America because the bureaucracy or the difficulties in completing a contract or getting remuneration and those are the kind of things that if you can address them without much difficulty would really help us alleviate those concerns that might be expressed to some of my other colleagues.

Aside from all I've said, I hope that at the end of the day whatever we come up with, and I hope it does include some form of CBI, that it's something that truly does give you an opportunity to do the work that you wish to do yourselves. I know that you're looking for assistance from this Government but that it's not going to help you recover completely. I know that everything I saw, the goodwill of the people there in Central America was we want to do this for ourselves. We just want to have that partnership with the United States to help get us there.

I would ask this question, and I may not have any other question than this. The Graham bill is probably an in-between between what the Administration is proposing and what Chairman Crane has proposed. Your thoughts on the Graham bill? Any of you, have your countries taken any official positions on the Graham bill, whether it's support, oppose, or any particular comment?

Mr. LEON. Thank you very much, Mr. Becerra. It has been a most delightful experience working with you and discussing with you many of the issues you have just raised. Let me tell you that I would like to refer very quickly to the first issue regarding working conditions. We will be glad to send you this information, and I'm sure all the rest of my colleagues here will do so too. I think that the major advance of the region in terms of working conditions has been in terms the enforceability of the labor laws in our country. And also in terms of the, I would say, sanctions that we will apply to those not obeying those laws. Our countries, almost all our countries, I would say all our countries have very good labor laws and basically what we have been trying to perfect is the enforceability of these laws. In the case, for instance, of El Salvador's, the government can unilaterally revoke the benefits of a company operating in a free zone that doesn't comply with the labor legislation of El Salvador, unilaterally. If, of course, there is an investigation and due process that corroborate that labor conditions are not being respected. But also in terms of wages. El Salvador, for instance, right now at this moment, wages in El Salvador in the textile and apparel industry are 37 percent higher than those in Mexico, for instance.

Mr. BECERRA. You mentioned that when I was there in El Salvador.

Mr. LEON. Yes, and the other point that I would like to tell you is that also the private sector operated in the Maquila sector have been doing a great effort to have its own ethics code of conduct monitored by independent bodies so that they reassure themselves. And this is very effective because it uses peer pressure that everybody is complying with the labor regulations.

In regard to the second point, we believe that the Graham bill addresses the point that we need a trade component to be able to complete our own efforts for the successful recovery of the Central American countries. Of course, I don't think that the Graham bill is the middle ground between in the CBI legislation projects (bills). But I am sure that Congress could be able to discuss together and try to make middle ground between these two bills. That's our hope and it's solely in the hands of the U.S. Congress.

Mr. BECERRA. Thank you. Thank you, Mr. Chairman.

Chairman CRANE. Thank you all for your presentations and, gentlemen, we look forward to working with you as we move hopefully toward the successful conclusion of the CBI parity bill that we are talking about out of the House, out of this Committee today.

And with that, then, I would like to ask our final panel to come before the vote starts. And that's Ronald Rayner, president, National Cotton Council; Jim Conner, executive vice president, American Yarn Spinners; Carlos Moore, executive vice president, American Textile Manufacturers; Stephen Lamar, director of government relations, American Apparel Manufacturers; and Erik Autor, vice president, International Trade Council; and Mark Levinson, chief economist, Union of Needletrades, Industrial and Textile Employees, AFL–CIO.

If you gentlemen will please take seats, we will commence in the order I presented you. All right, Charlie Rangel has asked, if you don't mind, that Mark Levinson go first because Charlie cannot stay for the entire panel but he has some specific questions for Mr. Levinson. And I notice over here a distinguished representative of the AFL–CIO, Evie Dubrow. Now if Mr. Levinson wants to yield and have Evie replace him on the panel? [Laughter.]

But Evie has worked faithfully even in retirement. She retired a number of years ago, but she never does retire. I've known Evie for all the years I've been here on the Hill and she was here many years before me, but I salute Evie Dubrow.

And with that, Mr. Levinson, if you would proceed?

STATEMENT OF JAY MAZUR, PRESIDENT, UNION OF NEEDLETRADES, INDUSTRIAL AND TEXTILE EMPLOYEES, NEW YORK, NEW YORK, AS PRESENTED BY MARK LEVINSON, CHIEF ECONOMIST

Mr. LEVINSON. Thank you. I would yield to Evie at any time. I'm actually here today representing Jay Mazur, who wasn't able to make it down, and he asked me to apologize for that.

I'm the chief economist at UNITE. I appreciate this opportunity to testify on H.R. 984, on behalf of the 250,000 members of UNITE.

We do not believe that the provisions of H.R. 984 meet the needs of the people in the Caribbean Basin. They're poorly designed to accomplish the task of promoting economic development in the region. The bill will also lead to job loss and reduced living standards in the United States.

The argument for H.R. 984 is that because of the elimination of tariffs and quotas for Mexico as a result of the NAFTA, the CBI countries are less competitive and U.S. investment will flow out of the Caribbean and into Mexico.

The fact is that since NAFTA, the total share of U.S. apparel imports coming from the Caribbean Basin has increased from 18 percent in 1993 to 24 percent in 1998. In 1998, CBI nations shipped an astonishing $7.6 billion worth of apparel imports to the United States. By contrast, Mexico shipped $5 billion worth of apparel imports to the United States.

We believe the CBI/NAFTA development model is badly flawed. In my submitted testimony, I document that there is an inverse relationship between where investment is going in CBI countries and the direction of wages. Growth in apparel imports from CBI countries is increasing most rapidly in countries that are experiencing the greatest wage declines. And, likewise, where wages are increasing, growth in apparel imports is very slow. Is this not a race to the bottom?

The United Nations' Economic Commission for Latin America and the Caribbean describes the failure of the CBI/NAFTA development strategy as follows:

> The contribution made by Mexican and Central American maquila factories to economic growth is more modest than that which one could suppose upon seeing the volume of their activity. Should the maquila factories multiply in their current form, the countries would be specializing in supplying cheap labor, and the sector's growth would depend on continual cheapening of this factor. This is not compatible with a long-range strategy of growth with social equity.

The economies of the CBI countries can only be bolstered if their people, including their workers, truly share in economic development. This requires that workers have a voice in their own destiny. In short, this requires worker rights.

There are approximately half a million workers in CBI countries producing apparel for U.S. retailers and manufacturers and sold in the United States. Less than 1 percent have been able to exercise their right to collective bargaining. Employers, in collusion with governmental authorities, systematically crush organizing efforts.

Not one of the 65,000 workers in the maquilas of El Salvador has a collective bargaining agreement. The same is true for Guatemala, after the Philips-Van Heusen company shut down the only unionized factory in that country in December. The few functioning unions in Honduras are under fierce attack and a similar pattern is developing in the Dominican Republic.

The U.S. labor movement has tried to utilize the worker rights provision in the existing CBI law by filing petitions under the GSP. But there are major problems which limit the effectiveness of GSP and CBI in enforcing labor rights.

A major problem is the snail pace of investigations and the fact that the Government has too much discretion over whether or not to take action. Take the example of Guatemala. Labor rights advocates in the United States first petitioned the U.S. Government to investigate gross violations of internationally recognized workers' rights in Guatemala in 1986. Petitions were filed in 1987, 1989, 1990, 1991, and 1992. The U.S. Government refused to act on the petitions until 1992. The U.S. Government reviewed the State of workers' rights in Guatemala through 1993. In 1994, the GSP statute lapsed and the review process ended. The AFL–CIO submitted allegations of violations of workers' rights again in 1995. Again, the U.S. Government chose not to suspend benefits but to review Guatemalan law and practice. The United States terminated this review in 1997, having concluded that the government of Guatemala was indeed taking steps to afford Guatemalan workers their internationally recognized rights. The AFL–CIO filed a new petition in 1998. It is still pending.

There are over one million people making apparel and textile products in the United States. They will be the primary losers as jobs and companies relocate in response to the perverse incentives of this NAFTA parity proposal. Hundreds of thousands of workers could lose their jobs.

H.R. 984 does not address the main economic problem of workers in the Caribbean and Central America: the lack of decent paying jobs. The economies of expanding mass markets are straightforward: either people have the ability to purchase or they don't. Either we pursue policies in the CBI that increase the ability of people to buy products or we are saying that we don't really care, that we are engaged in a charade that benefits an elite in CBI countries and U.S. importers at the expense of workers in CBI countries and in the United States.

Members of our union, and the hundreds of thousands of apparel and textile workers who have lost their jobs find it hard to understand why the Committee believes that extending NAFTA to the Caribbean, a policy that has been a windfall for corporations but a disaster for workers, will improve the conditions of work and enhance the living standards of working people in the Caribbean Basin and in the United States. They have a hard time understanding why workers have been all but forgotten in this debate.

Thank you.

[The prepared statement follows:]

Statement of Jay Mazur, President, Union of Needletrades, Industrial and Textile Employees, New York, New York, as presented by Mark Levinson, Chief Economist

I appreciate this opportunity to testify on H.R. 984, the Caribbean and Central American Relief and Economic Stabilization Act, on behalf of the 250,000 members of the Union of Needletrades, Industrial and Textile Employees (UNITE). Our members live and work in all parts of our country. They are a cross section of the U.S. workforce: native born, minorities and new Americans who have come to our shores from just about every country in the world.

UNITE is not new to the Caribbean Basin scene. Many of our members came to the United States from the Caribbean and Central American countries. Many maintain close contact with the region, have family living there and visit the lands of their birth. We work with garment worker unions and union federations throughout the area. So we, too, feel a special obligation to assist the peoples of these countries to improve their economic circumstances. Furthermore, we are aware of the importance of the region to our nation's well being.

We do not believe, however, that the provisions of H.R. 984 meet the needs of the people of the Caribbean Basin. They are poorly designed to accomplish the task of promoting economic development in the region. The bill will also lead to job loss and reduced living standards in the U.S.

THE PREMISE OF THE BILL IS WRONG

The argument for H.R. 984 is that because of the elimination of tariffs and quotas for Mexico as a result of the North American Free Trade Agreement, the CBI countries are less competitive and U.S. investment will flow out of the CBI and into Mexico.[1]

The fact is that since NAFTA the total share of U.S. apparel imports coming from the Caribbean Basin has increased from 18% in 1993 to 24% in 1998. In 1998 CBI nations shipped an astonishing $7.6 billion worth of apparel imports to the U.S. By contrast Mexico shipped $5 billion worth of apparel products to the U.S.

Four out of the six significant apparel exporting Caribbean Basin nations continued to see apparel exports grow at double digit annual growth rates in the five years since NAFTA took effect. The increase in Mexican apparel production came at the expense of Asian countries and the United States. If NAFTA undermined any Caribbean Basin countries' apparel export promotion strategies, it undermined those of Jamaica and Costa Rica—the region's two most democratic—and higher wage—apparel exporting countries.

[1] The drafters of H.R. 984, having failed in several attempts to pass CBI-NAFTA parity, are now attaching it to badly needed relief for Central American countries hard hit by Hurricane Mitch. Ironically, the development model encouraged by CBI/NAFTA parity is likely to exacerbate, rather than heal, the damage wrought by the natural disaster. See, Robert Scott, Rebuilding the Caribbean: A Better Foundation for Sustainable Growth, Economic Policy Institute, 1999.

CBI/NAFTA DEVELOPMENT MODEL IS FLAWED

The CBI, we were told, would benefit the people of the region. But it has not worked. The principal beneficiaries of CBI have been U.S. based apparel companies, importers and retailers, a small elite in the Caribbean Basin and some Asian companies who have set up apparel factories in the CBI to export to the U.S. market.

As a result of CBI there has been a dramatic expansion of trade between the United States and CBI countries. Despite the expansion of trade, poverty is widespread, most roads in the five leading apparel-exporting countries remain unpaved, government investment in education—with the exception of Costa Rica—remains anemic and large percentages of the population of the region do not have access to safe drinking water.

Jobs in export-oriented manufacturing have been created due to CBI, but job losses have occurred in the agricultural, mining and domestic oriented manufacturing sectors of Caribbean and Central American countries under CBI. Job losses in these traditional sectors have far outweighed job gains. CBI related jobs pay poverty level wages, thus exacerbating income inequality, social instability and migration from the Caribbean Basin region.

Table 1 captures many of the problems of the CBI/NAFTA development model. First, there is an inverse relationship between where investment is going in CBI countries and the direction of wages. Growth in apparel imports from CBI countries is increasing most rapidly in countries that are experiencing the greatest wage declines. And likewise, where wages are increasing, growth in apparel imports is very slow.[2] Is this not a race to the bottom?

Second, because wages are so low, there is little incentive for manufacturers to increase productivity. In the Caribbean and Central America, manufacturers appear to compete by simply sweating labor. So where apparel industry production has increased, productivity (as measured by value added per employee) has decreased.

Table 1

Apparel Industry	Growth of U.S. imports		Avg. annual growth of:		Growth of avg. wages (US$) 1985–96 (In percent)
	1989–98 (In percent)	Annual average growth 1994–98 (In percent)	Employment 1985–96 (In percent)	Value added per employee 1985–96 (In percent)	
Honduras	2523%	40%	32%	–11%	–59%
El Salvador	2512	39	21	–15*	–27
Guatemala	466	13	•	•	8***
Dominican Rep	256	11	•	•	56***
Costa Rica	206	5	10	–10	65
Jamaica	74	3	5	–41**	71***

•Not available
* Estimate
** 1986–90
*** Bobbin Consulting Group (1987) and Werner International (1998) hourly wage and fringe data, 1987–96
Sources: (imports) U.S. Department of Commerce, Major Shippers Reports, various years; (employment and productivity) United Nations Industrial Development Organization (UNIDO) country statistics, available on the world wide web at http:\\www.unido.org; (wages) UNIDO, Bobbin Consulting Group (1987), and Werner International Management Consultants (1998).

The United Nations' Economic Commission for Latin America and the Caribbean (ECLAC) study of Mexican and Central American maquilas describes the failure of the CBI/NAFTA development strategy:

> The contribution made by [Mexican and Central American maquila factories] to economic growth is more modest than that which one could suppose upon seeing the volume of their activity. Should the maquila factories multiply in their current form, the countries would be specializing in supplying cheap labor, and [the sector's] growth would depend on the continual cheapening of this factor. This is not compatible with a long-range strategy of growth with social equity. (emphasis added)[3]

[2] Countries where wages have fallen the most are also the countries that have the worst record of abusing worker rights. For an interesting argument along these lines see: Dani Rodrik, Democracies Pay Higher Wages, NBER Working Paper 6364, revised October 1998, forthcoming in the Quarterly Journal of Economics.)

[3] Comision Economica para America latina y el Caribe. Maquila y transformacion productiiva en Mexico y centroamerica. LC/MEX/R.630. 28 de octubre de 1997. Translated by UNITE from the original Spanish.

LABOR RIGHTS ARE IGNORED

The economies of the CBI countries can only be bolstered if their people, including their workers, truly share in economic development. This requires that workers have a voice in their own and in their nations'destinies. Trade unionists in Latin America are very clear on this point. Luis Anderson, the Secretary General of the Inter-American Regional Organization of Workers/ICFTU, put it this way:

> "CBI Parity, like all trade and aid agreements, must place workers' rights on an equal plane with property rights. We cannot accept policies that grant employers and governments privileged access to international markets without also requiring them to respect the right of workers to freedom of association and other internationally recognized workers' rights. This is not protectionism. This is the critical link between core labor standards and international commerce that must be forged if workers are to realize a fair share of the fruit of their labor.[4]

The abysmal exploitation of workers in almost every CBI country has been fully documented, in testimony before Committees of the Congress, by government investigators and in petitions filed with office of the United States Trade Representative. Yet H.R. 984 fails to strengthen worker rights.

Many CBI countries have elaborate and extensive labor codes, some even more advanced than those in our own country. They guarantee workers the right to organize and to bargain collectively with their employers on working conditions and wages. They establish standards to protect the health and physical well being of workers in their countries. The problem is that just about every CBI country fails to enforce its own laws. Workers are effectively denied the right to form unions.

WORKING CONDITIONS IN THE CARIBBEAN BASIN AND THE INADEQUACY OF THE CBI WORKER RIGHTS PROVISION

There are approximately half a million workers in CBI countries producing apparel for U.S. retailers and manufacturers and sold in the United States. Less than 1% have been able to exercise their right to collective bargaining. Employers in collusion with governmental authorities systematically crush organizing efforts. Workers are left defenseless against the arbitrary and abusive practices of their employers.

Not one of the 65,000 workers in the maquilas of El Salvador has a collective bargaining agreement. The same is true for Guatemala, after the Phillips-Van Heusen company shut down the only unionized factory in that country in December.[5] The few functioning unions in Honduras are under fierce attack and a similar pattern is developing in the Dominican Republic. The big U.S. retailers and manufacturers that call the shots continue to cooperate with these anti-union practices, which have proven virtually immune to existing CBI law.

The U.S. labor movement has tried to utilize the worker rights provision in the existing CBI law by filing petitions under the Generalized System of Preferences. GSP conditions trade benefits on whether or not a country in the region "has taken or is taking steps to afford to workers in that country . . . internationally recognized workers' rights." (H.R. 984 has the same language.) Our attempts have resulted in some modest improvements. But there are major problems which limit the effectiveness of GSP and CBI in enforcing labor rights.

A major problem is the snail pace of investigations and the fact that the government has too much discretion over whether or not to take action. Take the example of Guatemala. Labor rights advocates in the United States first petitioned the U.S. Government to investigate gross violations of internationally recognized workers' rights in Guatemala in 1986. Petitions also were filed in 1987, 1989, 1990, 1991 and 1992. The U.S. Government refused to act on the petitions until 1992. The U.S. Government "reviewed" the state of workers' rights in Guatemala through 1993. In 1994 the GSP statute lapsed and the review process ended. The AFL–CIO submitted new allegations of violations of workers' rights in 1995—again, the U.S. Government chose not to suspend benefits, but to "review" Guatemalan law and practice. The U.S. terminated this review in 1997, having concluded that the government of Guatemala was, indeed, "taking steps" to afford Guatemalan workers their internationally recognized rights. The AFL–CIO filed a new petition in 1998. It is still pending.

[4] Press statement, ORIT, January 1999.

[5] In 1997 after a 7-year campaign, workers at a Phillips-Van Heusen owned factory did succeed in winning union recognition and a collective bargaining agreement. Shortly before Christmas last year Philips Van Heusen closed the factory.

The law is simply inadequate to deal with the level and intensity of exploitation that takes place on a routine basis. The information reaching the public about these abuses is but the tip of an enormous iceberg, but you can get a sense of what these hundreds of thousands of workers face every day by looking at a few recent reports.

Four Wal-Mart contractors in Honduras—Evergreen, Ecotex, Seolim Baracoa, Uniwear Embroiders—employ over 1200 workers, many of them teenage girls, working shifts of 12 hours or more, paid 43 cents an hour base wage, or about half the cost of survival. They are not allowed to talk and must ask permission to go to the bathroom; there are factories with fire exits blocked, the air hot and thick with dust; complaints or attempts to organize a union result in immediate dismissal.[6]

You will find very similar conditions in El Salvador at the Nike and Adidas contractor called Formosa Textiles in the San Bartolo Free Trade Zone. Here the pay and meager purchasing power are almost identical to that of the Wal-Mart workers in Honduras, with the same abusive treatment by supervisors. At Formosa Textiles there is the added humiliation of new employees being forced to submit to two pregnancy tests and being immediately—and illegally—fired if they test positive. When Formosa workers reported these conditions and the firing of workers suspected of union organizing to local union and human rights workers, it appears that Nike has retaliated against the workers by pulling its work out of Formosa.

There is a standard pattern of repression against workers who try to exercise their rights. In the guise of "economic" considerations, companies just walk away from troublesome workers who insist on asserting themselves. This is a trend with which we are well familiar in this country, the phenomenon of "runaway shops." Now we see it in the Caribbean region, as companies are abandoning the relatively higher standards of Jamaica and Costa Rica, for example, for countries where they can pay starvation wages and not worry about workers protesting.

This development has become particularly disturbing in the Dominican Republic, the leading CBI exporter of apparel to the United States. Dominican worker activism and supportive efforts made by U.S. trade unions (partly in the form of a GSP worker rights petition) had combined successfully to produce modest changes. These gains have begun to unravel.

Maquiladora worker campaigns in the Dominican Republic ended in union recognition and collective bargaining agreements at 9 factories in the mid 1990s. Average wages rose significantly between 1993 and 1996, though they still fell well short of pushing workers and their dependents above the poverty line.[7] Maquiladora factory owners have responded to these modest gains with the familiar strategy of the runaway shop.

Sudden closures of *maquiladora* facilities have become common, as plant owners increasingly take advantage of various legal loopholes and official disinterest in order to avoid obligations under the terms of the labor law and/or collective bargaining agreements. Owners have abandoned thousands of employees to whom they owe, at a minimum, severance pay, only to reestablish their business under a new name in other maquiladora industrial parks.

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[6] A Jesuit Priest in Honduras described conditions in the factory this way:

"Going into these factories is like entering prison, where you leave your life outside. The factory owners do not let—and don't want—the young workers to think for themselves. They want them to be stupid. The workers need permission to use the bathroom, and they are told when they can and cannot go.

Young women enter these factories at 14, 15, 16 and 17 years old. They become a mechanism of production, working 9 hours a day plus two, three or four hours overtime, performing the exact same piece operation over and over, day after day. . . . These young workers rarely last more than six years n the maquila, when they leave exhausted. They leave without having learned any useful skills or developed intellectually. These young workers entered the maquila with a sixth grade education, with no understanding of the maquila, the companies whose clothing they sew or the forces shaping where they fit into the global economy. They soon feel impotent, seeing that the Ministry of labor does nothing, or almost nothing, to help defend their rights.

Once the women start working in the maquila they often fall into debt. The wages are very low and no one can survive on them." Wal-Mart Sweatshops in Honduras, National Labor Committee, November 17, 1998.

[7] Pre-tax base pay for an operator in a cap manufacturing factory in 1998 was $0.69 per hour. This wage is only ⅓ of what the Dominican government estimates to be a necessary income for a typical family to meet its basic needs A worker can earn an estimated $43.22 for the week by putting in a 56-hour week and earning a $3.42 bonus for perfect on-time attendance, meeting production quota, and not getting on the bad side of the supervisor. After rent, lunch from free trade zone vendors, transportation, child care, milk & cereal (for infant), a worker is left with $2.26 per day for the rest of her family's food, water, electricity, clothes, school costs, personal care products and medicine. Was your school's cap made in this sweatshop? A UNITE report on campus caps made by BJ&B in the Dominican Republic. New York: UNITE, 1998.

One of the most notorious of those cases is *Euromoda*, a firm-owned by one Leopoldo Nunez. Nunez operated Euromoda for 17 years in the country's capital, producing for such well-known U.S. brands as Victoria's Secret. In 1997 he declared bankruptcy leaving 366 workers (85 percent of whom were women—most single mothers) jobless. The workers have not received legally mandated severance pay.[8]

The ostensibly broke businessman then transferred his capital to two new businesses. One of the businesses produces the same general product line formerly offered by *Euromoda*.

The National Federation of Free Trade Zone Workers (FENATRAZONAS) believes that a series of plant closings similar to that at Euromoda mark the reversal of progress toward greater respect for workers' rights. According to FENATRAZONAS, the Dominican Labor Ministry now assumes a generally negative posture towards pro-union maquiladora workers, in contrast to the 1993–1996 period. A 1997 decree by the Dominican President proclaiming the formation of a Tripartite Commission empowered to design and execute social and economic benefit programs has become a dead letter. Maquiladora employees are working harder and longer for less.

THE U.S. ECONOMY WILL BE HURT

There are over one million people making apparel and textile products in the U.S. They will be the primary losers of jobs as companies relocate in response to the perverse incentives of this NAFTA parity proposal.

U.S. apparel and textile industry employment trends have changed dramatically in the five years since NAFTA. Average employment in the U.S. apparel industry has shrunk at an annual rate of 6.6 percent since NAFTA. In comparison, apparel industry employment shrank at an average annual rate of only 1.6 percent over the course of the five years preceding NAFTA.

Table 2.—Pre- and post-NAFTA job loss

	Production workers			Total lost jobs		Average annual		Change in rate of losee 1994–98/ 1990–94
	1990	1994	1998	1990–94	1994–98	change (%) 1990–94	1994–98	
Textile	592.9	574.5	505	–18.4	–69.5	–0.8	–3.2	4.08
Apparel	868.5	814.7	619.9	–53.8	–194.8	–1.6	–6.6	4.18

Extending NAFTA to the CBI countries will mean accelerating even further the already staggering job losses that are occurring in the apparel and textile industries.

Apparel industry workers who lose their jobs suffer serious declines in their standard of living. A U.S. Department of Labor survey in February 1998 of apparel workers who lost their jobs between 1995 and 1997 showed that over half were unemployed or out of the labor force. Only about one-third of the workers who lost their job found full-time employment. Of those, the average worker suffered a loss of pay of 20%.

OTHER PROBLEMS WITH THE BILL

As I understand the bill, it gives apparel products from CBI countries the same quota-free and duty-free treatment as imports from Mexico under NAFTA for five years during which time the U.S. and the CBI nations are to negotiate possible accession to NAFTA or a comparable agreement. The bill also permits the import into the U.S. of apparel made from specified amounts of non-CBI and non-U.S. origin fabric as if they were the product of the agreement countries.

I fail to see how this benefits CBI countries. It would assist and encourage increased use of the CBI countries by China and others as a way of selling into the U.S. market without quota or tariff restrictions. We oppose this provision of the bill. Under the Canadian Free Trade Agreement, almost the entire TPL in wool was

[8] Listen to the testimony of Marıa Moreno, formerly an operator at Euromoda: "Eleven years of my life were spent in Euromoda. When they closed it I realized that I did not have anything more than the very same hands that I had when I entered this factory to work without rest. Now, to have nothing, not even the severance pay that by law they owe to me, and that the owner, Mr. Nunez, denies to me. . . ." Interview by Nino Pena, FENATRAZONAS, March 17, 1999.

used for only one product—wool fabric for suits—and that concentration had a devastating effect on U.S. suit manufacturers.

This legislation guarantees the loss of hundreds of thousands of jobs in the domestic textile and apparel industries. Further compounding the cruelty of this unemployment is the transference of over $1 billion in five years of forgone duties from the U.S. Treasury to the importers and manufacturers of the production shifted from the U.S. to the CBI. The companies and shareholders make out fine, while workers simply lose their job. This is unacceptable. At a minimum, funding for the Trade Adjustment Assistance program for displaced workers should be increased so that displaced workers receive 75% of their former earnings and maintain their health insurance for a year.

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H.R. 984 does not address the main economic problem of workers in the Caribbean and Central America: the lack of decent paying jobs. The economics of expanding mass markets are straightforward: either people have the ability to purchase or they don't. Either we pursue policies in the CBI to increase the ability of people to buy products or we are saying that we don't really care, that we are engaged in a charade that benefits an elite in CBI countries and U.S. importers at the expense of workers in CBI countries and in the U.S.

Members of our union, and the hundreds of thousands of apparel and textile workers who have lost their jobs, find it hard to understand why the Committee believes that extending NAFTA to the Caribbean—a policy that has been a windfall for corporations but a disaster for workers—will improve the conditions of work and enhance the living standards of working people in the Caribbean Basin and in the U.S. They have a hard time understanding why workers have been all but forgotten in this debate.

APPENDIX.—MEANINGFUL WORKER RIGHTS PROTECTION

1. Additional trade benefits for CBI countries should be conferred only after an initial review of each country's record of respect for internationally recognized worker rights.
2. There should be an annual review of each country, which allows individuals and organizations to petition, testify and present documentation pertinent to continued favored status of beneficiary countries. If GSP language is used to define worker rights and the review process, the GSP phrase "Taking or have taken steps" to protect internationally recognized worker rights should be amended to read "are adhering to and enforcing internationally recognized worker rights."
3. Any sanctions following demonstrated worker rights abuses should be focused more carefully on the offending parties. For example, violations found in a particular maquiladora or plant should lead to a loss of benefits for the offending maquila or employer and any retailer or manufacturer using that facility at the time of the abuse. In a free trade zone where there is a pattern of abuse there should be a loss of benefits for all companies in the zone. In this way, responsibility for enforcing worker rights could be centered on offending zone owners and operators and employers without penalizing legitimate parties.
4. There should be no tariff preference levels. The benefits of the program should accrue exclusively to parties in the region.
5. Appropriate funds must be allocated to verify compliance with worker rights and remedy abuses in CBI countries, and mitigate the economic dislocation and hardships of workers in the U.S. caused by this legislation.

Chairman CRANE. Thank you. And let me reassure all of you that any written statements you have will be made a part of the permanent record beyond your oral presentation.

Since Mr. Rangel has to question and run, we will yield to him now to ask questions of you, Mr. Levinson, and then he can be excused?

Mr. RANGEL. Thank you, Mr. Chairman, and let me join in welcoming Evelyn Dubrow once again to this room where she enjoys honorary membership. We welcome you back.

I was looking forward to meeting with Jay Mazur because I know how strongly he feels about this particular piece of legislation. And I was sharing with the Subcommittee Chairman that there seems to be such a sharp conflict in the conditions of work at these different places that over the Easter recess I was thinking about seeing whether you would put together, a list of the countries where you believe there is a violation of workers' rights, so that we can take a look at that. In addition to that, there's some serious question about loss of American jobs in the textile and apparel industry. And, as you can see from our list of witnesses, some people from those industries are supporting the bill.

Last, the question of transshipment, which has always been a very, very serious problem for all of us. And we've had assurances that these countries are not, as a result of the law and their abiding by the law, that they're not using their countries for transshipment. So where you have evidence that you can direct us to, we would like to do that.

In summary, I would hope that since so many of your workers come from these areas and indeed send money back to these countries, to their families, and would have a concern about the working condition of their relatives and friends that are back there, that I would be supporting the union and the workers by personally taking a look and seeing what is happening back home while they're working hard trying to support their families that are still in the Caribbean.

So it's difficult to do this when you have the narration in testimony, but having worked with you before and with my long history of working with the union that you represent, if you can present to me in terms this is where, if you're really concerned about these conditions, this is where you should be going, it would be very, very helpful to me and our colleagues.

Mr. LEVINSON. Congressman, we would be glad to do that and, in fact, I think my president would be more than glad to even perhaps arrange a trip where we would like to show anyone who's interested in some of the conditions that we've described in our submitted testimony. I would be glad to—and Jay Mazur would be glad to work with you on that.

Mr. RANGEL. OK, I'll look for the outline and then I'll probably have some meetings with the representative—with USTR, the State Department, and the Trade Commission so that we can try to make certain we all are reading from the same page.

Mr. LEVINSON. Thank you.

Mr. RANGEL. Thank you and give my best to Mr. Mazur.

Mr. LEVINSON. Thank you, will do.

Chairman CRANE. Thank you.

And with that, we will now get back to the regular schedule proceeding first with Mr. Rayner and the little red light there indicates when the 5-minute limit has elapsed. And you are not exactly instructed to abide by the light but as close as possible. And any printed statements, as I say, will be part of the permanent record.

STATEMENT OF F. RONALD RAYNER, PRESIDENT, NATIONAL COTTON COUNCIL OF AMERICA

Mr. RAYNER. Thank you, Mr. Chairman. My name is Ronald Rayner. I'm a cotton farmer with a family farm in Goodyear, Arizona. And I am the current president of the National Cotton Council.

I appreciate the opportunity to speak to you today about the Caribbean Basin parity legislation. We believe this legislation is vitally important to the U.S. cotton industry. Mr. Chairman, the National Cotton Council has been supportive of the Caribbean Basin trade bill because we believe the right CBI bill will enable our industry to compete more effectively with low price textile imports. CBI parity offers the opportunity to increase the use of U.S. cotton and U.S. cotton textiles. That is the reason we're supportive of this initiative. A competitive edge that a CBI bill can give to our product is crucial to our industry. If, however, CBI legislation also enables our major textile competitors to take advantage of the duty preferences under consideration for the Caribbean, the bill will not be as beneficial to our industry.

The U.S. cotton industry is facing serious economic stress from cotton producer to manufacturer. The combination of decreased demand, low world prices, currency-driven surges in Asian textile imports, and increasingly higher production costs are taking a substantial toll. The domestic mill use of U.S. cotton fell this year by about 1 million bales to less than 10.5 million. At the same time, textile imports from regions other than the Caribbean and NAFTA increased by 1.2-million bales annually. We did not have to lose that demand.

Council economists have estimated that the right Caribbean Basin parity bill will increase total annual demand for U.S. raw cotton, cotton yarn, and cotton textiles by at least 1 million bales within 3 years. If we had enacted CBI parity legislation effective for 1998, we would have already seen a dramatic increase in the use of U.S. cotton and cotton textiles. We estimate the right parity bill would have increased use by as much as 650,000 bales by the end of 1999. That additional use could have helped to blunt the textile import surge caused by the Asian financial crisis.

Mr. Chairman, we need to bring the divergent sides to a compromise and get this bill passed as soon as possible. We applaud your determination to get a CBI parity bill passed. We are supportive of many of the provisions in the House bill and Senator Graham's bill as well. We support granting trade preferences to apparel that are composed of U.S. fabric and U.S. yarn, what is known as 807 and 809 categories. We can also support trade preferences applicable to apparel articles that are knitted or woven in the Caribbean region from U.S. yarn. The Council does not, however, support the inclusion of tariff preference levels as significant exemptions to rules of origin. The Council also opposes extending trade preferences to textile or apparel articles that originate in the Caribbean region but are not composed of U.S. yarn or U.S. fabric. We do not want to enable our competitors to benefit from this trade preference.

The National Cotton Council supports a CBI bill that will maximize the use of U.S. cotton and cotton textile components including

U.S. yarn. A CBI bill that ties the granting of preferences to the use of U.S. textile components is a bill we will support. It will help our industry. It will help the Caribbean.

I will be happy to take questions.

[The prepared statement follows:]

Statement of the F. Ronald Rayner, President, National Cotton Council of America

Mr. Chairman, my name is Ron Rayner. I am a cotton producer from Goodyear, Arizona, and the current President of the National Cotton Council.

The National Cotton Council is the central organization of the United States cotton industry. Its members include producers, ginners, oilseed crushers, merchants, cooperatives, warehousemen, and textile manufacturers. While a majority of the industry is concentrated in 17 cotton producing states, stretching from the Carolinas to California, the downstream manufacturers of cotton apparel and homefurnishings are located in virtually every state.

The industry and its suppliers, together with the cotton product manufacturers, account for one job of every thirteen in the U.S. Annual cotton production is valued at more than $5 billion at the farm gate. In addition to the fiber, cottonseed products are used for livestock feed, and cottonseed oil is used for food products ranging from margarine to salad dressing. While cotton's farm gate value is significant, a more meaningful measure of cotton's value to the U.S. economy is its retail value. Taken collectively, the business revenue generated by cotton and its products in the U.S. economy is estimated to be in excess of $50 billion annually. Cotton stands above all other crops in its creation of jobs and its contribution to the U.S. economy.

International trade and the treaties that govern it are extremely important to U.S. cotton. The United States depends on exports to dispose of approximately 40% of its annual cotton production. It also depends upon a healthy U.S. textile industry as a market for 60% of annual production. Unique among the world's cotton producing countries, the U.S. cotton industry spends some $65 million annually on market development and research to expand these markets and improve its competitiveness with man-made fibers and foreign-grown cotton.

Unlike much of United States agriculture, cotton's major competitors in the world market are either developing countries or non-market economies, namely China, Pakistan, the former Soviet Union, and India. U.S. cotton must, therefore, compete with countries whose cotton sectors are either shielded from real-world market conditions or are aggressively sponsored by their governments as part of a development strategy.

I appreciate the opportunity to speak to you today about Caribbean Basin parity legislation. We believe this legislation is vitally important to the U.S. cotton industry.

Mr. Chairman, the National Cotton Council has been supportive of a Caribbean Basin trade bill because we believe the right CBI bill will enable our industry to compete more effectively with low priced textile imports. CBI parity offers the opportunity to increase the use of U.S. cotton and U.S. cotton textiles. That is the reason we are supportive of this initiative. The competitive edge that a CBI bill can give to our product is crucial for our industry.

If, however, CBI legislation also enables our major textile competitors to take advantage of the duty preferences under consideration for the Caribbean, the bill will not be as beneficial to our industry.

The U.S. cotton industry is facing serious economic stress. From cotton producer to manufacturer, the combination of decreased demand, low world prices, currency-driven textile import surges and unremitting production costs are taking a substantial toll.

The annual domestic mill use of U.S. cotton has fallen by about one million since last year to 10.4 million. Over the same time period, cotton textile imports from regions other than the Caribbean and NAFTA increased by 1.2 million bale equivalents.

We did not have to lose that demand.

The right Caribbean Basin parity bill could increase demand for U.S. raw cotton and U.S. cotton yarn by at least 1 million bales annually within 3 years. And this increase in demand does not come at the expense of our trading relationship with Mexico.

Cotton knit products comprise about 50 percent of total U.S. retail purchases of cotton products. A substantial portion of cotton knit products consumed in the United States are sourced from non-NAFTA, non-Caribbean and non-U.S. producers.

	Millions of 480-Lb. Bales
U.S. Retail Purchases of Cotton	19.39
Portion that is knit products	9.94
Domestically supplied knits	3.73
CBI supplied knits	1.55
NAFTA supplied knits	1.19
Other sourced knits	3.46
Woven and Other Products	9.45

The annual growth rate in U.S. retail purchases of all cotton textiles and cotton knit products has been about 7.5 percent for the past 3 years. If the U.S. cotton knit product market grows at only 5 percent (roughly 60% of the recent average) for the next 3 years, it will add the equivalent of 500,000 bales of cotton use annually. CBI parity legislation should permit the Caribbean region to capture more than its previous market share of these additional U.S. retail sales, given the improved competitive position. Council economists predict that with CBI parity in place, the Caribbean region would be able to export an *additional* 90,000 bale equivalents of cotton annually by just maintaining its share of this market growth.

Further, because of its enhanced competitive position, the CBI region should displace some amount of non-NAFTA cotton knit imports. If this legislation enables the CBI region to displace only 7.5% of non-NAFTA cotton knit imports, that would add another 235,000 bale equivalents of demand for U.S. cotton and cotton textiles.

With the right CBI bill in place, cotton knit imports from the Caribbean region would be almost entirely comprised of U.S. manufactured yarn spun from U.S. raw cotton.

If the right CBI parity legislation had been effective for 1998, we would have likely seen an additional 325,000 bales of demand for 1998, increasing to 650,000 this year. The lost opportunity for this additional 650,000 bales of spinning activity has hurt the U.S. cotton and cotton textile industries. That additional use could have more effectively blunted the textile import surge caused by the Asian financial crisis.

Mr. Chairman, if we cannot bring the divergent sides to a compromise and get this bill passed soon, we are all fiddling while Rome burns.

The National Cotton Council supports a CBI bill that will maximize the use of U.S. cotton and cotton textile components, including U.S. yarn. Specifically, the Council has committed to support the following components in a CBI bill—

- Duty and quota free access to apparel assembled in the Caribbean region from fabric that was cut in the United States and formed in the United States from U.S. yarn (so-called 807-A category);
- Duty and quota free access to apparel assembled and cut in the Caribbean region from fabric that was formed in the United States from U.S. yarn and assembled with U.S. sewing thread;
- Duty and quota free access for apparel made from knit and woven fabric formed in the CBI region from U.S. yarn.

As part of our discussion with a broad coalition interested in CBI legislation, including U.S. apparel manufacturers, many U.S. textile companies, textile importers and apparel retailers, we have also agreed to support a *de minimis* provision permitting up to 25 percent of the value of the garment for findings and a single transformation rule for brassieres.

While we are supportive of many provisions in the House Bill, there are certain aspects we cannot support. The Council and the members of the coalition oppose the inclusion of tariff preference levels or any additional exceptions to rules of origin.

We oppose extending the trade preferences to textile or apparel articles that originate in the Caribbean region but are not composed of U.S. yarn or U.S. fabric.

- First, allowing Caribbean apparel and fabric to qualify will enable our competitors to benefit from this trade preference;
- Second, this is a trade preference bill—not a free trade arrangement. By this legislation we will give special access to our markets in return for nothing. The full benefits of a NAFTA type arrangement should be reserved for a trade agreement whereby both sides give and get trade benefits.

We urge this Committee and the Congress to consider Caribbean Basin parity legislation either on its own merits or as part of a hurricane relief package. We are very concerned that combining this trade bill with another trade preference initiative will undermine the support of the U.S. cotton industry.

Mr. Chairman, I applaud your determination to get a CBI parity bill passed. The National Cotton Council will support this effort to the extent the benefits to our industry outweigh the risks.

A CBI bill that ties the granting of preferences to the use of U.S. textile components is a bill we will support. It will help our industry. It will help the Caribbean.

Chairman CRANE. Thank you, Mr. Rayner.

Mr. Conner.

STATEMENT OF JIM H. CONNER, EXECUTIVE VICE PRESIDENT, AMERICAN YARN SPINNERS ASSOCIATION, GASTONIA, NORTH CAROLINA

Mr. CONNER. Mr. Chairman, my name is Jim Conner and I'm executive vice president of the American Yarn Spinners Association, on behalf of whom this testimony is given.

The AYSA has been a consistent supporter of special trade preferences for the CBI and that support continues today with a new urgency to work for passage of legislation based on the yarn forward concept.

Two years ago, I accompanied six chief textile executive officers of our member companies on a trip to five countries to the region, that is, the Dominican Republic, Costa Rica, Honduras, El Salvador, and Guatemala. The purpose of the trip was to explore market opportunities for U.S. yarn in the Caribbean region. The resounding message we got from that trip was that these countries would rapidly become dominant suppliers of apparel to the U.S. market. Needless to say, the question from government officials, including the President of Costa Rica, was the possibility of locating yarn producing facilities in the region.

We came back and did the follow-up studies that led to the conclusion that relocating capital intensive yarn production to the region was not economically feasible. For instance, the energy cost to operate modern efficient spinning mills today exceeds the labor costs. Frequent power outages, coupled with energy costs as much as four times that in the United States, offset other incentives for locating yarn plants in the region at this time. For the foreseeable future, it will simply be more economical and efficient to produce and ship yarn to the region than to ship fiber and spin it into yarn there. We wanted to bring this to your attention because that is the economic reason for the yarn forward concept.

The emergence in recent years of apparel production in the Caribbean, however, is a matter of keen interest to U.S. yarn spinners, particularly knit apparel. And that is because a great deal, some 75 percent, of our production goes to knit fabrics. Sixty-eight percent of the total U.S. sales yarn production is spun from cotton fiber, practically all of which is supplied by U.S. cotton farmers. The remainder is spun from man-made fibers, predominately supplied by U.S. chemical fiber producers, all of whom would benefit from the right kind of CBI bill.

Faced with ever-increasing competition from imports of knit apparel from Asia and a declining domestic market, U.S. sales yarn producers and our fiber suppliers face a perilous future unless we can develop partnerships to use our yarn in this hemisphere. A growing number of U.S. knitters have found it necessary to establish partnerships or joint ventures in Mexico and the Caribbean to get closer to the apparel assembly operations being established there.

Circular knit fabric production in the United States declined between 1994 and 1997. While data is not available for 1998, the chief executive officer of a major U.S. knit fabric producer was quoted recently as follows: "During the last year, circular knit fabric capacity, due to consolidation and plant closings, dropped at least 25 percent."

The situation was, of course, exacerbated last year by imports of knit fabrics and finished garment from Asia. Nonetheless, the loss of knitting capacity has created a void in the yarn market of crisis proportions. It is estimated that knit fabric production in the Caribbean region already exceeds 200 million pounds annually and will continue to grow, offering U.S. spinners an opportunity to fill that void.

We believe a regional fabric provision using U.S. yarn in the Caribbean will enable our spinners to recapture business lost to Asia. Furthermore, we believe our domestic knitter customer base can be stabilized as domestic fabric producers enjoy the benefits of apparel assembly in the region with U.S. fabric.

In conclusion, we believe the right CBI bill can benefit U.S. producers of fiber, yarn, and fabric. And we welcome the opportunity to work with the Committee in developing and supporting such a bill.

Thank you, Mr. Chairman, for the opportunity to be with you today.

[The prepared statement follows:]

Statement of Jim H. Conner, Executive Vice President, American Yarn Spinners Association, Gastonia, North Carolina

Mr. Chairman, my name is Jim H. Conner and I am executive vice president of the American Yarn Spinners Association, on whose behalf this testimony is given. The Association is composed of some 100 corporations who operate 275 plants for the production of yarn which is sold to other segments of the textile industry for conversion into fabric and other textile products.

The American Yarn Spinners Association has been a consistent supporter of special trade preferences for the CBI region, as long as U.S. yarn producers share in the benefits of the Caribbean Trade Partnership. That support continues today with a new urgency to work for passage of legislation based on the yarn forward concept.

Two years ago I accompanied six chief executive officers of our member companies on a trip to five countries in the region, i.e. the Dominican Republic, Costa Rica, Honduras, El Salvador, and Guatemala. The purpose of the trip was to explore market opportunities for U.S. yarn in the Caribbean region. The resounding message from the trip was that these countries would rapidly become dominant suppliers of apparel to the U.S. market. Needless to say, the question from government officials, including the President of Costa Rica, was the possibility of locating yarn-producing facilities in the region. Follow-up studies led to the conclusion that relocating capital-intensive yarn production to the region was not economically feasible. For instance, the energy cost to operate a modern efficient spinning mill exceeds labor costs. Frequent power outages, coupled with energy costs as much as four times that in the United States, offset other incentives for locating yarn plants in the region. For the foreseeable future, it will simply be more economical and efficient to produce and ship yarn to the region than to ship fiber and spin it into yarn there.

The emergence in recent years of apparel production in the Caribbean, however, is a matter of keen interest to U.S. spinners, particularly knit apparel. According to the U.S. Bureau of Census, knit fabrics constitute the dominant market for U.S. spinners, and consumes 75 percent of U.S. sales yarn production. Sixty-eight percent of total U.S. sales yarn production is spun from cotton fiber, practically all of which is supplied by U.S. cotton farmers. The remainder is spun from manmade fibers, predominantly supplied by U.S. chemical fiber producers, all of whom would benefit from the right kind of CBI bill.

Faced with ever-increasing competition from imports of knit apparel from Asia and a declining domestic market, U.S. sales yarn producers and our fiber suppliers face a perilous future unless we can develop partnerships to use our yarn in this hemisphere. A growing number of U.S. knitters have found it necessary to establish partnerships or joint ventures in Mexico and the Caribbean to get closer to the apparel assembly operations being established there.

Circular knit fabric production in the U.S. declined 24 percent between 1994 and 1997. While data is not available for 1998, the chief executive officers of a major U.S. knit fabric producer was quoted recently as follows: "During the last year (1998), circular knit fabric capacity, due to consolidations and plant closings, dropped at least 25 percent."

The situation was, of course, exacerbated in 1998 by imports of knit fabrics and finished garment from Asia. Nonetheless, the loss of knitting capacity has created a void in the yarn market of crisis proportions. It is estimated that knit fabric production in the Caribbean region already exceeds 200 million pounds annually and will continue to grow, offering U.S. spinners an opportunity to fill that void.

We believe a regional fabric provision using U.S. yarn in the Caribbean will enable our spinners to recapture business lost to Asia. Furthermore, we believe that our domestic customer base can be stabilized as domestic fabric producers enjoy the benefits of apparel assembly in the region with U.S. fabric.

Since most woven apparel fabric produced in the U.S. is produced by firms who spin their own yarn in vertical plants, weavers buy relatively smaller volume of yarn on the outside than do knitters. Nonetheless, the press has been full of announcements in recent weeks about the closing of U.S. weaving mills, again contributing to the declining domestic yarn market.

In conclusion, we believe that the right CBI bill can benefit U.S. producers of fiber, yarn and fabric. We welcome the opportunity to work with the Committee in developing and supporting such a bill.

Chairman CRANE. Thank you, Mr. Conner.

And our next witness in order is Mr. Moore.

STATEMENT OF CARLOS MOORE, EXECUTIVE VICE PRESIDENT, AMERICAN TEXTILE MANUFACTURERS INSTITUTE

Mr. MOORE. Thank you, Mr. Chairman. My name is Carlos Moore. I'm executive vice president of the American Textile Manufacturers Institute, the national trade association of the textile mill products industry. Our members account for nearly 75 percent of the textile fibers processed in the United States. That includes some eight million bales of U.S. cotton out of the nearly 11 million bales consumed in the United States. Our firms have a long history of business relations with firms in the Caribbean region. For decades, our mills have furnished fabric and cut pieces to the region for assembly into garments and return to the United States.

This relationship was strengthened in 1986 with the creation of the Special Access Program. Since that program went into effect, CBI exports of apparel to the United States have grown from less than $800 million a year in 1986 to $8.3 billion last year. I want to emphasize that this growth was achieved under a program that mandates the use of fabrics made in the United States.

You've already heard that CBI countries are facing a slow down in their garment industries mostly because of the flood of Asian textiles and apparel into the U.S. market driven by devalued currencies in Asia. In our own market, our industry has witnessed prices for Asian fabrics that have declined by 10 percent since the currency crisis began there. Yarn prices have fallen as much as 23 percent from Asia.

The cumulative effect of this crisis on the U.S. industry is very sobering. More than 50 U.S. textile plants have closed or announced they were closing during the last 14 months. More than 30,000 U.S. textile workers have lost their jobs. Textile shipments fell by almost 4 percent in 1998. The prognosis is not promising. Fourth quarter data from 1998 show that all indicators have worsened during the year.

A properly designed Caribbean parity bill can help both Caribbean and U.S. companies and workers cope with this Asian problem. Therefore, ATMI urges the Committee to re-balance the competitive situation, both for the domestic textile industry and for the Caribbean region, by extending duty-free and quota-free entry for A, apparel sewn in the CBI from fabric produced and cut in the United States and made of U.S. yarn; and, B, apparel cut and sewn in the Caribbean with U.S. thread from fabric produced in the United States of U.S. yarn.

These 807A/809 approaches, such as approved last year by the Senate Finance Committee, would result in an improved economic partnership between the U.S. textile industry and garment makers in the Caribbean. This re-balancing will certainly help our industry and the region compete when quotas disappear under the WTO phaseout in 2005, as has already been mentioned.

We believe, however, that H.R. 984 contains a number of counterproductive elements that would cause unnecessary harm to segments of the U.S. textile industry. Our concerns are given in detail in my written statement. But in summary, I would like to mention first: we strongly object to the provision that provides quota-free entry for apparel which originates in the territory of a partnership country. This is not allowed under NAFTA. It should not be allowed here. For example, this permits fabrics and yarns from any country, China or India, for example, to benefit from this approach.

Second, we strongly oppose the inclusion of Tariff Preference Levels, TPLs. These permit fabric produced anywhere in the world to be used in apparel sewn in the Caribbean and imported duty-free and quota-free into the United States. They displace U.S. production and jobs and should be eliminated from the bill.

The provision which permits access for apparel made from fabric knit in the CBI is similarly objectionable and unnecessary. We have a very diverse fabric knitting industry. U.S. mills can provide the knit fabric needed by CBI apparel manufacturers. If this provision is enacted, the stark reality is that additional fabric knitted in the region will be at the expense of U.S. knitters and U.S. jobs.

Also, the repeated references in the bill to “textile and apparel articles” or “textiles and apparel” should be revised to cover only apparel articles of Chapters 61 and 62 of the harmonized system.

The best and quickest way to increase jobs and to add income in the Caribbean region is to increase garment manufacturing which employs much more labor than textile manufacturing. For example, a $5 million investment in garment making would create jobs for over 500 apparel workers. The same investment would not even be enough to build a waste treatment plant to service an integrated textile mill. A dollar invested in apparel making generates 33 times the number of jobs that an equivalent dollar creates in textile manufacturing.

Finally, the bill fails to include an enforcement provision for origin verification identical to NAFTA. Production verification is the cornerstone of effective enforcement.

I would like to conclude by saying that we urge the Committee to act quickly, but to act in a way that will restore the balance between the region and U.S. production and jobs for the good of both regions and the 600,000 employees in textiles in the United States and the over 500,000 garment-making employees in the Caribbean by approving an 807A/809 CBI bill and deleting the objectionable provisions that we've described today.

Thank you.

[The prepared statement follows:]

Statement of Carlos Moore, Executive Vice President, American Textile Manufacturers Institute

This statement is submitted by the American Textile Manufacturers Institute (ATMI), the national association of the domestic textile mill products industry. Collectively, ATMI's member companies produce virtually every kind of yarn, fabric and textile furnishing made and sold in the United States[1] and account for approximately 75 percent of the textile fibers processed in the U.S.

ATMI's member firms have a long history of commercial relations with firms in the Caribbean/Central American region (hereafter "CBI"). For decades, American textile mills have furnished fabric and cut pieces to the region for assembly into garments and return to the U.S. American mills have long been the primary source of raw materials for the burgeoning CBI garment-making industry. An ATMI member was the first U.S. textile company to own and operate a garment-making facility in Central America. There has been a true partnership between the American textile industry and the CBI garment industry, one that has proven mutually beneficial and rewarding.

This alliance was strengthened in 1986 with the creation of the Special Access Program (SAP). Since the SAP went into effect, CBI exports of apparel to the U.S. have grown from less than $800 million annually (1986) to $8.3 billion last year. This growth was achieved under a program which mandates the use of fabric made in the United States.

ATMI believes a well-constructed legislative initiative is needed to further strengthen and enlarge the economic partnership between the U.S. and the CBI region. The nations of the Caribbean are currently facing special and difficult challenges, not the least of which is increased competition from Asia in the form of rapidly rising apparel exports to the U.S. fueled by the severe currency devaluations in Asia during the last two years.

Prior to 1997, the CBI was competing head to head with the Far East in garment exports to the U.S.—and winning. From 1987 to 1997, the CBI's share of the U.S. apparel import market grew from 2.5% to 25%; at the same time, the Far East's share declined from 71% to 37%. However, since 1997, the CBI's competitive advantage has rapidly eroded. Apparel imports into the U.S. from the region are no longer increasing and, in fact, during the fourth quarter of 1998 actually declined. During this same period of time, apparel imports from the Far East increased by $280 million.

In our view, the CBI is at a crucial window of opportunity: either legislation will be enacted by Congress that permits the CBI to compete successfully against the devalued currencies of the Far East, or the CBI may lose the opportunity even to maintain what has been its most vibrant and productive export sector. But it must be the right legislation, or else that window will once again close, as it did in the last Congress.

There are grounds for hope. Despite the severe declines in Asian prices, textile and apparel trade between Mexico and the United States has shown no sign of weakening. In fact, trade ties between the two countries have grown even stronger over the last year as Mexico has continued to gain market share faster than other countries. The figures below testify to the power of tariff elimination to benefit both the U.S. textile industry and foreign countries.

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[1] Silk, ramie and jute products being the only notable exceptions.

	Increase ($ mil)	
	1997–98	1993–98
U.S. Textile Exports[1] To Mexico	+$802	+$3,040
Mexican Apparel Exports to U.S.	+$1,127	+$5,100

[1] Includes cut pieces of U.S. fabric.

The CBI apparel industry is not alone in being threatened by historically low prices for Asian imports. The Asian crisis has taken a toll on the U.S. textile industry. Prior to last year, exports of U.S. textile products (including cut fabric pieces) to the CBI had been showing regular healthy increases year-in, year-out, averaging 19%. In 1997 alone, the increase was $760 million. In 1998, that increase fell to $199 million.

Damage from the Asian crisis has not been isolated to the CBI. Exports of U.S. textile products to Asia, formerly a billion dollar export market, fell by 24 percent in 1998 and exports to all markets outside of North America were down 16 percent.

In our home market, the U.S. textile industry has also been confronted by a wave of low-priced Asian imports. Overall prices for Asian fabrics have declined by ten percent since the Asian currency crisis began while yarn prices have fallen by 23%. Prices for certain Asian fabrics have dropped by as much as 45%. Not surprisingly, textile imports from Asia have surged, increasing last year by almost 900 million square meters, or 15%.

The cumulative effect of this crisis on the U.S. industry is sobering. More than 50 U.S. textile plants have closed or announced they were closing during the last 14 months and more than 30,000 U.S. textile workers have lost their jobs. Textile shipments fell in 1998 by almost 4 percent while new orders fell by more than 5 percent. And the prognosis is for these difficult times to grow even more difficult.

Fourth quarter data from 1998 show textile shipments down 7 percent, new orders and unfilled orders down 11 percent and textile fiber consumption off 12 percent. What all this means is that the U.S. textile industry is facing large-scale job losses unless measures are taken to rebalance the competitive situation.

Current Economic Condition, U.S. Textile Industry:

Job losses, 1998: –30,000
Plants closed (last 14 months): 45
Shipments, 4th quarter: –7%
New orders, 4th quarter: –11%
Unfilled orders, 4th quarter: –11%
Fiber consumption, 4th quarter: –12%

We ask the Committee to keep in mind that this crisis occurred because of excess capacity in Asia encouraged by cozy finance and industry relationships, lack of sound fiscal policy and the subsidization of that excess capacity on a massive scale by Asian governments. The U.S. textile industry and its workers should not have to bear the brunt of irresponsible policies and predatory practices on the part of foreign governments.

As a result, ATMI urges that the Committee substantively help to rebalance the competitive situation both for the domestic textile industry and for the Caribbean region by extending duty-free and quota-free entry for: (a) apparel sewn in the CBI from fabric produced and cut in the U.S., and made of U.S. yarn; and (b) apparel cut and sewn in the CBI with U.S. thread from fabric produced in the U.S. of U.S. yarn. Such an 807A/809 approach, as approved last year by the Senate Finance Committee, would result in an improved economic partnership between the U.S. textile industry and garment makers in the Caribbean.

A study by the economic consulting firm Nathan Associates shows that by taking this simple step, U.S. textile exports to the region can be boosted by $1.9 billion per year and that net U.S. textile employment would increase by 35,000 jobs. As our experience with NAFTA has shown, real and immediate gains in exports of U.S. textile products to the CBI, as well as in imports of garments assembled in the CBI from U.S. fabric and yarn, would result if such a move is taken.

Unfortunately, the committee is considering H.R. 984, which contains a number of counterproductive elements that would cause unnecessary harm to segments of the U.S. textile industry. These elements and ATMI's grounds for objection are as follows:

Quota-Free Entry Using Foreign Components.—ATMI strongly objects to the provision (Section 104, para. (b) (2) (A) (iii) (I)) which provides quota-free entry for apparel which "originates in the territory of a partnership country." This means that fabric from anywhere in the world could enter any of the CBI countries—it would be entered duty-free, of course—be cut and sewn into apparel and shipped to the

U.S. with no restraint whatever. Not only is this a de facto abrogation of the Uruguay Round Agreement on Textiles and Clothing, it is bad trade policy. Why should China, India, Pakistan and other undeserving countries be given this extraordinary entree to the U.S. market at no cost to them? This is not allowed under NAFTA and it should not be allowed here.

Tariff Preference Levels (TPLs).—Section 104 B (I), (ii) These permit fabric produced anywhere in the world to be used in apparel sewn in the CBI and imported duty-free and quota-free into the United States. TPLs are loopholes that unnecessarily displace U.S. production and jobs. Little, if any, of the apparel currently exported from the CBI nations to the U.S. uses fabric not available from U.S. textile mills.

It is noted that the NAFTA agreement (and the precursor U.S.-Canada Free Trade Agreement) contains TPLs. It should also be noted, however, that they have been greatly abused. The original intent of TPLs was to permit the use of fabrics and yarns not available in any of the participating countries. Unfortunately, that is not what has happened under NAFTA. Canada has used its TPLs to export to the United States textile and apparel products made of non-North American yarns and fabrics freely available in North America. As a result, textile mills in Europe and Asia are getting a $300 million free ride into the U.S. market annually on the coattails of Canada's TPLs. This has severely damaged U.S. manufacturers of wool suits and wool fabric and harmed producers of many other garments and fabrics.

More recently, Mexican officials acknowledge that Mexico's TPLs are also now being used to export textiles and apparel made from Asian yarns and fabrics that could just as easily have been sourced from textile mills in Mexico and the United States. The fact that these TPLs lay essentially unused until the Asian currency devaluations caused Asian fabric prices to plummet is indicative of how the original intent behind these preferences has been perverted. This situation must not be duplicated in the CBI.

The unavailability or short supply of any yarns or fabrics—which, it will be noted again, is highly unlikely to begin with—can better be dealt with by the specific enumeration of exempt fabrics and yarns [2] and/or a "short supply" provision [3] , just as was done in NAFTA. There is no need for TPLs.

Apparel Made From Fabric Knit in CBI.—(Section 104, (2) (A) (ii) (iii)) This provision is similarly unnecessary. The United States boasts the world's most diverse fabric knitting industry. U.S. mills can provide all the knit fabric needed by CBI apparel manufacturers. Enactment of this provision would encourage foreign, not local or U.S., investors to install knitting capacity in the region. The investors will almost certainly be Asian and they will leap at the chance to get their fabric into the U.S. market duty-free. They should not be given license to do so.

The stark reality is that every pound of fabric knitted in the region by these outsiders will be at the expense of U.S. knitters. It is simply wrong to enact provisions which will take existing business away from American producers, business which has been carefully nurtured over the years, and will, as well, deny them any future business, all in favor of Asian interests.

Preference for Textile Articles.—(Section 104, Para.2) The repeated references to "textile and apparel articles" and "textile or apparel articles" should be revised to cover apparel articles of HTS Chapters 61 and 62 only. The legislation's stated objective to "promote the growth of free enterprises and economic opportunity," can best be realized by providing job opportunities in the labor intensive apparel manufacturing sector rather than in the textile sector. For example, a five million dollar investment in garment making would create jobs for over 500 apparel workers; the same investment would not even be enough to build the waste treatment plant to service an integrated textile mill. A dollar invested in apparel making generates 33 times the number of jobs that an equivalent dollar creates in textile manufacturing.

Transshipment Provisions Not Included.—The bill fails to include provisions for origin verification identical to those in Article 506 of NAFTA. Such Article 506 procedures are absolutely essential to ensure that goods entering the U.S. with preferential treatment are indeed entitled to these benefits. Failure to include these provisions would almost certainly lead to the region being used as an illegal transshipment point by Asian manufacturers and/or encourage the use of non-U.S. produced fabric in apparel entering the U.S. duty-free.

The record shows that there have been repeated violations of the requirements of the SAP and NAFTA even with verification procedures in place. U.S. Customs has already discovered transshipment activity by Asian manufacturers in nine CBI

[2] See NAFTA Annex 401-B, Chapter 62 and headings 6205.20–6205.30.

[3] See NAFTA Annex 300-B, Section 7, para. 2.

countries[4]. An absence of such Article 506 procedures would lead to a tidal wave of illicit imports.

ATMI notes language contained in Section 104, Subsection 5 of H.R. 984 which indicates congressional desire to have the beneficiary partnership countries accede to NAFTA or enter into a NAFTA-comparable agreement with the United States. ATMI is wholly supportive of this policy and would welcome a NAFTA-type agreement with any or all of the parties.

However, H.R. 984 would grant overly generous privileges and preferences to the CBI countries in a unilateral fashion. CBI countries will have little incentive to make the commitments needed to join in a full free trade agreement if they get nearly all the benefits of such an agreement via H.R. 984.

In the final analysis, legislation which grants preference to apparel made in the CBI region solely from American-formed fabric and yarn is the best course of action to pursue. Such legislation would convey benefits to everyone involved—American apparel importers, CBI garment makers, U.S. textile mills—while harming none of them. Such an approach has a precedent—the Special Access Program. The historical record clearly shows the efficacy of this approach: a ten-fold increase over twelve years in the dollar value of CBI apparel exports to the United States; an increase in the CBI's share of U.S. apparel imports from 6.5 percent (1986) to 23.8 percent (1998); and a nine-fold increase in U.S. exports of textiles and cut-pieces to the region.

There is clearly a compelling need to extend duty-free treatment immediately to CBI apparel items made from U.S. fabrics and U.S. yarns. Failing that, the Caribbean will lose its competitive edge and the region will be placed in even greater economic stress. And the U.S. textile industry will face larger and more serious job losses and even more plant closings in the face of unprecedented price declines from Asia. We urge the Committee to act quickly to restore this balance for the good of both the nations of the Caribbean and the United States textile industry and our 600,000 employees by approving an 807A/809 CBI bill in lieu of H.R. 984.

APPENDIX

ATMI wishes to point out what we believe are certain technical errors in the language of H.R. 984. In Section 104, para. (b) (2) (A) (ii) (I) the line should read "is assembled in a partnership country, wholly from fabrics formed and cut. . . ." Likewise, in para. IV of this subsection, the word "wholly" should be moved from after the word "fabrics" to after the word "country".

Chairman CRANE. Thank you, Mr. Moore.

Mr. Lamar.

STATEMENT OF LARRY K. MARTIN, PRESIDENT, AMERICAN APPAREL MANUFACTURERS, ARLINGTON, VIRGINIA, AS PRESENTED BY STEPHEN LAMAR, DIRECTOR OF GOVERNMENT RELATIONS

Mr. LAMAR. Thank you. I am Steve Lamar, director of Government Relations at the American Apparel Manufacturers Association, the national trade association of the U.S. apparel industry. I appreciate the opportunity to appear before the Subcommittee on the subject of Central American and Caribbean reconstruction.

Mr. Chairman, let me congratulate you and your colleagues for your strong leadership in introducing H.R. 984, the CCARES bill. Let me also congratulate Senator Graham for introducing a similar bill in the Senate. These measures, which contain a crucial Caribbean Basin trade enhancement provision, will be important to foster long-term reconstruction from the hurricanes that recently devastated the Caribbean Basin region. Our member firms have made enactment of this legislation a top priority for 1999.

[4] Jamaica, Panama, Costa Rica, Guatemala, Belize, Honduras, Haiti, the Dominican Republic and St. Lucia.

As you know, AAMA has long supported enactment of CBI trade enhancement legislation as a key component to ensure the competitiveness of the U.S. apparel industry. Sadly, the need for this legislation has been reinforced by two hurricanes that visited severe devastation upon areas of Central America and the Caribbean. It has now become a vital tool to sustain economic recovery in the region.

Let me speak for a moment on these two points. First, the hurricanes. Before the hurricanes struck, the apparel sector was already emerging as an engine of economic growth. Now with severe damage to many other export industries, such as tourism, bananas, and coffee, the apparel sector takes on added significance as a source of much-needed foreign exchange and employment.

The apparel sector is ready to put people to work immediately. In many parts of the region, the apparel sector has escaped severe damage. Other sources of traditional employment were not so lucky and are not likely to recover for many months or years.

Moreover, throughout the crisis, the apparel industry has emerged as a source of stability and relief. Many factories doubled as shelters and hospitals and served as distribution points for donations, both through official and private channels. I might add that members of our own association contributed more than $5 million worth of direct aid to the region immediately after the hurricanes and continued to pay workers even when they could not get to their jobs. Keeping the apparel industry viable, through expanded access to the U.S. market, reinforces this stabilizing role.

Let me also speak for a moment about the apparel industry. Our industry relies upon programs like the CBI, and subsequent improvements made through the Special Access Program, to allow us to meet the challenges of low-cost foreign imports. Broadly, these programs give us lower average costs, make U.S. companies more competitive, and allow us to maintain significant employment in the United States. Moreover, as you've already heard, our supplier industries have a strong interest in an apparel industry that is located close to U.S. shores.

But these programs, which were tailored for the late 1980's, no longer make as much sense for U.S. apparel firms. Preferential benefits accorded Mexico under NAFTA, the imminent phaseout of the quotas under the Uruguay Round, and the discounts induced by the Asian economic crisis have largely eroded the benefit of the CBI. Just like we no longer use IBM PS 2 computers we had on our desks in the early 1990's, our members are finding they have less use for the CBI program.

To remain competitive, many apparel firms now find it increasingly more cost-effective to source garments out of Asia. Although we would prefer to do business in the CBI, we have greater control and it is closer to our customers, we are finding we cannot stay in business unless we shift some of our production East.

Unfortunately, we are already seeing the effects of this diversion. For years, we have warned that growth rates for the CBI were down because new investment was being directed to Mexico. In 1998, for the first time ever, the CBI actually lost share of the U.S. apparel import market. That same year, Mexico's market share increased. More ominously, the U.S. market share by ASEAN nations increased by about 50 percent.

Let me leave you with a bottom line economic fact. At the end of the day, our members essentially do business where the Government tells us. In the 1980's and the early 1990's, through a deliberate policy to promote regional stability and ensure our competitiveness, the Government encouraged us to do business in the Caribbean Basin. Now with the global changes that are occurring, and absent enactment of CBI trade enhancement, the Government is essentially telling us to do business in Asia.

If we are forced to source more of our garments from Asia, we will buy less U.S. cotton, less U.S. yarn, and less U.S. fabric. This will have a detrimental impact on U.S. workers and U.S. suppliers to our industry. Moreover, as we shut down facilities in San Pedro Sula, and replace them with ones in Shanghai, CBI workers and regional economic prosperity suffer as well.

The continued health of the CBI region is tied inextricably to the growth of the region's apparel assembly industry. Apparel assembly creates thousands of jobs in the region and generates millions of export revenues that are used to sustain development goals. Improving economic conditions contributes to political stability, deters illegal immigration, and creates an alternative to the production and trafficking of illegal drugs. And as we have seen, a prosperous Caribbean Basin means more exports of U.S. consumer goods, capital equipment, and farm products.

At the same time, the apparel industry in the region is vital to the continued economic health of the U.S. apparel industry. These strategic partnerships enable us to stay competitive to meet the challenges of low-cost foreign imports, maintain significant apparel employment in the United States, and maximize the use of U.S. inputs—again, such as U.S. cotton, U.S. yarn, and U.S. fabric.

There has long been a need for CBI enhancement legislation. It should have been enacted 5 years ago. The damage caused by the hurricanes makes it even more imperative that it be enacted now.

I appreciate the opportunity to submit this testimony, and I would be pleased to respond to any questions you may have.

[The prepared statement follows:]

Statement of Larry K. Martin, President, American Apparel Manufacturers Association, Arlington, Virginia, as presented by Stephen Lamar, Director

Thank you. I am Larry Martin, President of the American Apparel Manufacturers Association (AAMA). We appreciate the opportunity to appear before the Subcommittee on the subject of Central American and Caribbean reconstruction.

AAMA is the trade association of the U.S. apparel industry, representing about 85 percent of clothes sold at wholesale. While the industry is large, most of the companies are relatively small. Three-fourths of our members have sales under $20 million and more than half have sales under $10 million. Our members employ most of the 725,000 Americans working at apparel manufacturing jobs in the U.S. They also operate in Mexico under NAFTA, in Central America and the Caribbean, and some import from other sources.

Mr. Chairman, let me congratulate you and your colleagues—Mr. Rangel, Mr. Kolbe, Mr. Matsui, and Mr. Jefferson—for your strong leadership in introducing H.R. 984—the Caribbean and Central America Relief bill. This measure—which contains a crucial Caribbean Basin trade enhancement provision—will be important to foster long term reconstruction from the hurricanes that recently devastated many of the countries of the Caribbean Basin Initiative (CBI) region. It is also critical for the long-term health of the US apparel industry.

HURRICANE RECONSTRUCTION

AAMA has long supported enactment of CBI trade enhancement legislation. Sadly, the need for this legislation has been reinforced by two hurricanes that visited severe devastation upon areas of Central America and the Caribbean. Expanding the US/CBI trade relationship will be a vital element in helping the countries of the Caribbean and Central America recover from the devastation caused by Hurricanes Mitch and Georges.

Short-term relief is important in helping these countries weather the immediate crisis. US support for long term reconstruction, however, will be necessary to sustain economic growth in the region. Regional leaders agree.

In a November 9 letter to President Clinton, the five Central American Presidents asked for Caribbean Basin trade enhancement legislation as an element of the reconstruction effort for Central America. In a November 24 guest editorial in the *Washington Post*, Costa Rican President Miguel Rodriguez reiterated this point, stating that Caribbean trade enhancement would be a "necessary part of a program of recovery of our region." Since then, and as most recently as 2 weeks during the President*s trip to Central America, these leaders had made repeated calls for CBI trade enhancement.

A CBI trade enhancement package would buildupon the successful US/Caribbean partnerships already at work in dozens of locations across the region. It would expand US market opportunities for apparel and other products assembled in Central America and the Caribbean. And because most of that apparel is manufactured using US textiles and related inputs, American workers and their firms would benefit as well.

Before the hurricanes struck, the apparel sector was already emerging as an engine of economic growth. Now, with severe damage to many other export industries—such as tourism, bananas, and coffee—the apparel sector takes on added significance as a source of much-needed foreign exchange and employment.

The apparel sector is ready to put people to work immediately. In many parts of the region, the apparel sector has escaped severe damage. For example, by mid-November, 1998, Honduran apparel production had again reached 92 percent of pre-hurricane production. Other sources of traditional employment are not likely to recover to this level for many months or years.

Throughout the crisis, the apparel industry has emerged as a source of stability and relief. Many factories doubled as shelters and hospitals, and served as distribution points for donations—both through official and private channels. I might add that members of our association contributed more than $5 million worth of direct aid to the region immediately after the hurricanes and continued to pay workers even when they could not get to their jobs. Keeping the apparel industry viable, through expanded access to the US market, reinforces this stabilizing role.

Over the past 15 years, the US government and private sector have invested substantial political and financial capital to secure peace and economic prosperity in this region. Passage of a Caribbean Basin trade enhancement package—as an element of hurricane reconstruction—keeps that investment viable.

APPAREL INDUSTRY COMPETITIVENESS

While the havoc caused by the hurricanes brings urgency to the need for CBI enhancement legislation, AAMA has felt a strong need for it since the onset of negotiations over NAFTA.

AAMA supports the maintenance of a large and viable U.S. apparel manufacturing industry. American apparel companies are not in business to move jobs offshore. Every one of our members would rather do all its manufacturing in the United States and not have to deal with the complexity of offshore production. However, we must compete with low-wage imports, which have taken over half of our market. In order to compete with low-wage imports, many U.S. companies opened production in Mexico and the CBI countries. Firms often found sourcing from the CBI countries best fit their operations, even though apparel was specifically excluded from the CBI program.

This exclusion was partially offset by the 807 program, which gives us lower average costs, makes U.S. companies more competitive and allows us to maintain significant employment in the U.S. Under 807, a $10.00 garment usually has $6.00 in U.S. components and about $4.00 in value-added by offshore assembly. The duty is assessed on only the value-added. That duty is usually about 20 percent, which on $4.00 is 80 cents. This is equivalent to 8 percent on the value of the entire garment. With wholesale and retail markups, a garment from the CBI region carries a penalty of approximately $3.00, as compared to the same garment coming from Mexico.

In 1986, 807 was modified by the creation of the 807–A program. Under it, duty still was paid, but only on the value-added in the region. However, the creation of Guaranteed Access Levels (GALs) essentially made many products from the region quota-free. 807–A was duplicated for the Mexican industry and named the Special Regime.

It is important to realize the production moved was no longer viable in the U.S. Without the incentives of 807–A, NAFTA and hopefully CBI enhancement, that production would go to the Far East where there would be little U.S. involvement in the manufacturing process. Although Asia is further away from the U.S. market, its access to lower priced inputs, especially since the onset of the financial crisis, makes it extremely competitive.

With the implementation of NAFTA, which AAMA strongly supported, apparel assembled in Mexico of U.S. formed fabric enters our market quota and tariff-free. However, duties are still charged on the value added to imports from the CBI countries. This places the CBI countries at a great competitive disadvantage vis-a-vis Mexico, and the progress the U.S. fostered in the Caribbean Basin will in large part be reversed. Competition from Mexico will force many local and U.S. firms out of business or to move their investments from the CBI countries to Mexico or Asia.

With the elimination of tariffs under NAFTA, this 8 percent cost no longer is added to the price of garments coming from Mexico. Couple this with slightly easier and cheaper transportation between Mexico and the U.S. vs. that between the Caribbean and the U.S. and Mexico has a significant advantage. Eight percent may not appear to be a significant saving, but the average profitability of an apparel firm in the U.S. is much less than that.

The effects of NAFTA on the CBI region have become apparent. Since NAFTA went into effect on January 1, 1994, apparel imports from Mexico have increased 611 percent. While starting from a larger base, imports from the CBI have increased at one-third that rate.

Now, for the first time, the CBI region actually is losing share of the import market. In 1998, the CBI region accounted for 23.8 percent of the garments imported into the United States, a decline from the 25.1 percent in 1997. During that same year, the market share of Mexico and other regions—such as ASEAN—continued to increase.

807 production created thousands of good jobs in Mexico and the Caribbean Basin. We estimate 15 apparel jobs in the U.S. are created by every 100 jobs in 807 production in the region. This is in addition to the thousands of U.S. jobs it maintains in the textile, transportation and other industries. These jobs in Caribbean Basin, the related U.S. apparel jobs and the jobs in ancillary industries will not come to the U.S. if the Caribbean should be shut down. They will migrate to the Far East.

Regional Economic Goals

CBI trade enhancement makes good foreign policy. The United States needs to remain engaged in the region to promote stable, democratic governments and market-oriented economies. Our interests in this regard our clear:

- Political and economic turmoil in the CBI often manifests itself in the US through increased narcotics trafficking or waves of immigrants and refugees.
- Many US residents and communities share family ties with individuals in Central America and the Caribbean.
- The Caribbean Basin is the 9th largest destination of US exports worldwide, and is one of the few regions where we maintain a consistent trade surplus.
- US commercial and security interests demand uninterrupted access to transit routes through the Caribbean Sea and the Panama Canal.

The continued economic health and of the CBI region is tied inextricably to the growth of the region's apparel assembly. The jobs available in the apparel industry, as well as supporting industries, are key sources of employment throughout the region. Export revenues generated by apparel assembly encourages Caribbean Basin governments to increase and accelerate economic reform, including investment liberalization, protection of intellectual property rights, promotion of worker rights, and expansion of market access. Strong economic conditions contribute to political stability, deter illegal immigration, and create an alternative to the production and trafficking of illegal drugs. Caribbean Basin trade enhancement only accelerates this process.

Conclusion

Although unintentional, passage of NAFTA adversely affected the competitiveness of the CBI region by diverting existing and potential investment from the region in favor of Mexico and, increasingly, Asia. CBI trade enhancement assures a level playing field will exist between the CBI region and Mexico. Without it, U.S. companies already in the region, competitively disadvantaged by the elimination of Mexican duty rates and quotas, will move new investment elsewhere and disinvest existing manufacturing facilities. If the apparel sector leaves Central America and the Caribbean for Asia, US workers, US supplier industries, and Caribbean regional economic stability will suffer.

There has long been a need for CBI enhancement legislation. It should have been enacted 5 years ago. The damage caused by the hurricanes make it even more imperative that it be enacted now.

Once again, we appreciate the opportunity to submit this testimony. We would be pleased to respond to any questions you may have.

Chairman CRANE. Thank you, Mr. Lamar.

And our last witness, Mr. Autor.

STATEMENT OF ERIK O. AUTOR, VICE PRESIDENT, INTERNATIONAL TRADE COUNSEL, NATIONAL RETAIL FEDERATION

Mr. AUTOR. Thank you, Mr. Chairman. My name is Erik Autor. I'm vice president of International Trade Counsel of the National Retail Federation. I appreciate the opportunity to testify in support of H.R. 984, the Caribbean and Central American Relief and Economic Stabilization Act.

NRF is the largest trade association that speaks for the U.S. retail industry. NRF members cover the spectrum of retailing, including department, specialty, discount, catalogue, Internet, and independent stores. NRF's members represent an industry that employs more than 22 million, about one in five American workers, and registered sales of more than $2.6 trillion in 1998.

NRF and the U.S. retail industry strongly support H.R. 984 because it would provide immediate tangible benefits to Caribbean Basin Initiative countries, several of which were devastated by recent hurricanes. This bill will give those countries the benefits they need to attract new business and investment quickly thereby creating jobs, income, and economic opportunity in countries struggling to recover from natural disasters. The legislation's textile and apparel provisions are particularly critical in this effort, by encouraging U.S. apparel producers to manufacture products in partnership with their CBI counterparts. In turn, U.S. retailers, who buy clothing from U.S. apparel producers, will be better able to give our U.S. customers a good selection of value-priced apparel.

We commend Representatives Crane, Kolbe, Rangel, Jefferson, and Matsui for their insistence that the trade-related relief in H.R. 984 be meaningful and effective. The CBI region is a very important source of apparel products for the U.S. retail industry. We have long supported giving CBI countries trade benefits that parallel those provided to Mexico, particularly for textile and apparel products.

We are disappointed that efforts to pass such legislation have so far been stalled by certain domestic interests who would limit the trade benefits so as to help mainly themselves rather than the CBI countries. By seeking to deny trade benefits to apparel products made from fabric produced in the CBI region, these advocates of "enhanced" CBI trade legislation would, in fact, ensure that manufacturing in CBI countries remains limited to assembly of U.S. garments. Such restrictions would ultimately hurt the economic development of CBI countries by preventing CBI producers from moving into related, higher-paying, and more technologically sophisticated production sectors. Watering down the textile and apparel provisions in this bill will also continue to handicap the ability of the CBI region to compete with Asia and Mexico.

In contrast, H.R. 984 would promote broader, deeper economic development in the CBI by encouraging both apparel production and assembly and the development of a textile industry to supply that apparel production.

H.R. 984 also promotes U.S. economic interests. Between 1992 and 1998, U.S. exports to the CBI countries increased 76 percent to $19.2 billion. Imports from the CBI region increased 82 percent over the same period reaching $17.1 billion, resulting in a $2.1 billion trade surplus with the region. Most of this trade involves textiles and apparel.

The current CBI program allows U.S. apparel producers to ship cut U.S. fabric to a CBI country for assembly into clothing that is then re-exported to the United States. The importer pays duty only on the value added in the CBI country. The program has been a boon to U.S. textile and apparel producers, U.S. retailers, and the CBI countries.

However, NAFTA gave Mexico a significant advantage over its CBI competitors: immediate duty-free treatment on apparel from Mexico that is assembled from fabric formed and cut in the United States. Because U.S. tariff rates are so high on many of these products, a portion of retail sourcing shifted to Mexico from both Asian and CBI sources. Thus, even without the damage due to the hurricanes, the CBI apparel industry suffered a significant loss in competitiveness relative to Mexico.

Focusing solely on likely increases in U.S. imports as a result of additional trade preferences for CBI countries overlooks the growth potential for U.S. exports of yarn, fabric, notions, and production machinery. Increased production of those products as a result of providing CBI countries true NAFTA parity would also create jobs in the United States.

It's puzzling why the U.S. textile industry, which supported NAFTA and touts the benefits of that agreement, would seek anything less for CBI countries. H.R. 984 also promises the United States social and political benefits as well. CBI countries must have the incentive and the means to move up the economic ladder by offering their citizens better jobs in legitimate industries. Otherwise, they face the risk of political and economic instability resulting from unemployment and the temptation to engage in activities harmful to the United States, such as drug trafficking or illegal immigration.

NRF looks forward to working with the members of the Committee in both Houses to ensure rapid enactment of CBI legislation that is meaningful and that will accomplish U.S. economic, political, and social goals for the CBI region.

In conclusion, open trade has played a key role in our strong growing economy and low unemployment. We have no excuse but to further liberalize trade boldly, not timidly, as some suggest.

H.R. 984 presents us with a perfect opportunity to set the example and ensure our own economic future.

Thank you.

[The prepared statement follows:]

Statement of Erik O. Autor, Vice President, International Trade Counsel, National Retail Federation

I. INTRODUCTION

My name is Erik O. Autor. I am Vice President and International Trade Counsel, to the National Retail Federation ("NRF"). I am pleased to have the opportunity to appear before you today in support of H.R. 984, the "Caribbean and Central American Relief and Economic Stabilization Act (CCARE)."

NRF is the nation's largest trade association that speaks for the U.S. retail industry. NRF members cover the entire spectrum of retailing, including department, specialty, discount, catalogue, internet, and independent stores, as well as 32 national and 50 state retail associations. In all, NRF's members represent an industry that encompasses over 1.6 million retail establishments, employs more than 22 million people—about 1 in 5 American workers—and registered sales of more than $2.6 trillion in 1998.

NRF and the U.S. retail industry strongly support H.R. 984 because it provides immediate, tangible benefits to Caribbean Basin Initiative (CBI) countries, a number of which were hard-hit by recent hurricanes. This bill will give those counties the benefits they need to attract new business and investment quickly, which will, in turn, create jobs, income, and economic opportunity in countries struggling to get back on their feet after devastating natural disasters. The legislation's textile and apparel provisions are particularly critical in this effort, by encouraging U.S. apparel producers to manufacture products in partnership with their CBI counterparts. In turn, U.S. retailers, who buy clothing from U.S. apparel producers, will be better able to supply our customers in the United States with a good selection of value-priced apparel. Representatives Crane, Kolbe, Rangel and Matsui are to be commended for their insistence that the trade-related relief in Title I of the legislation be meaningful and effective, and we thank them for their persistence and hard work in maintaining the integrity of this critical trade initiative against those who seek to water it down.

II. H.R. 984 WILL PROMOTE THE MEANINGFUL DEVELOPMENT OF CBI ECONOMIES

The U.S. retail industry has long supported giving CBI countries trade benefits that parallel those provided to Mexico, particularly for textile and apparel products. We are disappointed that several years spent seeking meaningful legislation for the region have so far been stalled by certain parochial domestic interests, who would limit the trade benefits so as to benefit themselves, rather than the CBI countries. By seeking to deny special trade benefits to apparel products made from fabric produced in the CBI region, these advocates of "enhanced" CBI trade legislation would, in fact, ensure that manufacturing in CBI countries remain limited to assembly of U.S. garments. Such restrictions would ultimately hurt CBI producers and their workers by preventing CBI countries from moving their economies to the next level of development in related, higher-paying and more technologically-sophisticated production sectors. Watering down the textile and apparel provisions in this bill will also continue to handicap the ability of the CBI region to compete with Asia and Mexico.

But H.R. 984 has a bigger economic vision for the CBI region, and for that it has the full and strong support of the NRF and the U.S. retail industry. H.R. 984 would promote broader, deeper development in the CBI by encouraging not only apparel production and assembly, but also the development of a textile industry to supply that apparel production. In addition, by allowing eligibility to CBI-made apparel produced from specified volumes of fabrics that are unavailable from the United States or the CBI region, H.R. 984 would enable CBI producers to accept orders from U.S. retailers for certain fashion products that can only be made with these fabrics.

Overall, H.R. 984 will significantly help countries in the region to diversify their economies, the importance of which should not be underestimated. In the banana dispute with Europe, the United States has argued that Caribbean countries should be weaned away from overreliance on inefficient banana production. Encouraging the expansion of local apparel and textile production capability, is an obvious way to help these countries along the right path.

III. H.R. 984 Also Promotes U.S. Interests

H.R. 984 also promotes many U.S. interests. The Subcommittee is probably aware that, on trade, the United States enjoys strong export growth to the CBI, and annual trade surpluses with the region. U.S. exports to CBI countries increased 76 percent between 1992 and 1998, reaching $19.2 billion. Imports from the region increased 82 percent over the same period, reaching $17.1 billion. Thus, we ended 1998 with a $2.1 billion trade surplus with the CBI.

Most of this trade involves textiles and apparel. Half our imports from the region in 1998 and 24 percent of our exports were either textile or apparel products. The current CBI program allows U.S. apparel producers to ship cut U.S. fabric to a CBI country for assembly into finished clothing, which is then re-exported to the United States. The importer pays duty only on the value added in the CBI country. Quotas on these products are typically non-existent or liberal enough so as not to be a restraint on trade. The program has been a boon to U.S. textile and apparel producers, U.S. retailers, and CBI apparel producers.

However, the implementation of NAFTA gave Mexico one particularly significant advantage over its CBI competitors: the immediate duty-free treatment on imports of apparel from Mexico that are assembled from fabric wholly formed and cut in the United States—the so-called "807A imports." Because U.S. tariff rates are so high on these products, a portion of retail sourcing shifted to Mexico from both Asian and CBI sources. The tariff break was too important to ignore in the highly competitive U.S. apparel retail market. Even without the added dislocation caused by the hurricanes, the apparel industry in CBI countries has suffered a significant loss in competitiveness relative to Mexico. It is high time to rectify the disadvantage to these important neighbors and trading partners.

In focusing on the likely increase in U.S. imports, what is often overlooked in the debate over additional trade preferences for CBI countries is the growth potential for U.S. exports of yarn, fabric, and notions, not to mention the potential for export growth from U.S. machinery and equipment manufacturers. Increased production of those products as a result of providing CBI countries true NAFTA parity would also create additional jobs in the United States. Thus, we find it ironic that one industry—the U.S. textile industry—that supported NAFTA and so strongly lauds the benefits its has received as a result of the textile and apparel provision of that agreement would seek anything less for countries in the CBI. If NAFTA has been good for the textile industry, why would NAFTA parity for the CBI not also be equally good for the textile industry?

Moreover, H.R. 984 promises the United States social and political benefits as well. Only if these economies are able to move up the economic ladder by offering their citizens better and better jobs in legitimate industries will they be able to guard against the instability (both political and economic) that results from massive unemployment and the temptation to move instead into endeavors harmful the United States, such as drug trafficking. Only by providing incentives to create new good jobs in the CBI region can the United States forestall waves of illegal immigration of people looking for a better life.

IV. Conclusion

The Federation looks forward to working with the Chairman, his co-sponsors and others in the House and eventually the Senate to ensure that legislation that is meaningful, that will accomplish U.S. goals of promoting economic development and political and social stability in important U.S. neighbors, will finally be enacted this session of Congress.

We are at an important crossroads in shaping trade policy in the United States. The world is looking to the United States for leadership on trade. Up until today, we have had a long and laudable history of promoting trade liberalization, even in the face of strong political opposition. We exhort other countries to follow the same course, even those facing economic recessions and strong domestic pressures for new barriers to foreign competition. Today we are blessed with a strong and growing economy, and unemployment rates among the lowest in recent memory. This enviable situation has come in no small measure, as a result of open trade. Further trade liberalization will only continue this trend. In short, we have no excuse but to liberalize boldly, not timidly as some suggest. It should be kept in mind that this trade program will set the standard for such initiatives in the future. H.R. 984 presents us with a perfect opportunity to lead by example.

Chairman CRANE. Thank you, Mr. Autor.

Mr. Moore, your president, Doug Ellis, has been quoted as saying that NAFTA is working for the U.S. textile industry. Why wouldn't NAFTA rules on textile and apparel imports from CBI regions, including eligibility for regional fabrics, work for the textile industry as well as NAFTA has?

Mr. MOORE. Mr. Chairman, if you would, the Committee, the Congress, the Administration, would like to add the Caribbean countries to NAFTA as full-fledged partners, we would support that wholeheartedly. What this is is a unilateral grant of access to our market. It is not a full blown free trade agreement. Therefore, it seems to us that we have to construct a CBI parity approach that favors the countries that participate in it, that is, the Caribbean and the United States, does not favor others with TPLs and other things like that. We recognize that if there is a full-blown free trade agreement like NAFTA or if the Caribbean countries come into NAFTA, there will be negotiations that will deal with the issues you've raised. This is a one-way deal right now.

Chairman CRANE. Mr. Lamar, why is passage of H.R. 984 urgent for the companies you represent? And will it help your firms in the CBI region compete against Asian competition, particularly as we move toward the 2005 date when all textile and apparel quotas will be phased out?

Mr. LAMAR. It's our No. 1 priority. It's essential that we get this enacted. The apparel industry is finding, as I mentioned in my testimony, that the incentive structure right now is to source garments from the Far East, from Asia and not to source garments from the CBI. And what that is doing then is that is moving us away from places where we are more comfortable doing business, where we are closer to our customers, closer to our traditional suppliers into places where we have a little bit less control. And that affects the ability I think of the entire garment chain to stay competitive.

It also hurts our ability to maintain the maximum amount of employment here in the United States because the support industries that are built up here that support the economies—our assembly operations in the Caribbean—would be gone if we were to source garments from Asia.

Chairman CRANE. Thank you.

Mr. Levin.

Mr. LEVIN. Just a few questions. It's late and thank you for your patience. And we're going to be spending a lot more time on this I hope in a expeditious manner. So I won't try to cover even a part of the waterfront. Mr. Autor, let me say something to you, if I might, in a kindly way. You hold a responsible position within the National Retail Federation. And I think we need to discuss these issues acknowledging that there are countervailing and competing interests. And I don't really think it's fair to say that those interests that are opposed to yours are parochial domestic interests. Your interests then are parochial domestic interests, no? Unless somehow you classify yours as non-parochial.

I don't think we'll get very far if we don't acknowledge the people who are on the panel with you represent legitimate domestic interests that have some stake in the outcome. And where you say "they would limit trade benefits to benefit themselves rather than CBI countries," just a note about that. You're reflecting interests, mainly those of your members, not mainly the benefits to CBI countries. I assume that the people who pay your dues are your primary constituents, right? And so I just want to urge everybody to try to be a bit acknowledging that there's a clash here, if you want to put it that way, of legitimate, non-parochial interests. And we have an array of industry here that takes somewhat different positions and it's somewhat understandable.

So I hope we can solve these differences. I don't think they're small ones. The difference between H.R. 984 and the Graham bill are significant. And we need to address them.

So you hold a responsible position, otherwise I wouldn't comment. And maybe you didn't write this, somebody else did?

Mr. AUTOR. Well, I appreciate your comments on that. I think it's a fair point.

Mr. LEVIN. And I appreciate your saying that. These trade issues get so instantaneously polarized. They shut out intelligent discussion. There's been an impact on the textile and apparel industry in this country. And there's a question—you can reach the conclusion if you want that it doesn't matter if any of that is done here, but a lot of people disagree with that, including myself.

And, Mr. Lamar, I'm going to want to have some further discussions with you because I'm not quite sure where you come out or why you come out there. You seem to be saying that, as you said here, that your primary interest—let me see if I underlined this. You're not in the business to shift jobs—"American apparel companies are not in business to move jobs offshore." But then you seem to say because the interplay with NAFTA and the reality of imports, the influx of imports and competition from Asia, that "we don't need to maintain the provisions in the Senate bill." It seems to be where you're coming out. The requirements for use of fabric and yarn from this country when the work is done in the Caribbean, that it's no longer relevant. Maybe I'm not quite capturing what you're saying, but I think that's what you're saying. And I just urge—we have some realistic and factual discussions about that because I think there's contradictory evidence in the way of what has happened to Caribbean imports after NAFTA. It doesn't quite fit together.

But the main point I want to make is we have a series of bills: Mr. Crane's bill, Mr. Rangel's, we have the bill that Senator Graham introduced, we have the Administration's proposal. Let's see if we can knock heads together while talking to each other and see if we can come out with a bill that is a sound one.

Thanks very much.

Chairman CRANE. Thank you, Sandy.

Mr. Becerra.

Mr. BECERRA. Thank you, Mr. Chairman. And I recognize we have votes, so I will try to be brief. Rather than ask questions, maybe I can do what Mr. Levin did and just make a couple of comments and see if we can follow-up on some of the panelists. Let me thank you all for your testimony. A question—or actually a comment I guess now at this stage to Mr. Levinson. I believe you were present when the Ambassadors from the various countries testified. Several of them said that the conditions for some of the workers in the textile/apparel industries in their countries were actually fairly good when you compare them relative to some of the other industries and some of the other professions that are out there. I know the testimony that was submitted on behalf of UNITE points out a few particular instances where you point to the contrary. It would be helpful for us to have as much information and evidence you can point to to help us try to make sense of this, and also to be able to raise those questions to the Ambassadors as we get the information from you.

To the folks representing the industries involved, I was looking over again the testimony of the union, UNITE, and they mention that some 70,000 jobs have been lost in the textile industry and close to 200,000 jobs have been lost in the apparel industry in the 1994 to 1998 period. That's about four times what was lost in the 4 years prior to that and that's sort of the NAFTA, pre-NAFTA, post-NAFTA breakdown. The point I guess that UNITE is making is that, in fact, we will be losing jobs and while we were losing jobs to begin with before NAFTA, we're losing them at an accelerated pace. It would be helpful to hear your thoughts because you're the industries impacted and certainly you're concerned not just with your workers, but also with the livelihood of the companies. It would be helpful if we had a chance to engage in further discussion with you about how we can address some of these things that will happen regardless of whether or not we accelerate the trade movement or not. But certainly there will be people who are affected detrimentally who can't pick themselves up and go to some other place and start anew. There are some companies, businesses that will have the wherewithal to do that, to perhaps begin the business offshore, hopefully, in Central America or the Caribbean versus in far away Asian countries, but individuals who are employed can't do that. And chances are they're not highly skilled so they won't be able to quickly find something else. It would be helpful if there were more discussion among those who are representing the workers and those who are representing the industries and, of course, those of us in Government, discuss further how we address this because one way or the other, we're going to see the effect that some people will lose jobs. And, of course, I'm not going to discount the fact that others will gain jobs as we begin to export more into those regions as well. That all becomes very important as we try to resolve this and reconcile the hurt and the gain that will occur. And I know that most of us would like to see something that comes out that benefits us in the long-run because come 2005, I believe most of us do recognize that all of sudden the table for competition will have changed. So to the degree that there is that opportunity, as Mr. Levin said, to have further discussion, I know a number of us would be very interested in doing that.

So with that said, Mr. Chairman, I will go ahead and conclude and thank all the panelists for their time.

Chairman CRANE. Well, and it's not just Xavier that might want to have contact with all of you as we go forward. But we do appreciate very much your participation, your patience today. We're sorry for speaking and running this way, but we've got four votes in a row coming up.

And with that, the Committee stands adjourned. And, Evie, we love you.

[Whereupon, at 4:13 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

Statement of Seth M. Bodner, American Apparel Alliance, New York, NY

This statement is filed on behalf of a group of trade associations representing domestic apparel and sewn products companies and including more than 2000 domestic producing companies making clothes and other sewn products in America. Our participating associations are as follows:

American Apparel Alliance, consisting of the National Knitwear and Sportswear Association and the American Apparel Producers Network.

The following supporting associations also join in this statement:

The Apparel Contractors Alliance of California based in Los Angeles and consisting of the Garment Contractors Association of Southern California; American Chinese Garment Contractors Assoc.; Korean American Garment Industry Assoc.; Northern California Chinese Garment Contractors Assoc.; The Atlantic Apparel Contractors Association, Bethlehem, PA; The Greater Blouse, Skirt & Undergarment Association of NYC; The Korean Apparel Manufacturers Association of Greater New York; and SEAMS (South Eastern Apparel Manufacturers and Suppliers Assoc.) Columbia, SC.

Our associations are comprised of companies which manufacture clothing and sewn products in the U.S. for major labels, private store labels, catalogs and for their own labels. some of our members provide design and related fashion services to such apparel production companies. Our members are in many states across the country.

Frequently, they manufacture for retail stores and are in direct competition with other suppliers to the same retailers. In some cases they purchase their own raw materials such as yarn or fabric, and in other cases their customer provides these materials and they process them into finished clothing or other sewn products. Those in the knitting industries have a significant capital investment in equipment, while those in the cut and sew products area somewhat less so. In all cases, however, the investment in plant and equipment is a relatively important one to the enterprises involved. Many of these companies are small, family owned businesses in which the business is both their livelihood and their estate. Other firms are substantially larger. All would be directly and adversely affected by this legislation. Given the diversity of our membership and its nationwide distribution, we are confident that our views reflect those of other companies in the industry who while not our members, have decided to attempt to remain in business within the United States rather than moving offshore.

We strongly oppose this legislative give away of our industry and the domestic jobs it represents. More than 730,000 Americans still earn their living in garment production jobs in the United States. CBI preferences, even the most limited form, would force hundreds and perhaps thousands of apparel plant closings and the accelerating loss of tens of thousands of U.S. production jobs. For many garment production workers, the employment alternatives if any are available, will be a lower paying service industry positions. The wage losses for many will be substantial. The human disruption of this would be felt wherever apparel is produced, virtually every state in the country. Many small towns and inner city residents will be harmed.

This bill is being promoted by associations and companies all too willing to give away the businesses of others in furtherance of their own specific business interests. As the ATMI statement by Mr. Carlos Moore summed up,

> Such legislation [i.e. H.R. 984 redrafted to suit ATMI] would convey benefits to everyone involved-American apparel importers, CBI garment makers, U.S. textile mills—while harming none of them.

We guess it depends on what you mean by "everyone." Mr. Moore conveniently failed to note that among those not included in his "unharmed" group is the entire *domestic apparel production* industry. They too are "involved" even if not party of his definition of "everyone."

At the same time, these CBI-apparel-import-promoting-associations seek every possible draft change which will prevent import competition for their products, even if it comes at the expense of others in the domestic production chain. Not one of them proposed even a modestly balancing effort to give domestic apparel producers who do not move their companies offshore, access to imported yarns or fabrics on a duty free and quota free basis for use in production in the United States. In short, they are quite prepared to give away tariff and quota protection for products they don't make, but are unwilling to compete on a similar basis themselves. They want the ultimate protection, a lock on future business from a whole region of the world coupled with continuing protection of their home market.

Some claiming to speak for the "American" apparel industry, in fact are representing the interests of American companies already heavily importing apparel from the Caribbean. The situation they espouse may improve the competitive [1]positions of their "companies" but that should not be equated with improving the competitive position of domestic apparel production, as their "companies" have become major importers and offshore manufacturers. Many of them have shut U.S. production operations in favor of opening new factories or contracting with existing ones in the Caribbean and importing the production to be sold under their brands. they have done this to take advantage of existing provisions of law which make it feasible. Now, they want more. Relief from duties. Why not? If the government is willing to give, why not take?[1]

In our view, preferential trade legislation for apparel imports from the CBI is unnecessary, unfair and untimely.

Unnecessary for the Caribbean because, even without special legislation, apparel imports from the Caribbean area have grown during the past decade at annual rates in excess of 17%. (Chart Attached.) That dramatic growth continued through last year, notwithstanding the defeat of Parity Legislation on Nov. 4, 1997 by a vote of 182 to 234. As imports grow at high rates, it is not surprising that any country finds its share of the total market declining, but that is scarcely as relevant as the increase in the absolute volume of imports. Sales of Caribbean produced goods in the U.S. are increasing. It is U.S. producers who find not only their market their share declining, but in many cases, their absolute volume of production. And domestic pricing has never been more difficult. Hundreds of smaller U.S. firms are being forced into reduced production or even closure under the current import surge and the market conditions it brings. Adding to that import pressure by eliminating duties and quotas on Caribbean and Central American production will exacerbate these conditions.

Unfair for three basic reasons. First, unfair because of its total disregard of previous commitments made to this industry and its workers by both the Administration and the Congress, including the Ways and Means Committee.

These commitments were made in connection with the Uruguay Round Implementing Legislation. This committee was directly involved. Congressional Promises and Administration Promises. When Congress passed the GATT/WTO bill in 1993, our industry was given to understand that as a result of the GATT negotiations, quotas would be eliminated "gradually over an extended period." (Pres. Clinton in transmittal letter on implementing legislation to the Speaker of the House.) Ten years to be exact. Tariff reductions also were negotiated on a ten year schedule. That phase out schedule was adopted, implicitly, if not explicitly, in the implementing legislation putting the Round into effect as of January 1, 1995. The Administration followed provisions of the law in announcing the ten year phase out of quotas as per that understanding, by Federal Register notice of Jan. 30, 1995. As the Ways & Means Committee Report noted, ". . . the implementing bill establishes the timetable and requirements . . . of products which the United States will integrate in conformity with . . . the Agreement. The SSA details the procedures that will be used. . . . The Committee intends that these requirements provide certainty and transparency for the industry, importers, and retailers as to the timetable for integration of specific products. in order to facilitate a smooth transition." (emphasis supplied.)

By carving a multi-country loophole in the quota system so big as to mock the notion of gradual quota phase out, and by suddenly zeroing out duties that were carefully and deliberately negotiated to be either left alone, or slightly reduced over ten years, in the Uruguay Round deal, the proposed CBI legislation on apparel, (and similar legislation on Africa) would directly violate that Congressional intent and the clear promise it made to the industry and its workers. Instead of the promised "certainty" and "smooth transition" we would have a dramatic and stunning shock. Congress, which has recently spoken so forcefully about truth, trust and credibility, should keep its word to the domestic garment industry and workers.

[1] One company, Fruit of the Loom, not only closed numerous U.S. factories, but even relocated its corporate persona to the Cayman Islands to avoid U.S. taxes on its offshore profits. Perhaps others will follow suit if this legislation is passed, producing in the Caribbean through offshore companies, taking the profits in those offshore companies, and dramatically reducing their tax liability for sales actually made in the US market.

Second, unfair because domestic garment producers, both companies and workers, should not be asked to bear the burden of hurricane relief for those few countries in Central America that were impacted last year. Those are national issues and national responsibilities, not industry specific ones.

H.R. 984 will have the same impact on domestic makers as would a tax on them with revenues dedicated to providing windfall benefits for a selected group of importing companies and their suppliers. Eliminating these duties will lower the costs of importing. We note that the Yarn Spinners' testimony recommended the elimination of duties on knit fabric made in the beneficiary countries with U.S. yarn. A market grab as nice for them as it would be crippling to domestic knitters and domestic apparel companies. All of these variations would take care of one group at the expense of domestic apparel, or knitting companies. Many will be forced to close, further enhancing the dominant position of their importing competitors.

Targeting the garment industry as a "foreign aid" giveaway is fundamentally unfair. While this bill deals with garments from the Caribbean, will the response be different when the question is to permit extra steel to be imported to help Russia, or to permit continued subsidization of aircraft from financially challenged Brazil? or to bring peace to Sub-Saharan Africa? The possibilities are endless. The results likely to be meager. We note that the ATMI reacts vigorously to the possibilities of transshipments through Sub-Saharan Africa, a position with which we agree, but fails to see that the same problem will develop in Central America. Does the ATMI really believe that China will not attempt to transship through Panama, Honduras, Costa Rica, Guatemala, and El Salvador while devoting all of its efforts at Africa? Transshipment prevention language is fine in legislation, but in fact how will it be enforced? Who is to provide the appropriations to Customs to add the personpower required to cover this enormous range of countries. How will they know whose yarn is in these T-shirts and sweaters? Is Congress going to declare that it is more important for Customs to chase foreign yarn than heroin? We think not. It is simply fiction to believe that this type of import flood can be unleashed without it becoming a massive transshipment loophole.

Third, unfair because the bill provides no offset to help U.S. located manufacturers by giving them duty and quota free access to materials such as yarn that are used in the production of apparel in the United States.

While that would admittedly increase the budgetary costs of this bill and would increase total imports, elimination of the 7–15% duty rates on yarn and fabric imports from world suppliers would aid domestic garment producers struggling to remain viable. It would partially offset some of the damage that would otherwise be done to domestic production. Interesting that the Yarn Spinners Association did not suggest such a competitive balance.

Untimely when the nation's manufactured goods trade deficit is running in excess of $250,000,000,000, presenting a massive challenge to the domestic economy. In 1998, the deficit in apparel alone neared $60 billion as CBI imports rose, Mexican imports soared and other garment sources took maximum advantage of depreciated currencies and a strong dollar.

Domestic growth is being sharply curtailed by this net import deficit. Borrowing to pay for the deficit will be an annual cost for years to come. Changing the basic trade rules to add to the flow—whether for apparel or other products—can hardly be in the national interest, whatever the alleged motivation.

Just how big must the nation's manufactured goods deficit get before Congress considers policy alternatives other than increasing imports? Foreign countries continue to seek export markets as a solution to their financial woes while U.S. domestic consumption and household debt patterns are impacted not only by actual layoffs but by fear of a clouded economic future. The full impact of this mix cannot yet be measured as there is no experience of a deficit this large. Congress should be wary of the "what, me worry?" syndrome and avoid an overconfident piling on in the midst of an unstable international economic environment.

Additionally, the Committee was told that this bill will provide so many jobs in Central America and the Caribbean that it will help stability in the entire area, reducing the flow of both immigrants and drugs, and even thereby helping secure our uninterrupted access to transit routes through the Caribbean Sea and the Panama Canal!

How quickly some forget. Not too long ago, Los Angeles was seared by violence and became, for a brief moment, the subject of urgent national attention. Jobs were to be provided, economic doors unlocked. That aid disappeared under the pressure of a Florida hurricane, but problems remain. Unemployment continues to be a problem in the nation's inner cities, and in California, the garment industry is a major component of that State's domestic social stability. Its dislocation by this legislation will not be without cost.

As for the drug trade, the Committee should be aware of the President's recent communications on this subject. In his December, 1998 letter on drug trafficking to the Chairmen of the Foreign Relations committees of the House and the Senate, the President listed the following CBI countries as among the "major illicit drug-producing or drug-transit countries: The Bahamas, Belize . . . Dominican Republic, Guatemala, Jamaica, Mexico and Panama." The President noted that,

> Geography makes Central America a logical conduit and transshipment area for South American drugs bound for Mexico and the United States, and that there has been evidence of increased trafficking activity in this region over the past year. Its location . . . combined with thousands of miles of coastline, the availability of container-handling ports in Costa Rica, Nicaragua, and Honduras, the presence of the Pan American Highway, and the limited law enforcement capability, have made the isthmus. attractive to the drug trade. Hurricane Mitch has disrupted traffic flow through the region, but over the longer term resumption or even an increase in trafficking activity remains possible. (White House Release, Dec. 7, 1998) emphasis supplied

Any rapid increase in the flow of apparel containers from the Caribbean to the U.S. is virtually guaranteed to bring with it an increase in narcotics trade. Drug trafficking increased under NAFTA as the surge of vehicles largely overwhelmed Customs' capability to carry out physical inspections. Repeating that mistake with the entire Caribbean will be costly.

Additional failures of this legislation.

Incremental Trade: Nothing in this legislation calls for any reduction of apparel imports from any other source to offset the increases that will surely come from the Caribbean. This newly duty-free trade will add to the flood, it will not displace it. China's leadership has just recently called for promoting exports "through a thousand and one ways" and we must assume they have no intention of ceding the U.S. market to Caribbean competitors. Indeed, Chinese companies will jump on any opportunity offered to ship goods through designated duty-free or quota-free areas.

Substantive and drafting problems which combined would devastate the sweater knitting industry in America.

(a) The exemption of "knit to shape" garments made with US yarns" could force the exit of virtually the entire sweater and knit blouse and dress industry from this country. Indigenous knitwear manufacturers as well as investors from abroad would be able to avoid duty and quota on all of their production in the Caribbean by claiming to use, and perhaps even actually using some, US yarn. Knit products would be a major target of investors, and established importers who have searched the world for cheap production. Nice for the domestic yarn companies, but crippling to US knitwear manufacturers. *Those domestic yarn companies selling to smaller knitwear manufacturers also would be destroyed by this legislation.*

(b) The provision for special treatment of "handloomed, handmade, or folklore articles . . ." is a corruption of a provision originally included in GATT textile agreements for the very limited purpose of making room for possible quota exemptions to assist cottage industry folklore products. The current WTO/ATC language is in Annex 3 of the Agreement on Textiles and Clothing where it defines certain products as exempt from restraint actions. In relevant part it reads as follows:

> "3. Actions under the safeguard provisions . . . of this Agreement shall not apply to: (a) developing country Members' exports of handloom fabrics of the cottage industry, or hand made cottage industry products made of such handloom fabrics, or traditional folklore handicraft textile and clothing products, provided that such products are properly certified under arrangements established between the Members concerned.

How far that is from the sweeping provisions of H.R. 984, under which any product of a handloom would be eligible for duty and quota exemption! The "certification" idea, originally confined to certain cottage industry and folkloric products, is used here in a craftily meaningless formulation. The President cannot refuse to certify that a handloom product was handloomed! *And he is not asked to certify that it is a handloomed product of the cottage industry which should be considered for exemption because of its cottage industry origin.* The Committee should be aware that much of the knitwear production of the Far East and South Asia is made on hand machines typically—if incorrectly—referred to as "handlooms." Thousands of dozens of cotton sweaters and knit shirts from Cambodia that were placed under quota in just concluded negotiations were made on such hand powered machines. That type of industrial production would be duty and quota free under this bill, a total perversion of the original GATT/WTO language and a further undercutting of the "smooth transition" to regular GATT rules referred to by this Committee in its

Uruguay Round report. These provisions would generate a flood of trade and effectively destroy much of the remaining domestic sweater industry.

On behalf of domestic apparel production, we urge this Committee to re-evaluate this legislation and remove its company destroying, job destroying apparel provisions. Congress should honor its word to the domestic industry and its workers.

Thank you for your attention to this very important matter.

The American Apparel Alliance consists of the National Knitwear and Sportswear Association and the American Apparel Producers Network.

Other Associations supporting this letter are:

- The Apparel Contractors Alliance of California based in Los Angeles and consisting of four garment contractor associations with more than 1200 companies throughout California as members;
- The Atlantic Apparel Contractors Association, Bethlehem, PA;
- The Greater Blouse, Skirt & Undergarment Association of NYC; and the Korean Apparel Manufacturers Association of Greater New York.

The South Eastern Manufacturers and Suppliers Association, Columbia, SC.

[Attachments are being retained in the Committee files.]

Statement of J. Benjamin Zapata, Charge D'Affaires, Embassy of Honduras

Thank you, Mr. Chairman, for the opportunity to provide written testimony in support of the CBI enhancement legislation which you and Congressmen Kolbe, Rangel, and Matsui have introduced in the House as the Caribbean and Central American Relief and Economic Stabilization Act (CCARES) or House Bill 984 (H.R. 984).

My country, Honduras, believes that your proposed legislation provides the kind of economic opportunities necessary to strengthen our democracy and promote our economic recovery and long-term development in the aftermath of Hurricane Mitch's destruction. Moreover, CCARES is a critical step in the direction of free trade. Honduras, as a member of the World Trade Organization (WTO), believes that Congress and the Administration must work together to enact this bill and ensure that our countries develop a mutually beneficial trade relationship, particularly in the textile and apparel sector, under WTO rules.

I. Leveling the Playing Field for the CBI Countries

In order for Honduras and the CBI region to attract continued investment in the textile and apparel sector, they must receive trade benefits similar to those enjoyed by Mexico. Honduras' and the CBI region's main sources of competition are the Far East, where wages and working conditions are much lower, and Mexico where apparel made of U.S. formed fabrics enter the U.S. market duty and tariff free. For example, under current U.S. trade policies, the average duty for Honduran exports to the United States is 17.7%, as compared to 2.4% for Mexican exports. These different trade policies have provided Mexico with an increasing competitive advantage in the U.S. market over CBI suppliers (graph #1). As a result, Honduras is beginning to lose investment in its critical textile and apparel sector to Mexico. The attached letter to President Clinton from Jesus Canahuati, President of the Honduras Apparel Manufacturers Association discusses the difficulties created by Mexico's competitive advantage under NAFTA and provides specific proposals on measures that would allow Honduran exports to compete.

CCARES is an important step in leveling the playing field for the CBI countries because it offers them trade benefits on the remaining 30% of their exports to the U.S., which include textiles and apparel, that are not currently duty free under the existing CBI program. In order for the Honduran apparel manufacturing industry to flourish, the U.S.-CBI trade playing field needs to be as predictable and transparent as possible. The status of two specific elements—quotas and duties—need to be clearly spelled out. H.R. 984 is good for Honduras because it states that goods will be quota free, and subject to the same duties as Mexican goods. Other elements included in H.R. 984 which are favorable to Honduras are:

- Goods from regional fabric (fabric knit or woven from yarns made in the CBI countries or the U.S.) qualify for the benefits of the program;
- Tariff Preference Levels (TPL's) similar to Mexico's are established for goods made from fabric sourced elsewhere. Mexico's experience shows just how highly utilized these TPL's are—in 1998, three of the six TPL's were 100% utilized; and
- CBI countries would immediately qualify for the same duties as Mexico.

II. Labor Issues

CBI enhancement is a vital component of the long-term reconstruction effort in Honduras and complements the Administration's humanitarian relief package. Honduras was devastated by Hurricane Mitch and its traditional economic sectors were wiped out. It will take years to replace the soils, the crops and the infrastructure that support our agricultural and tourist sectors.

An important element of Honduras' reconstruction after the devastation of Hurricane Mitch is that enhanced trade and access to the United States markets will promote economic revitalization and increase employment opportunities for Hondurans who may otherwise seek to emigrate. Fortunately, over a twelve-year period, the Honduran maquila (textile and apparel manufacturing) industry has evolved into one of the most important economic sectors and was largely unaffected by Hurricane Mitch (although apparel exports have been impacted as is shown in graph #2). To put Honduras' textile and apparel industry in perspective, 109,000 Hondurans are employed in the maquila industry as compared to 17,000 in the banana industry.

The maquila employees are among the highest paid workers in Honduras and wage increases have exceeded the inflation rate. Moreover, Honduran maquila workers are paid 2.5 to 3 times what similar workers would receive for working in the textile and apparel industry in Asia. Recently, the United States Government Accounting Office (GAO), analyzed labor conditions in Honduras and found that the maquila industry met or exceeded international labor standards and conditions. Moreover, three years ago a Commission was established constituted by members of the Ministry of Labor, organized labor groups, and the Honduran Textile and Apparel Association, to discuss and resolve different aspects of problems in our industry. The Commission meets monthly and has been very successful in its mission.

In addition, Honduras is a signatory of the International Labor Organization (ILO) and has strict laws on child labor, worker safety, minimum wage and other worker rights issues which are considered to be the foundation for a civil society. This is not to say that there have not been examples of unacceptable conduct by companies. But these examples are the exception, rather than the rule. The fact is that the maquilas and the companies that are part of the Honduran Textile and Apparel Association, are complying with and even exceeding our laws and standards.

Many of the companies have cafeterias, doctors and nurses on staff, recreation facilities, and in some instances, day care facilities. These are modern, safe, and secure places to work. Many companies provide health care benefits and other fringe benefits which are not common in other industries. Honduras' maquilas were founded by Hondurans who saw an opportunity to compete in the world market and raise peoples' living standards by manufacturing goods and adding value in the textile/apparel sector.

III. H.R. 984 Allows CBI Countries To Compete

It is my country's position that only H.R. 984, of the existing proposals, provides for the quota, duty and tariff treatment that allows the CBI countries to compete. We support allowing the use of regional fabrics and the inclusion of CBI countries in the world trading regime through the WTO, as allowed by H.R. 984. Moreover, unlike other proposals, H.R. 984 will maximize the opportunities for: (1) creating new jobs, (2) attracting investment, and (3) generating foreign reserves, which will in turn help to increase the trade exchange between the United States and Honduras (graph #3).

To be effective, CBI enhancement legislation must address the existing trade imbalances in tariff and duty treatment between the United States and the CBI region, as compared to other countries. For numerous security and policy reasons, this is in the interest of the United States. The United States has a positive trade balance with Central America and the Caribbean, unlike its negative trade balance with Asia. In fact, the statistics demonstrate that in 1997, 73.9 % of Honduran exports went to the United States and $.61 of every dollar that Honduras earns by exporting to the United States is spent on purchasing and importing American goods and services. Trade between the United States and CBI countries has doubled since 1989 and is now reaching $18.5 billion as compared to $13 billion in exports to China during the same period. 1997 was the twelfth consecutive year that the U.S. has recorded a trade surplus with the CBI countries.

The Honduran textile and apparel industry is the key to our present economy and the foundation of our future development (the attached letter from the President of the Central Bank of Honduras discusses the importance of this sector for the Honduran economy). The industry is forming the basis of a middle class society and so long as investment is retained and increased, the maquila sector will be the key to reconstruction, income parity, and the strengthening of democracy and civic institutions.

A brief review of Honduras' relative position as compared to other countries demonstrates the importance of this sector to our economy. However, Honduras is beginning to lose investment to other regions because it does not have equal access to U.S. markets in critical sectors, and because Honduras pays wages 2.5 to 3 times higher than those in other parts of the world. This trend endangers Honduras' long-term development and also undercuts Honduras' efforts to be part of the multilateral regime of which the United States has been a strong supporter.

We support H.R. 984 because it is a true free and fair trade act. It avoids the "unilateral sanction-based approach" where Honduras' rights can be overridden by political decisions in the United States. The "unilateral sanction based approach" undermines the world-based trading system of which both the United States and Honduras form part. It also destroys the certainty and predictability that is essential to attract future investment.

Similarly, H.R. 984 avoids proposals that include eligibility requirements and conditions prerequisite in order to qualify for "special aid packages" which require countries to give up their negotiating positions on very contentious political issues that are more appropriate for other bilateral forums. These are unacceptable and violate the very principles of the WTO. Many of these provisions, which are contained in other proposals, would violate existing WTO principles.

The same is true of proposals that include unilateral quota cut-backs based on a finding of "transshipments." Again, the unilateral discretion violates the WTO. Some proposals, instead of using Article 6 safeguard provisions contained in the WTO's Agreement on Textiles and Clothing (ATC), allow the United States to impose new quotas on CBI countries. This eliminates the protections of the ATC, eliminates the review process by the textile monitoring body, and allows the U.S. to establish a new quota with a base limit based only on the non-qualifying shipment to the U.S. The dispute settlement mechanisms outlined in the ATC should be supported so that both the U.S. and CBI nations have a means of recourse.

The guarantee of no future quotas is very important in terms of investment and the incentive to U.S. importers to source their orders in Honduras. At this moment, there are no quotas on Honduran textile and apparel merchandise. However, the U.S. Government has the option to place a call (or new) unilateral quota—on Honduras at any time. So the "threat" of quotas is still very prevalent and they are a strong deterrent to increasing production. In business terms, orders can be placed months or seasons, in advance. Any U.S. call could happen in the time-span of one to three months. The potential disruption to orders already in the pipeline is great.

Clearly set duty provisions are also very important in terms of the future appeal of Honduran manufacturers to U.S. importers. Again, H.R. 984 does an excellent job of clearly stating what future duties will be. Other trade proposals undercut the United States' perceived role as a champion of free and fair trade. H.R. 984 or CCARES, is a giant step in the right direction. It avoids the pit-fall of "trade enhancement" as a stalking horse for "unilateral sanctions."

IV. Conclusion

In recent testimony, the United States Trade Representative pointed out to Congress that U.S. trade policy supports and advances the rule of law internationally by ensuring the enforcement of trade agreements and U.S. rights in the trading system. She went on to point out the success that the United States has enjoyed at the WTO. As the United States has recognized on numerous occasions, trade and growth are important components in raising standards of living, which in turn are accompanied by increased standards in areas such as labor and the environment. We commend you for introducing legislation that will lead to these developments in the CBI region, including Honduras.

The CBI enhancement program outlined in H.R. 984 or CCARES levels the playing field for Honduras and the CBI region. The provisions of H.R. 984 ensure that Honduras will continue to be competitive. They also allow Honduras to develop value-added as a result of the skills, creativity and competitiveness of its people in the world market. H.R. 984 ensures that existing investments in the region will not be lost and that trade will be a major factor in Honduras' reconstruction. For all of these reasons, the Government and people of Honduras ask that Congress to support your bill, H.R. 984.

Mr. Chairman, I would like to commend you for your continued support of free enterprise and the opportunity for the Caribbean and Central American region to enter the global economy as an equal partner based on the international multilateral regime in place through the WTO. Thank you.

ASOCIACIÓN HONDUREÑA
DE MAQUILADORES
March 9, 1999

President William Jefferson Clinton
The White House
1600 Pennsylvania Avenue
Washington, D.C. 20500

Dear President Clinton:

I would like to take this opportunity to thank you, your government, and the people of the United States for the support during the emergency and the reconstruction of our country after the devastation caused by Hurricane Mitch.

I am writing to you today on behalf of the Honduran textile and apparel industry. In less than ten years, this industry has generated more than 110,000 jobs and 455 million dollars in value-added export revenues.

The textile and apparel industry in Honduras has worked very hard to meet international labor standards and conditions. The wages in this industry are almost three times more than those of many Asian countries. The United States General Accounting Office published a report last year stating that Honduran Labor Laws met or exceeded international labor standards.

Our industry has been able to attract United States investment thanks to the working philosophy that emphasizes the value of our people and theirs abilities.

Despite all our efforts to stay competitive, recent data shows that our country is loosing investment to Mexico. This situation is a result of current United States trade policies favoring Mexico's exports. In 1997, the average duty for our country's exports was 17.7% compared to 2.4% of Mexico, creating an unfair trade condition.

The only alternative to continue creating quality jobs and sustained economic growth through our industry is with the implementation of a trade bill that will allow our exports to compete under the same conditions afforded to Mexican products. Anything less could result in lost export revenues and, in turn, lost employment.

For that reason we are asking you, Mr. President to include in your relief package trade measures allowing duty and access free entry for the following:

Apparel made in CBI from regional fabrics using yarn made in the USA.

Apparel knit-to-shape in the CBI (socks, hosiery) using yarn made in the USA.

Apparel made from 807A and 809 using yarn made in the USA that permits all post garment operations (oven-baking, stone washing, printing, embroidery . . .)

Single transformation for bras.

25% *de minimus* rule for all apparel made in the region to incorporate findings, notions and trims.

The textile and apparel industry in Honduras is committed in the reconstruction of our country. We need a new version of CBI that includes unrestricted and tariff-free access for textiles and apparel in order to enable us to provide the jobs that our country so desperately needs.

May God bless you, your government, and the people of the United States of America.

Sincerely,

JESUS J. CANAHUATI,
President

BANCO CENTRAL DE HONDURAS
TEGUCIGALPA, M.D.C. HONDURAS, C.A.
January 27, 1999

Mr. Senator:

I wish to thank your interest in promoting a legislation that will grant the countries of the Caribbean Basin Initiative, similar benefits as the ones contained in the North American Free Trade Agreement (NAFTA), opening in this way a trade opportunity for our country that will be of big support in its reconstruction task.

As I stated in our brief meeting of Sunday, January 17, 1999, the benefits of this initiative will be of fundamental importance to our country; allowing it to compensate for the losses in employment and in foreign exchange generation due to the damages caused by Hurricane Mitch to the Honduran exporting sector.

For the purpose stated above, it would be of great importance if the relief act could include:

Apparel made in CBI from regional fabric using yarn made in the USA.

Apparel knit-to-shape in the CBI (socks, hosiery) using yarn made in the USA.

Apparel made from 807A and 809 using yarn made in the USA that permits all port-garment operations (oven-baking, stone washing, printing, embroidery . . .)

Single transformation for bras.

25% *de minimum* rule for all apparel made in the region to incorporate findings, notions, trims.

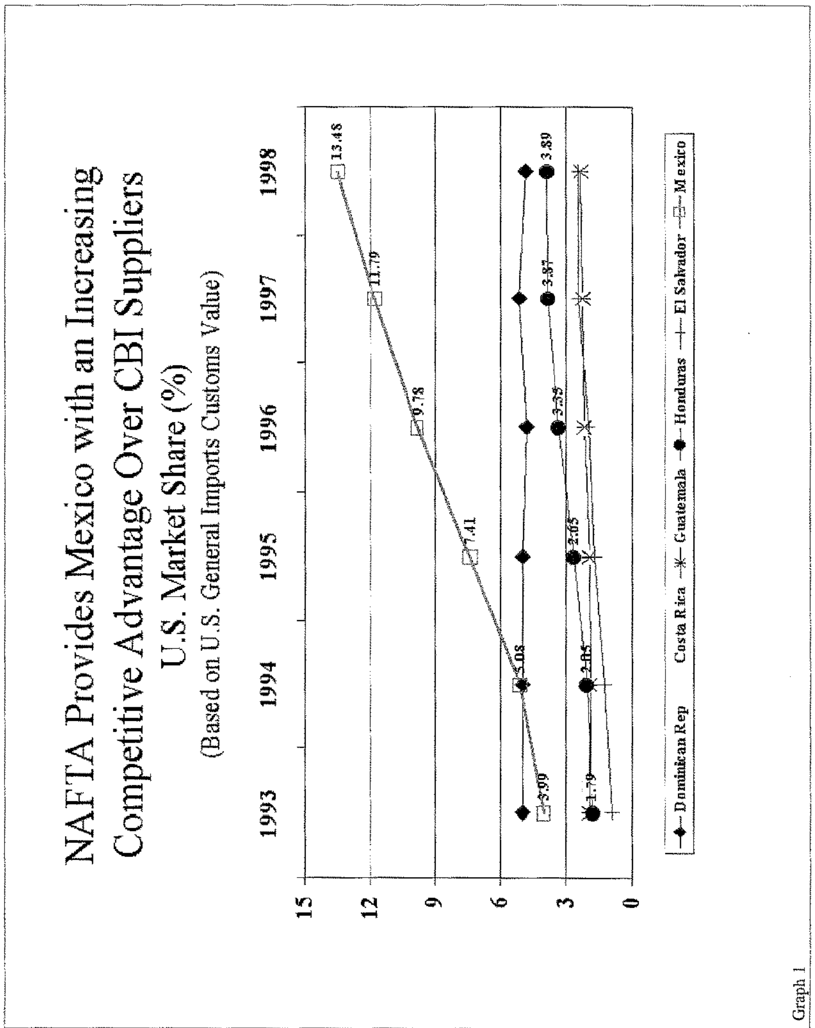
In the following table you will find the growth projection of the maquila sector, first without the benefits and second, taking into consideration the benefits of 1999.

Scenario No. 1.—Projected Growth Without Benefits

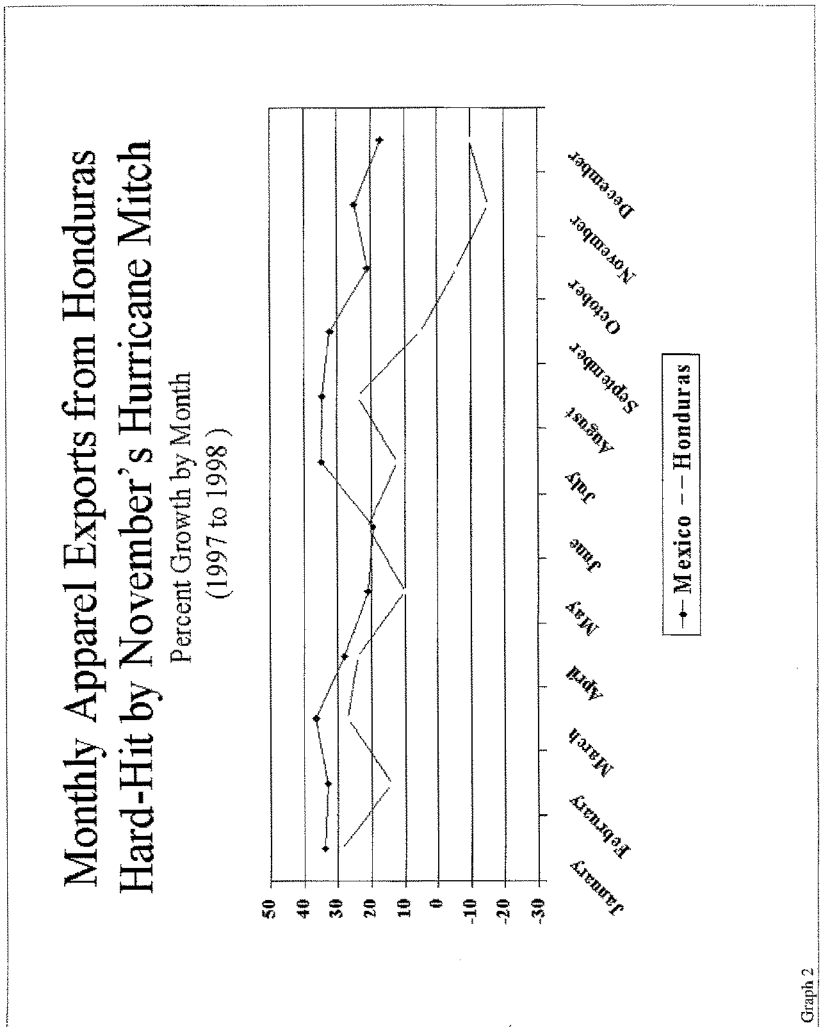
	Real 1997	1998	1999	2000	2001	2002
Direct employment	....	100.1	112.1	123.3	133.1	142.4
(thousands) (Growth in %)	8.7	15.1%	12.0%	10.0%	7.9%	7.0%
Exports in USS (millions)	1,659	1,990.8	2,239.4	2,587.0	2,815.7	3,130.3
(Growth in %)		20%	15.0%	13.0%	10.0%	10.0%
Contribution to the Balance	190.1	377.8	560.9	646.8	735.7	813.9
Payments (Added value in Millions of US$)	....	22.5%	17.4%	35.3%	12.2%	12.2%

Sincerely yours,

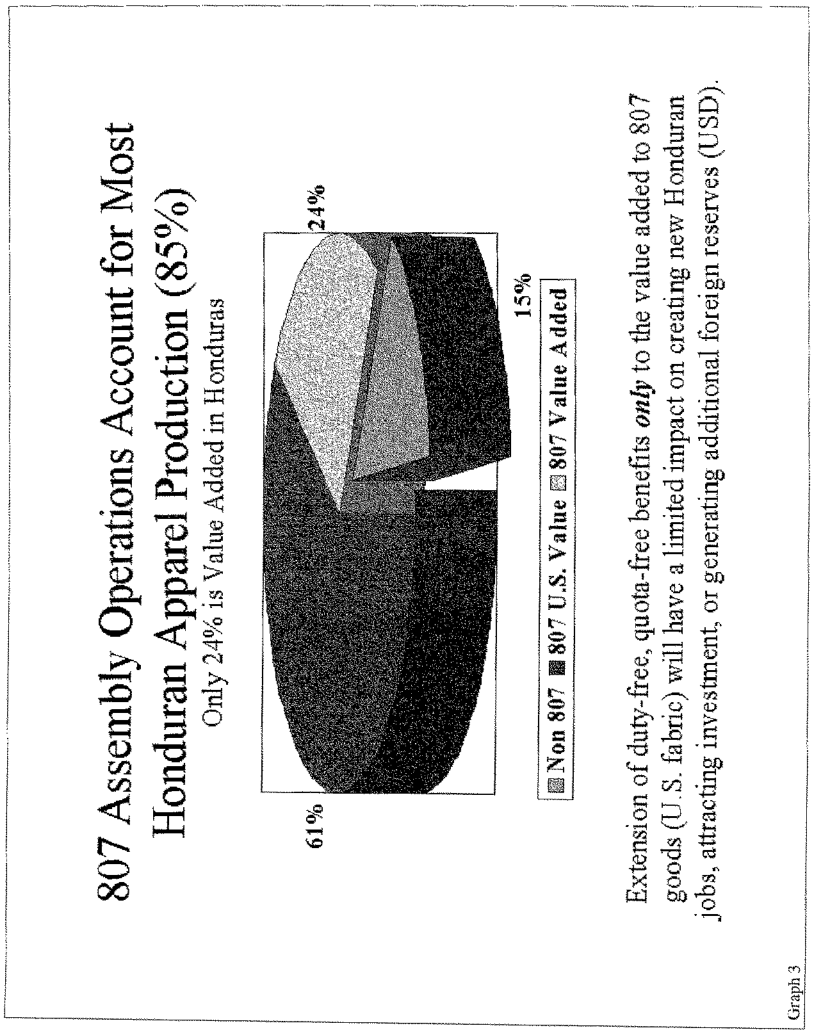
Emin Barjum Mahomar


NAFTA Provides Mexico with an Increasing Competitive Advantage Over CBI Suppliers
U.S. Market Share (%)
(Based on U.S. General Imports Customs Value)
15
12
9
6
3
0
1993
1994
1995
1996
1997
1998
3.99
5.08
7.41
9.78
11.79
13.48
1.79
2.05
2.65
3.35
3.87
3.89
Dominican Rep
Costa Rica
Guatemala
Honduras
El Salvador
Mexico

Graph 1


Monthly Apparel Exports from Honduras
Hard-Hit by November's Hurricane Mitch
Percent Growth by Month
(1997 to 1998)
50
40
30
20
10
0
-10
-20
-30
January
February
March
April
May
June
July
August
September
October
November
December
Mexico
Honduras

Graph 2



Statement of Mac Cheek, President, NILIT America Corporation, Greensboro, NC

As President of Nilit American Corporation, I am pleased to provide this statement on why the Caribbean Basin Initiative parity legislation (H.R. 984) should be amended to avoid the impairment of bilateral trade under the U.S.-Israel Free Trade Area Agreement ("FTAA").

Nilit America is the U.S. subsidiary of Nilit Ltd., an Israeli company that spins (*i.e.*, produces) fine denier nylon yarns for the hosiery market. The yarns produced by Nilit Ltd. are sold worldwide. The United States is an important market for the yarn spun by Nilit Ltd. Nilit America has established itself in North Carolina as an important supplier of yarn to the U.S. hosiery industry.

Nilit has no general objection to the extension of additional trade benefits to the CBI countries. However, one aspect of the current CBI parity legislation would do irreparable harm to Nilit.

Under current U.S. trade law, the CBI program provides preferential tariff treatment for textile and apparel products made from fabric produced in the United States, including fabric knit utilizing Israeli-origin yarn. However, the currently drafted "yarn-forward" rule in H.R. 984 would change the status quo so that only apparel made from 100% U.S. yarn would be eligible for CBI benefits. As currently drafted, H.R. 984 would expand CBI preferences to permit the duty free importation of products assembled in CBI-eligible countries. However, U.S. knit fabric or apparel components containing Israeli yarn, after assembly into apparel in a CBI-eligible country, would be ineligible for duty-free treatment upon reimportation into the United States.

This change in the status quo would harm U.S.-Israel trade, U.S. apparel manufacturers, and U.S. consumers.

Nilit would be irreparably harmed as the U.S. market accounts for a substantial portion of its business. Nilit developed this business in reliance on the U.S.-Israel FTAA. It would be flatly inconsistent with the purpose and objectives of the U.S.-Israel FTAA to seriously injure Nilit through an unrelated trade initiative that would have an immediate and direct adverse effect on Israel's exports to the United States.

A yarn-forward rule in the CBI that precludes duty-free treatment for U.S. products knit with Israeli yarn would effectively drive Nilit out of the U.S. market. Creating an economic barrier to U.S. companies purchasing Israeli-origin yarn would harm both U.S. consumers and U.S. manufacturers that depend on inputs from Israel. For this reason, the National Association of Hosiery Manufacturers is on record supporting the continued ability of U.S. companies to utilize Israeli yarn without incurring the loss of CBI trade benefits.

The "U.S.-only" yarn-forward rule would cause particular harm in the U.S. hosiery market. In this market, one domestic supplier with a domestic market share that exceeds 75 percent dominates the supply of yarns for the knitting of hosiery. Thus, the U.S.-only yarn-forward rule would create a virtual monopoly for one U.S. company. Because U.S. yarn production is highly concentrated, Nilit represents the only reliable long-term alternative supplier to the U.S. market of high-quality nylon yarns. The ability of the U.S. domestic hosiery industry to have an alternative supplier of yarn provides a critical competitive advantage for the hosiery industry as it seeks to compete with imported hosiery. U.S. imports of hosiery, such as pantyhose, have been growing steadily and our understanding of the U.S. market confirms that this trend will accelerate, especially once U.S. import quotas are eliminated pursuant to the terms of the WTO Agreement on Textiles and Clothing.

The U.S.-Israel FTAA was specifically intended to foster bilateral trade between the United States and Israel. Undermining the U.S.-Israel FTAA would send the wrong message to the business community—that the U.S.-Israel FTAA is less than a permanent framework in which to develop long-term trade relationships.

We have been advised that the Government of Israel has previously expressed its concerns about the U.S.-only yarn-forward rule to the Office of the United States Trade Representative. The Government of Israel noted that the Caribbean legislation can be developed without damaging U.S.-Israeli trade by determining that Israeli-origin yarn will, in effect, be treated no less favorably than U.S.-formed yarn.

This Committee has approved other trade measures to preserve U.S.-Israeli trade under the FTAA. An amendment to eliminate the disadvantage to Israel imposed by the U.S.-only yarn-forward rule in H.R. 984 would preserve the status quo and not create any new benefit for Israeli-origin products. The amendment would consist of a simple provision that would not disrupt any other aspect of the CBI trade legislation.

In sum, CBI parity legislation should preserve the integrity and objectives of the U.S.-Israel FTAA. Any unilateral proposed yarn-forward rule in the CBI parity legislation should not, and need not, harm bilateral trade between the United States and Israel.

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