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**What is ROZs legislation?** For the past six years, Congress has attempted to pass legislation intended to facilitate trade between the United States and Afghanistan and Pakistan. This has taken the form of two bills in the 111<sup>th</sup> Congress, H.R. 1318 in the House and S. 496 in the Senate.

These bills, referred to as Reconstruction Opportunity Zones (ROZs) legislation, are intended to provide unilateral U.S trade preference for all of Afghanistan and parts of Pakistan. The purpose of the ROZs is to promote economic development by granting certain goods duty-free access into the U.S. The ROZs would be in effect a free trade zone whose ultimate objective is to spur jobs and economic growth in the tribal areas to provide an alternative to Al Qaeda and the Taliban. For a more detailed analysis of the ROZs legislation, please see the report entitled “Afghanistan and Pakistan Reconstruction Opportunity Zones (ROZs), H.R. 1318/H.R. 1886/H.R. 2410 and S. 496: Issues and Arguments” produced by the Congressional Research Service. Currently both countries are exporting certain goods to the U.S. under the Generalized System of Preferences (GSP). The ROZs would expand these to include duty-free export to the U.S. in the following areas:

- The North Western Frontier Province (NWFP)
- The Federally-Administered Tribal Areas (FATA)
- A 100-mile-wide strip of Balochistan along its border with Afghanistan
- The earthquake-affected areas of Azad Jammu and Kashmir

Currently the top 300 U.S. import categories from Pakistan are valued at approximately \$3 billion. Removal of tariffs under the ROZs would affect about half the value of these products, for the most part textiles such as towels, sheets, curtains, etc. It would not affect wearing apparel.

**Have there been similar legislations passed earlier to other countries?** There is ample precedent for this type of legislation. Currently the U.S extends similar trade preferences to the Caribbean, countries in the Andean mountain range (Bolivia, Peru, Ecuador and Columbia), sub-Sahara Africa and Haiti. Products included in these exemptions extend to textiles as well as many others.

**What is the status of this legislation?** The ROZs legislation has not passed in Congress so far. The House and Senate remain at odds over language regarding labor requirements.

**If the bill is not passed during the upcoming lame duck session of contrast, it will expire, and a new bill will have to be introduced in 2011. Rep Chris Van Hollen (D-Md) was the previous sponsor of H.R. 1318.**

**What are the issues that surround this legislation?** As mentioned above, the main shortcoming of the bill is that, while covering all of Afghanistan, it is restricted to only certain zones of Pakistan and even in those, it is not sufficient. Balochistan, for example, is the most backward of the Pakistani provinces, yet only a portion of it is included in the ROZs. Also, the ROZs does not include some of Pakistan’s core exports, such as value-added ready-made garments.

In a larger sense, Pakistan suffers from less favorable treatment than many other countries, including those that are much wealthier. It pays more in duties than France and most of Europe for textile exports; the tariff rate the U.S. applies to Pakistan is on average 10%, but only averages 3% to China.

Perhaps most importantly, the U.S. sees Pakistan as a vital military partner. Strengthening Pakistan’s economy certainly will provide its people an alternative to involvement with terrorists. Yet the Andean agreement, referenced above, was intended only to curtail the drug trade, which can be said to be less critical than terrorism. But the Andean agreement covered a very wide range of items and did not have the product limitations in the ROZs.

The strict labor provisions opposed by the republicans have been the primary reason for contention. The Senate version does not include these provisions and it is this language that has primarily been responsible for the impasse between the two houses of Congress.

In fact, the ROZs would have extremely minimal impact on U.S. jobs. Even if tariffs were eliminated from all the U.N.-designated Least Developed Countries (LDCs) it would reduce U.S. textile production by less than 1%. Pakistan only accounts for about 3% of our textile imports. Vietnam exports twice the volume than Pakistan.

**What would be the impact of this legislation?** There are numerous examples of how this type of legislation benefits the country involved. For example, the Andean agreement has fostered a rapid growth in trade between the United States and the four Andean nations involved. From 2002 to 2006 imports from those countries grew from \$9.6 billion to \$22.5 billion in the same period. It also will encourage more bi-lateral trade, as Pakistani businesses develop partnerships with their counterparts in the U.S.

Pakistan's textiles amount to nearly 37% of its total merchandise exports, far greater than almost any other country. There are estimates that the ROZs could create as many as 30,000 new jobs in Pakistan. However, of greatest importance is expanding the ROZs to include the entire country. The Center for Global Development (CGD) has pointed out that the ROZs areas suffer from low labor skills and high security risks. They also have cultural barriers to employment of women, who typically make up much of the textile workforce.

A major goal of the ROZs is to increase investment in the textile industry in Pakistan. For the reasons above, and others, the current ROZs areas are not likely to significantly stir such investment. To bring true economic growth, trade barriers to the entire country should be reduced.

Pakistan has suffered almost overpowering financial setbacks in recent years. Its partnership with the U.S. on the war on terror has cost the country an estimated \$20 billion. This year's floods submerged an area the size of Florida and destroyed as much as 20% of the country's farmland. The textile industry, which accounts for more than half of Pakistan's exports and employs a third of its population, will benefit immeasurably from relaxing tariffs by the U.S, while having negligible effect on U.S. production or its labor force.

**The Role of the Council on Pakistan Relations** The Council on Pakistan Relations has made passage of the ROZs its highest priority for the incoming congress. Over the past year, we have met with over 50 Members of Congress, with particular attention to members of the House Pakistan Caucus. In addition we have discussed the issue with think tanks who focus on U.S.-Pakistan relations and have sent out "action alerts" to Council members, encouraging them to contact their Congressional representatives at critical times in the bill's progress.

As we look to the 112<sup>th</sup> Congress, we are meeting with members of the new Republican leadership to insure they are briefed on the importance of the ROZs and to secure their support.

**We must not forget that any effective lobbying campaign is built upon a strong grassroots network. In order for this campaign to be effective, we will need to ensure that our grassroots network is proactive in writing letters, signing petitions and making telephone calls to their Members of Congress. Council will keep you informed as this legislation is reintroduced and makes its way through Congress.**

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