

## **Reconstruction Opportunity Zones (ROZ) Legislation**

For six years Congress has considered Reconstruction Opportunity Zones (ROZ) legislation designed to improve trade and investment among the United States, Afghanistan, and Pakistan. In the 111<sup>th</sup> Congress this took the form of two bills, H.R. 1318 and S. 496.

These bills were designed to provide unilateral U.S. trade preference for all of Afghanistan and parts of Pakistan. The purpose of the ROZ is to promote economic development by granting certain goods duty-free access into the United States. In effect, the ROZ would become a free trade zone designed to create jobs and promote economic growth in the tribal area thereby providing an alternative to the hopelessness and poverty that become recruiting tools for Al Qaeda and the Taliban.

H.R. 1318/S. 496 would have expanded the zones to include duty-free export to the United States from the following areas:

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

### **The Benefits of ROZ**

The benefits of expanded economic development in Afghanistan and Pakistan are clear. People who are well fed and employed are much less likely to be lured by the false promises of terrorism. Economic prosperity naturally creates the political stability which becomes a bulwark against fanaticism. The war of terror, where Pakistan is a vital American ally, is a multi-faceted effort. In addition to military force, economic strength will be key to a successful AfPak strategy.

The ROZ model has worked well in countries such as Egypt and Jordan. Moreover, the list of duty-free goods has been drawn up in such a way as to avoid a negative impact on U.S. domestic production. Workers' rights will be protected while providing a continued and legitimate income to the local populations.

### **How New ROZ Legislation Can Be Made Even More Effective**

While H.R. 1318 and S. 496 represented a step in the right direction, there are two critical ways in which new legislation can be made more effective in helping grow the Pakistan economy.

1. Expand Product Coverage. An analysis of H.R. 1318 and S. 496 by the Congressional Research Service shows that only about half of Pakistan's current exports to the United States would be eligible for duty-free treatment under the ROZ as defined in those bills. And those products are not even in the highest tariff categories. Expanding the number of products covered in new ROZ legislation would increase the effectiveness of the program and avoid the negative incentive of concentrating Pakistan's exports in fewer product categories. The expanded product coverage should include more apparel such as cotton hosiery, cotton knit apparel and underwear (codes: 332, 338, 339, 347, 348, and 352).

2. Enlarge the Geographic Coverage. H.R. 1318 and S. 496 focus on Pakistan's remote and insecure border regions. Their location, combined with their security challenges, may deter investors in the ROZ-eligible areas. Inadequate energy and transportation infrastructure will also create serious hurdles. Enlarging the geographic coverage in new ROZ legislation would allow investors greater access to skilled labor, reliable infrastructure and safer conditions to conduct business. Also, the areas of Pakistan that have suffered severe flooding should be included since the suffering there is the most acute. These areas are: Muzzafargarh in Punjab, the districts of Sukkur, Larkana, Jacobabad, Dadu, Thatta and Badin in the province of Sindh.

Analysis shows that improved ROZ legislation has the potential to create 30,000 jobs in Pakistan in only a few years, with a substantially greater impact in years to come. Improved and updated ROZ legislation is the first and best step to creating a more prosperous, stable, and strong ally of the United States in a dangerous part of the world.

### **Current Status**

The ROZ legislation was not re-introduced in the first session of the 112<sup>th</sup> Congress, mainly because of tensions in the U.S.-Pakistan relationship stemming from the Osama bin Laden incident and other issues. The State Department and U.S. Agency for International Development strongly support the re-introduction, as does the Council on Pakistan Relations. Such action would be an important step in a shift of U.S. Afghanistan/Pakistan policy from aid to trade.

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