S. HRG. 106–258

BARRIERS TO TRADE AND INVESTMENT IN AFRICA

HEARING

BEFORE THE

SUBCOMMITTEE ON AFRICAN AFFAIRS

OF THE

COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE

ONE HUNDRED SIXTH CONGRESS

FIRST SESSION

JULY 27, 1999

Printed for the use of the Committee on Foreign Relations

Available via the World Wide Web: http://www.access.gpo.gov/congress/senate

U.S. GOVERNMENT PRINTING OFFICE
61–630 CC WASHINGTON : 2000

COMMITTEE ON FOREIGN RELATIONS

JESSE HELMS, North Carolina, *Chairman*

RICHARD G. LUGAR, Indiana
PAUL COVERDELL, Georgia
CHUCK HAGEL, Nebraska
GORDON H. SMITH, Oregon
ROD GRAMS, Minnesota
SAM BROWNBACK, Kansas
CRAIG THOMAS, Wyoming
JOHN ASHCROFT, Missouri
BILL FRIST, Tennessee

JOSEPH R. BIDEN, JR., Delaware
PAUL S. SARBANES, Maryland
CHRISTOPHER J. DODD, Connecticut
JOHN F. KERRY, Massachusetts
RUSSELL D. FEINGOLD, Wisconsin
PAUL D. WELLSTONE, Minnesota
BARBARA BOXER, California
ROBERT G. TORRICELLI, New Jersey

STEPHEN E. BIEGUN, *Staff Director*
EDWIN K. HALL, *Minority Staff Director*

SUBCOMMITTEE ON AFRICAN AFFAIRS

BILL FRIST, Tennessee, *Chairman*

ROD GRAMS, Minnesota
SAM BROWNBACK, Kansas

RUSSELL D. FEINGOLD, Wisconsin
PAUL S. SARBANES, Maryland

CONTENTS

BARRIERS TO TRADE AND INVESTMENT IN AFRICA

TUESDAY, JULY 27, 1999

U.S. SENATE,
SUBCOMMITTEE ON AFRICAN AFFAIRS,
COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:20 p.m. in room SD–419, Dirksen Senate Office Building, Hon. Bill Frist (chairman of the subcommittee) presiding.

Present: Senators Frist and Feingold.

Senator FRIST. Let me say welcome to everybody. Our format is going to be different than what we usually do around here. It is going to be informal, although we set this up as a round table and I feel like that I am here and we are just like in the hearing. But the whole purpose of this is really to have a discussion as we go, as we go forward on what is to me an exciting, exciting topic and one that as chairman of the Subcommittee on African Affairs is very important to me, very important to the subcommittee, very important to the entire Foreign Relations Committee and, expanding out from there, important to the country.

The format is very specifically chosen so that we can be informal. We will be taking a transcript, not to be made a part of the formal record, but really to make it available to staff, staff members, where we obviously have a thousand things going on in the afternoon, but where we can record that. But it is not to be a part of the official record, just so people do know that. It is really for staff's use.

The informal nature of this is just so in a period of an hour and 45 minutes or thereabouts we can cover as much ground as possible without, first of all, having Senators coming and giving long speeches, but where we can really have an exchange, and a number of you see each other or know each other directly or indirectly, but the exchange among you and with me and Senator Feingold, who will be here shortly, though I told him I was going to go ahead and start so we could stay in time, is what the real value is.

The real focus is on barriers, what things can we realistically do. Obviously, my interest is legislatively are there things that we can or should do from a policy standpoint, are there things that we can or should do in order to lower those barriers which will facilitate, really be the focus of our discussion today.

The format I think would be best, I'll make sort of a brief statement really just to set the stage. Senator Feingold once he arrives will make a few opening comments. Then we can go from there.

What I thought we might do is have each of you open with a couple of minutes or, say, less than 5 minutes, just so we can get the discussion going. But you're welcome to throw out some topics or comment on what's been said. Then after we do that, maybe have each of you comment on what others have said, and then we'll just sort of start throwing questions around. But there's really no other agenda laid out.

From time to time I'll step in with focusing on areas that are of particular interest to me and to the subcommittee.

Let me formally welcome everybody here today. In fact, why do I not run through in terms of the introductions, and that way we'll be able to move straight down: The Honorable Robert Mallett, Deputy Secretary, U.S. Department of Commerce. Thank you very much for being with us today. Maybe after I have made my opening statement I will turn to you, Secretary Mallett.

Professor Jeffrey Sachs, director of the Center for International Development, Harvard University. Thank you very much for being with us today and making a special effort to be with us today.

Mr. Kim Jaycox, CEO, chief executive officer, of AIG Africa Infrastructure Fund, who formerly headed up Africa for the World Bank.

Dr. Chester Crocker, Georgetown University, former Assistant Secretary of State for Africa.

Mr. Walter Kansteiner, partner in the Scowcroft Group, former head of NSC Africa under Scowcroft.

Welcome to all of you. Thank you for taking this period of your day out to share with me your thoughts as we go forward.

As for opening comments, let me just really center my remarks on where I think that we are as a background. Africa, as we all know, is in the midst of profound changes. Whether we call these changes a renaissance or not is a point of debate. But we all do recognize that the shifts from the colonial era to the post-colonial and cold war era and now on into the post-cold war era have all altered the political and the economic dynamics, as well as the entire landscape of the continent.

Underscoring all of these issues and analyses for what we call Africa of the post-cold war era are what I see as two common themes, and they come before the subcommittee again and again in many different forms, and today focusing on the sort of economic and economic development, once again they are there. It is crisis on the one hand and it is opportunity on the other hand.

While the focus of this round table I think is most useful to center on the opportunity aspect of this equation, we must all recognize that all opportunities are clearly and fundamentally related, especially in this part of the world, to the crises and the human suffering which dominate at least the public's view, the reality and the public's view, of Africa.

Yet, across the sort of spectrum of crisis to opportunity is the recognition that Africa's marginalization in an increasingly global economy must be reversed, and this has increasingly driven the agenda of Africa policy both here in Washington, in Europe, in Africa, in the multinational, multilateral institutions upon which so much of Africa's fortunes seem to depend.

Undoubtedly, this continent's marginalization must be reversed for the sake of Africa in and unto itself. But I think it is clear that it also must be reversed for the global economy, of which it will always be either an engine of economic growth or a struggling stepchild as the world does progress. Because of that link, the wellbeing of Africa ultimately is linked, and I would say almost inextricably so, to the national interest of the United States of America, to our policies, and I think that our outlook and our policies should reflect that fact.

Now, the assumption that is the basis of the initial round table—and I say initial because I do view this as the beginning of a discussion over several years for me and for the subcommittee as long as I chair the subcommittee—and of such entities as the Corporate Council on Africa, the administration's recent initiatives to promote robust government to government relationships, and of course the Africa trade legislation which will be heading our way, is that Africa does hold great potential.

Now, very closely linked to that is that this potential today goes largely untapped. If you look at the statistics, which we all know, there is really no doubt about it. The United States exports to Africa 1 percent, imports from Africa 1 percent. Our direct foreign investment, 1 percent. And even if you look at that small amount in each of these categories, obviously it's apparent the lack of diversity in the nature of what lies behind those numbers, the few sectors that each one represents.

So the initial question that as a policymaker that I want to address and that I hope that each of you as we go through can help me understand is why is that potential untapped. Certainly we recognize the broader things, the risks, the ignorance, the lack of infrastructure, the lack of transparency, our own as a nation's lack of understanding. We have the crippling poverty which all of us who have traveled to Africa are so readily aware of. These are clearly things that will be addressed as we go through the next hour or so.

Combatting poverty and helping to bring Africa away from the margins of the world economy and back toward more of the core by decreasing barriers to trade and investment is a legitimate long-term policy goal that should be considered by our subcommittee on Africa.

Combatting our own lack of understanding—I think we are making good head way in terms of our subcommittee and the people who are participating in our hearings and the interest here in Washington, DC on the topic. But it's a real challenge and it is going to really take a sort of frank and sober analysis as we address that nearer term goal, that lack of understanding. We begin that today formally within the subcommittee.

There will be a lot of different takes on the issues, I think, as we go forward today. I hope to hear where you think our energies should be focused, and ultimately I am sure expectations are going to be different from among all of you and members of the subcommittee. That diversity of outlook, that diversity of analysis, and that diversity of opinion, I want to tell you in advance, I certainly appreciate it, as will my colleagues as we move forward. It becomes a very useful tool for us as lawmakers and one which I think will help further us in meeting our common goals.

With that as background, why do we not start in. I am again going to turn to each of you. Why do I not do it, it is arbitrary, in the order that I introduced you, for opening comments, thoughts, principles. Then after that we will start just a general discussion. Secretary Mallett.

STATEMENT OF HON. ROBERT L. MALLETT, DEPUTY SECRETARY OF COMMERCE, DEPARTMENT OF COMMERCE

Mr. MALLETT. Thank you, Senator, and I want to thank you for giving us an opportunity to come before you today. Listening to your opening comments, you certainly have a very keen understanding about what are some of the challenges and opportunities that we have with respect to more commercial engagement with Africa.

But I want to be very up front. We do have a problem, and so do the Africans, which is why it is my belief that we must fix it together, which is also why the administration believes that the Africa Growth and Opportunity Act that is now pending before the Senate and has passed the House is a necessary piece of legislation. It may be more symbol than substance, but all the same there is some substance included and it must be passed.

Just briefly, Senator, Africa is an enormous region of the world any way you look at it. It is larger than, three times larger than the lower 48 of the United States. It has endless natural resources: 75 percent of the world's platinum, 95 percent of the world's chromium, 68 percent of the world's cobalt, 40 percent of the world's diamonds, 54 percent of the world's gold, large deposits of uranium, iron ore, and coal and oil.

Ten percent of the world's population live within that land mass, which is, as I said, three times the size of the United States. Yet we are not truly commercially engaged with Africa. As you suggested, fewer than 1 percent of our exports are shipped to sub-Saharan Africa. That figure is smaller than it was 30 years ago. This is not progress, no matter which way you cut it.

Yet few people realize this, that American companies export more to south Africa than they do to Russia and the Newly Independent States in Eastern Europe. We believe there is a significant market potential in Africa.

Our budget, our aid budget for sub-Saharan Africa, is smaller than it is for one country in northern Africa, Egypt. The needs of the continent are indeed enormous. It has a crushing debt burden, as I am certain members of this panel will talk about, if you want to, ad infinitum. Its development challenges are quite daunting. Africa has some very significant problems, which only the Africans will be able to solve.

On average, their trade tariffs are far too high compared to other regions of the world. Corruption, particularly in some particular countries, has been a basic disincentive for commercial development. Africans have not reinvested in Africa, though Africans want others to invest in their region. Its intellectual property protection regime sometimes is only honored in the breach. It needs to be better developed.

We cannot discuss Africa in the 1990's and on the brink of the 21st century without addressing the impact of AIDS and other diseases on the continent. Africa is facing a crisis which makes the polio epidemic of the 1930's and 1950's pale in comparison. Every single day 11,000 new infections occur on the African continent. Fifty-five hundred people a day die from AIDS. The large advances that the Africans have made in terms of increasing life expectancy are being wiped off the books today because of the AIDS impact.

The impact of AIDS on the commercial development of Africa is quite extraordinary. I was recently in south Africa, in Nigeria, and talking with American businesses there about the problems they are having recruiting and the health needs of some of their employees who are Africans. Companies are having to hire two to three candidates for every vacancy that they have, just to assure that they can maintain their production runs.

We must become more engaged with Africa regarding AIDS and other diseases which are quite old on the continent, malaria for instance.

There are things we can do and we can talk about them as we move along. And I will not take much longer, but one of the reasons I am very encouraged is that you are having this conversation today to help fill out our thoughts and round out our thinking on what we may do to better engage the Africans. This is a necessary conversation to have and it is quite timely, and I thank you for it.

Senator FRIST. Thank you very much, Secretary Mallett.

Professor Sachs.

STATEMENT OF JEFFREY SACHS, PH.D., DIRECTOR, CENTER FOR INTERNATIONAL DEVELOPMENT, HARVARD UNIVERSITY

Dr. SACHS. Senator, let me also thank you for the privilege of being here and also for being able to——

Senator FRIST. Can people hear in the back?

VOICE. No.

Dr. SACHS. I will speak louder.

Senator FRIST. For everybody, these microphones are very directional.

If you start not being able to hear, stand up. One of the advantages of having it informal——

Dr. SACHS. Stand up, but do not walk out.

Senator FRIST. That is right, that is right.

Dr. SACHS. Senator, let me thank you for the chance to be here and to join you in this round table and to share the panel with such esteemed individuals who have contributed so much to U.S.-African relations over the years.

In my own line of work as an economic analyst, I have been trying to figure out what is going on and what is wrong and therefore how most effectively we might be able to intervene economically to improve the situation. There is no doubt it is a very complex problem and complex challenge. Africa's poor growth performance in economic terms in gross domestic product per capita seems to have been with us as long as there have been statistics and records.

This is a region which has lagged economic development for two centuries. It predates the colonial era, it postdates the colonial era. It is shocking in its extent. It is not an easy subject or an easy task for us to remedy. It is also a subject, I fear, where there has been one magic solution after another over the decades that have been tried and pushed, and often have proved to be wanting or very limited in scope.

I think there are many things to do and I do think that the general economic environment is much better now than 10 years ago, for example, because of economic reforms, because of the role of the World Bank and others in helping to set a better stage.

But I do think we have to start from realizing that this is complex, and if we have only a relatively superficial interest in it in our country I do not think we are going to be able to really reach the level of involvement and financial effort that it is going to require to actually make meaningful strides.

I applaud what you are doing, in part because this is the greatest development and humanitarian challenge in the world, and often very much neglected, because the economic marginalization is also kind of social marginalization of this region. It is not paid a lot of attention to except when extreme crises hit the headlines.

Quite frankly, of course, we have seen how even very modest steps on trade trigger reactions in this country that are inappropriate and potentially quite damaging for Africa. There have been a few cases in recent years where some countries have just started slightly to lift their heads above sea level, if you will, start to make some headway, and then they found protection in U.S. markets, antidumping, other safeguard measures, which have just wiped them out. Kenya is an example of that, a few years ago, a really dreadful example.

It has to be said that when we are talking about the poorest region in the world, where average incomes are about $300 per capita in much of sub-Saharan Africa, a hundredth of what they are here, when you see our ability to do damage inadvertently, because people are looking after their own interests here or what they think their interests, our capacity to do damage to the very most vulnerable people in the world, it really hurts.

Now, it seems to me that what we have is a very complicated mix of problems and I hope that the U.S. Government can keep a complicated approach, because there is no simple magic answer to this. I would identify for you at least three areas that have to be part of our agenda.

One is clearly trade. The essence of the African trade situation is that Africa is almost entirely—and I am speaking of sub-Saharan Africa, I should say, and sub-Saharan Africa excluding South Africa. So I am thinking about the tropical core of Africa. This region almost with no exception exports primary commodities, and almost without exception faces declining real prices for those commodities over the long haul.

Any country that has achieved economic development needs to find a way to diversity its exports into something other than oil or diamonds or gold or other minerals or cocoa, coffee, tea. This is the first fact that I think we have to face up to. Africa uniquely of all of the regions of the world has not even been able to break into apparel, which is the first stepping stone out of poverty for every developing region in modern world history.

Now, of course, when some countries started a little bit of apparel exports, they got hammered over the head by U.S. apparel interests or textile interests. But we have to face up to this basic point.

Secretary Mallett pointed out all those natural resources. But I will say that, while that is all absolutely correct, unless Africa can get into manufactures and service exports in a more serious way it is going to be condemned to impoverishment in the years ahead. The natural resources will not do it. Now, we will come back. There is a lot to discuss about how to promote some real trade, but we do not have it yet.

The second issue is debt. We have had one initiative after another for canceling unpayable debt over the years. I have been involved in that issue personally and quite intensively for 15 years. I can give you a very good rule of thumb, Senator, and that is that the powerful get better deals than the weak. If you happen to be close to the U.S. border, like Mexico, you get a pretty good deal. If you happen to be of high foreign policy salience, you get a pretty good deal. If you happen to have some of your diaspora in our country, like the Polish-Americans—and I was proud to advise the first post-Communist Polish government—you get a better deal.

If you happen to be absolutely poor, off the radar screen, politically without power, without any real constituency in this country, you get basically no deal at all. We sit here when the poorest of the poor of the poor are absolutely starving, literally, by the way, because malnutrition is absolutely beyond belief. A third of the children of sub-Saharan Africa are experiencing chronic, pervasive, life-threatening malnutrition.

We are sitting here saying we do not have the money to do debt reduction for these countries. I want to come back to that issue also because it is on the agenda right now. The Cologne Summit initiative on debt relief points somewhat in the right direction, but, as was true in 1996 with the first so-called HIPC initiative, it is just remarkably grudging and remarkably small if we tell the truth.

There is absolutely no reason for it since in our own books, as you know, Senator, we already hold this debt virtually at zero. So even without much appropriation, we could easily wipe out the whole thing and call on our partners to do the same thing. But we do not do it, for some reason.

The third area which I would like to just put on the table for us, it has already been mentioned. That's one that, for you as a physician, you will know extremely well, and that is the question of disease. Disease is partly a symptom of poverty, but it is also very much deeply a cause of poverty as well.

There is no doubt in my mind that, for many intrinsic reasons related to Africa's tropical environment, for example, that Africa has an inherently high and crushing infectious disease burden that needs to be addressed through using new scientific tools and new approaches. Malaria is still taking more than a million lives on the most conservative estimates and up to nearly three million lives a year on probably more realistic estimates. Two-thirds of the world's AIDS deaths are now in sub-Saharan Africa. TB is rampant, of course, as are a host of other infectious diseases.

One thing I think is important for us, and that is that we are living through the greatest technological revolution in history, with biotechnology leading the way. So that our capacity to address these diseases is greater than at any time in human history as well. But it remains shocking to me that the estimated total worldwide effort for malaria vaccine, for example, Senator, is probably on the order of about $50 million a year.

Something is not right with our calculations about the future when you have what many, many molecular biologists now say is a disease that can be solved through new vaccine technology, but in which the pharmaceutical companies will tell you, very frankly, there just ain't no money in it for them, they do not believe it.

So I think that facing up to this reality, facing up to the AIDS epidemic, which looks to be the worst epidemic in human history at least since the Plague of 1347–48, we have to be doing better than this, it seems to me. I would just make a plea that as we throw around whether we are going to save $800 billion or $500 billion or $300 billion on our taxes that we think a little bit about how we could use some of this incredible bounty that we are enjoying right now for human good by mobilizing our unparalleled science for the sake of disease control.

Senator FRIST. Thank you very much.

Mr. Jaycox.

STATEMENT OF KIM JAYCOX, CHIEF EXECUTIVE OFFICER, AFRICA INFRASTRUCTURE FUND, WASHINGTON, DC

Mr. JAYCOX. Thank you, Senator. I hope you will pardon my voice. I have come down with some kind of air conditioning condition here in the last couple of days and I am not sure I can actually sound any better than this.

First of all, thank you for inviting me, and it is really a great pleasure to be here on this panel, I guess you would call it, with these very distinguished colleagues of mine.

It is also a pleasure to follow Jeffrey Sachs in saying something about Africa. I have been passionately involved with Africa for 30 years or more, but I must say what we just heard from Jeffrey Sachs really just has to be seconded. Quite frankly, I think he has touched—he certainly said everything I wanted to say and better than I could probably say it.

I am particularly struck because I think Jeffrey Sachs is a newcomer to looking at Africa, relatively, compared to other parts of the world he has spent quite a bit of time on. But I think he has captured actually the problems in a very real way.

A couple things I would add, though. First of all, actually you have already violated one of my cardinal rules, and that is we do not talk about Africa as if it is one place and one country and one people. As a matter of fact, it is 54 countries, very diverse in their orientation, their historical developments at least quite varied, and indeed I think as far as the future is concerned they have quite different paths that they are going to have to go down.

Some kind of disaggregation or unbundling of Africa I think is essential to understanding the continent. Not that we have been misunderstanding it up to now at all, but I think to get to any kind of level for solutions or diagnostics you have really got to get to the country level, and the regional potential that these countries, maybe in smaller groups, but rather larger than themselves alone, constitute the future of Africa.

I think we have a moment in time here where in fact none of the developments we have been talking about as far as the future is concerned was feasible 15 years ago in Africa. Africa was in a spiral decline. I am violating the rule again, but I am talking about that core, that tropical core of Africa, which was certainly in a free fall, economic free fall.

They barely survived, I would say, on the strength of really quite remarkable political courage in some quarters, a lot of effort. There was a lot of suffering, there is no doubt about it. The people of Africa suffered in order to accomplish what they have accomplished.

They have got a lot more to go, a lot more to do. I would say that the basis for moving in a market economy system direction is there now in most of, say 25, 30 countries. In fact, easier things have been done. By that I mean policy change, change the way you manage the monetary system, change the way you handle your trade.

In fact, trade has been liberalized in these 25 or 30 countries to a very great extent. There are no QR's, quantitative restrictions on imports, any more to speak of. There are no taxes on exports to speak of any more. Tariff rates are coming down. Perhaps the big exceptions are in north Africa and in South Africa, the Republic of South Africa.

But the harder things have yet to be done. By this I mean civil service reform, reforming the judicial systems, providing proper incentives for productive work in both the public and the private sectors, getting infrastructure into some sort of shape, because these constitute I think the real, on the African side, the real barriers to trade and investment and development for the future.

As far as the external barriers, I think what Jeff Sachs had to say about debt and trade, I very much agree with both of those things. I think that, if anything, the Growth and Opportunity Act just does not go far enough in these respects. Maybe it is the opening door, it is the first act of its kind, draft legislation, I have ever seen. But it needs a lot more detail and teeth to it if it is ever going to accomplish anything like what we are talking about here.

One of the most serious barriers to external finance—by that I mean private investment—and trade I think has to do with what has come to be seen as a lack of capacity on the African side to actually deal with the global economy. I think they got into such serious economic trouble because of lack of capacity and reliance on religious formulae for managing their economies.

But the lack of capacity—most of the educated Africans are in fact not operating in Africa any more. There are more of them in Chicago and Pittsburgh than there are in cities in Africa. There is a lack of leadership and a lack of management capability, a lack of institutional strength coming from those two.

In fact, there is a sort of a psychological deficit in Africa amongst public leadership, that they have sort of got a victim mentality which is driving us apart when it comes to making any kind of transaction. The tables are so unequal in every economic forum where Africans meet with non-Africans that there is no trust. It is very difficult to bridge these gaps.

Now, there is a big exception to all this and that is that in these 25 to 30 countries in fact the progress has been remarkable. We now have growth rates around 5 or 6, 6 to 7 percent for 5 or 6 years in a row. We have got booming exports. They are the traditional ones. But Africa lost more than half of its market share in all of the commodities we have been talking about, and they are just now regaining it in those countries.

In fact, there are economic teams that have been developed over the last decade in many of these countries. I know that one of the most celebrated finance ministers in Africa now works with Jeffrey at Harvard. These economic teams are, I would say, the core of the future economic management in Africa.

Now, some of these people are on the sidelines because politically the reformist is always in the minority. The reformist has to win a few in order to finally get enough winners on his side that he can in fact win and, as you know, this is not successful first time out, second time out, even third time out. That has certainly been the case in Africa. But these people are there or they are ready to go back to Africa when the conditions change. I think this is one of the great hopes.

I guess I would like to reemphasize the last point, the point that Jeffrey made. I do not think that this is a situation for casual observation and casual involvement. If the U.S. wants to make a difference in Africa, it is going to have to really get into it. As we in the World Bank got all the blood and gore of structural adjustment all over our aprons, I am hoping that others will join in that operating room, maybe not with the same abandon or hopefully with more skill. But that is the only way you are going to get anything done in Africa in my opinion.

Senator FRIST. Thank you very much.

Mr. Crocker.

STATEMENT OF HON. CHESTER CROCKER, PROFESSOR OF DIPLOMACY, GEORGETOWN UNIVERSITY, WASHINGTON, DC

Ambassador CROCKER. I thank you very much, Senator, and let me add to my colleagues my expression of delight that you are having this round table discussion.

I would identify myself up front as an Afro-realist, not a pessimist or an optimist. I found an awful lot to agree with in what the previous speakers have said about some of the key problems. I will not belabor all those points. The region has a lot of promise. There have been forward steps, but the barriers remain very substantial.

I do not think there is any single silver bullet here. We are talking about a lot of bullets and a lot of investment of time and the passion of people on both sides of the relationship to try and do something about these issues. We have heard the word "passion" already used by several, but I think I would underscore it. It takes passion to overcome some of the issues, some of the conceptual barriers.

I would like to just identify for our discussion a total of six barriers, and I will start——

Senator FRIST. Pull this up, just pull the mike up. It is very directional, so pull it up just so people can hear in the back.

Stand up back there if you cannot hear now.

Ambassador CROCKER. I would like to identify six barriers for our discussion. I do not have solutions to all of them, Senator. I hope that, with the help of others around the room, we can maybe talk about some remedies.

The first on my list is the prevalence of violent conflict still in Africa. We need to focus on the reality that the renaissance will not be built in violent conflicts. The new leaders that we celebrate in most cases have taken their nation to war in the last 12 months, and that means that the region remains in some parts of it in substantial turmoil. There are 11 conflicts under way at the present time that are deemed significant by our State Department, involving at least 15 countries.

There are 8 million refugees. You have seen the statistics, Senator; we all have. There are something like 8 million people have died in Africa's modern wars. So we are dealing with a very substantial challenge right there, when an AK–47 you can buy for $6 or whatever it is in a number of conflict zones.

Unless we address and resolve these issues, the talk about an African economic takeoff or a takeoff in our bilateral investment and trade relationships is, to put it mildly, unrealistic.

The second barrier is the fragmentation of African markets, which I think we look at a map and we say, yes, we see a lot of lines on the map, it is a balkanized region. It is a huge region, as Secretary Mallett has said. It is also a balkanized region with, what, 53, 54 entities on the map. If you add all the sub-Saharan countries together, you are talking about a marketplace the size of the market of the State of Ohio, sub-Saharan Africa, the State of Ohio.

So that is a barrier from the American side because people look at that and try to figure out, how do you enter a market that has got all those different pieces, of which 49 are in sub-Saharan Africa? If the whole market is the size of the State of Ohio, where do you access it, through what door, what gateways? Where do you put your chips?

It is a difficult conundrum for our investors and our exporters to figure out. Some of them have. Some American companies are doing very well, thank you, in Africa. I want to underscore that point. But there is a limit to it and they tend to be concentrated in a small number of countries and a small number of sectors.

The third barrier obviously is the huge burden of debt, which has been very thoroughly identified and mentioned by Jeffrey and by Kim and by Secretary Mallett previously. I must say I hope we can do better than finding ways to sell off somebody else's gold stocks as a way of dealing with it, because that is not going to work very well in my view. There have got to be other ways to do it than robbing Peter to pay Paul.

Mali, an up and coming gold producer, is likely to lose twice as much in gold revenue as it gains from debt reduction under the most recent remedy suggested at Cologne, for example. So I believe we can do a lot better than finding ways to sell off IMF gold or individual country gold as a way of remedying this problem. I think Jeffrey Sachs has already alluded to the possibilities.

My fourth barrier that I would identify are issues related to transparency and the rule of law, where I think in fact we can do more than we may admit to ourselves, by building relationships, by doing training, and by engaging the institutions of emerging African countries in everything related to commercial law, to the organization of stock exchanges, to the regulation of banking—any number of things that we can and I think are already starting to do, but we can do it more aggressively.

To create a level playing field for the business person, that is really what it is all about, to put limits on the capricious, arbitrary acts of government and to empower the entrepreneur, be he or she African or American.

This relates to my fifth barrier, institutional weaknesses and lack of financial structures of all kinds. People that are in this room and around this table have participated, as I have, in discussions of some of these measures. Most African countries, for example, do not enjoy credit ratings, sovereign credit ratings. That is being looked at by certain individuals and certain institutions, but it is a slow, long term process.

It is very hard to mobilize institutional and investor capital for Africa if people do not know how to evaluate the markets into which they are putting the money. We all know the way the world really works. People do not want to take risks they do not feel they have to take. They look at a place that, frankly, looks like a black hole in terms of a credit rating: I am not putting my money there because I cannot explain to the boss why I made the decision to put my money there.

I have seen a lot of folks and I have participated myself in attempting to identify sources of capital for African investment projects, be they in ongoing manufacturing companies or in infrastructure projects. You run into this obstacle all the time. So it is very real, but I think more can be done to deal with it.

A final obstacle is that it is hard to mobilize external capital for Africa when African capital continues to migrate outside the region to the extent that it does. I am talking about both financial capital and human capital. People in the world of business are more likely to listen to other people in the world of business than they are to listen to governments, and they watch where money is voting with its feet and they watch where talent is voting with its feet.

There is a tremendous amount of African capital, both financial and human, that has left. There are indications of a trickle back in some specific country situations, but it is still very early days. I am sure there are things we can do, working with African partners, to try and create incentive structures for the return of African capital. There is a lot out there.

Let me just leave it with those few comments. There obviously are remedies that we can all talk about, including many that have been mentioned.

Thank you, Senator.

Senator FRIST. Thank you very much. All these issues we will be coming back to, but thank you very much.

Mr. Kansteiner.

STATEMENT OF WALTER KANSTEINER, PARTNER, THE SCOWCROFT GROUP, WASHINGTON, DC

Mr. KANSTEINER. Thank you, Senator, very much. I join in the applause for your concern and interest for this region of the world that all of us at this table have worked on for quite some time.

It is hard to follow all these guys. I am not sure what I can add, except to say I think Jeffrey's three points—trade, debt, disease—those are pretty good ones to keep our eye on. And Chet, your six points are very helpful.

As part of that six points and the six barriers that Dr. Crocker outlined is one that I am particularly involved with and interested in, and that is foreign direct investment and how some of these barriers inhibit foreign direct investment. That is what I spend most of my time and effort in these days doing, is mergers and acquisitions in Africa. Some of my partners think that must be a very small field to work in and some days I do feel it is pretty limited. But it is a lot bigger today than it was 10 years ago, and I think that is the good news.

One comment that a couple of my panel colleagues mentioned was limiting government powers. That is incredibly important for the foreign direct investor. If he is going to write the check and make the investment in sub-Saharan Africa, he has to limit that risk. That risk undoubtedly comes from the government of the country that he is investing in nine times out of ten.

Limiting that risk and limiting those government powers are something that we can in fact help the Africans work out, learn why it does not need to be the way it is in some countries. I agree with Kim very much, that there are 25 to 30 countries that are very attractive for investments. We need to double that number now.

Return on investment is what it is about for American foreign direct investors. With your help and the U.S. Government's help, along with the building of capital markets, another thing that you mentioned, Chet, I think we can get there. It sure looks better today than it did 5 years ago.

Why do I not just leave it there and we can start into the discussion.

Senator FRIST. Good, thank you.

I would like to turn to the ranking member, Senator Feingold, for some opening comments or questions, and we can start in with comments on each other and address some of these issues in a little more depth.

Senator Feingold.

Senator FEINGOLD. Thank you, Mr. Chairman.

This round table is another good example of the chairman's very sincere interest in Africa, and I greatly enjoy working with him as chairman of the subcommittee.

I apologize for being late. In a system of strict seniority, I certainly wait until Senator Thurmond is done with his questions at another proceeding on the Judiciary Committee, and I am sorry that I missed some of these remarks. But I do want to thank all the participants for being here today for the discussion.

Today we are exploring some of the barriers to trade and investment in Africa. Recently there has been renewed and encouraging interest in expanding opportunities for U.S. businesses in Africa, and there can be no doubt that Africa as a continent is much changed since the years immediately following the end of colonial rule in most of Africa.

As some of you have said, there has been substantial political progress in several countries, as there has been some progress on the human and social development front. Still, many African nations are plagued by authoritarian regimes that deny their citizens' basic human rights. The economic and political potential of some nations are being squandered by ruling military juntas. In these few holdout regimes, corruption, economic mismanagement, and violent suppression of dissent are the norm.

Though mindful of the current grim realities of Africa, the United States has to encourage the positive developments that are already taking place there, not just because we are a generous people, but because Africa is a growing U.S. trading partner. The United States currently imports some $13.1 billion worth of exports from sub-Saharan Africa and exports nearly $7 billion. More and more forward-thinking American companies have their eye on the vibrant potential markets in Africa.

Yet, as you have all discussed, significant constraints to expanding this market remain. There are tariff and non-tariff barriers to U.S. exports. There is poorly developed infrastructure and underdeveloped financial and banking systems. There is in some cases rampant corruption and, as I know has already been mentioned, there is a health crisis, with thousands, if not millions, dying every year from AIDS or AIDS-related causes.

But in addition to these more blatant constraints, it is also important to consider the state of the African state, and that is the lack in many countries, as has just been indicated, of the rule of law, let alone a functioning judicial system.

Some observers think that we vocal proponents of human rights do not care about U.S. economic interests, but the opposite is true. Not only does the United States have a moral obligation to promote human rights, Africa's post-colonial history shows us that African nations with long-term democratic rule are also the nations with the best long-term economic performance.

The United States should ensure that as it helps to foster economic development it also fosters political and personal freedoms. Freedom fosters prosperity. The respect a government shows for human rights can tell us whether that regime will respect its neighbors, its trading partners, and the world community at large. The government that does not respect the rights of its people cannot be trusted to honor a trade agreement or a treaty, much less the rule of law in general. This is as true for Nigeria as it is for China.

Mr. Chairman, I know we have already heard a lot about and we will hear more about economic constraints from our panel here this afternoon. But I just wanted to take my brief time to make a few points on the political side before we continued.

Again, I thank you and I think this is a very good format for an exchange.

Senator FRIST. A number of issues put on the table. What I would like to do is maybe open with one of the three, and that is debt. I would like each of you to, and maybe start at this end of the table and work down, in terms of the role of debt and I guess in terms of starting with what you ended with, Mr. Kansteiner. A company who wants to invest here on the continent of Africa, say one of the 25 or 30 that have seen growth over the last decade or so, the debt that they have or relief of that debt has, what impact on a company here to actually invest there?

Mr. KANSTEINER. I hate to comment and lecture with Jeffrey Sachs at the end of the table on international debt. But from an on the ground position, if you have a great deal of sovereign debt soaking up the capital for that country you have banking situations that make it very tough for entrepreneurs on the ground. That is, if the government has basically gone out and borrowed the liquidity that is there, there is very little left for entrepreneurs and people that want to start businesses.

When you have little entrepreneurial capability or maneuvering room for the folks on the ground, it is going to be harder for American companies to come in. They are going to have far fewer joint venture partners to partner up with. It is going to be a smaller market to sell their goods or services in. So debt kind of literally hangs over all of the macro and the microeconomic issues that we are all facing.

The question of how do we deal with this debt, do we go with gold sales or not, I think is a very important one and a very current one. I for one would like to hear what this panel thinks about that.

Senator FRIST. Well, let us talk a little bit first—Secretary Mallett, right now in terms of debt, how does the administration view debt in terms of current policy? And then maybe we can get into projected policy, but then ask the other, I will ask the other panelists about what sort of policy should we undertake in the future.

Mr. MALLETT. As you know, Senator, the authority on the question in the administration is the Treasury Department, and it has had, I think it is safe to say, a fairly cautious approach to the question of debt relief. But the President's initiative with our G–7 partners, the Cologne initiative, looked to expand the HIPC initiative so that more countries would be included.

It is very clear that the President has indicated that he believes that debt relief is a question that must be placed on the table in talking about Africa. How much, to what extent, on what timetable, I think are all concerns that the Treasury Department and others will be discussing with our economic partners, and will take some time to do that.

It seems to me that—and I recently returned from the World Economic Forum and found myself in the embarrassing position of being a skunk at a picnic in talking to the southern Africans about regional integration and some of the things that we thought were very necessary.

The issue of debt relief came up in response to my comments and that ended up making the news all over south Africa. I certainly had not intended to make news in that way.

But to amplify my remarks, as I later did, I do not think there is any question that the administration, the Clinton administration, has committed itself to trying to devise a workable and substantial debt relief program. We have to bring others along with that.

But in discussing the question of debt relief everything must be on the table: the repayment of commercial debt, because we find some Africans paying commercial debt a lot faster than they are paying sovereign debt; the issue of historically how some loans have been used by some African leaders. It may well be more myth than reality, but it is all the same a perception that people have that someone absconded with money and we must, before we talk about debt relief, we must have a conversation about what that means.

Who is entitled to it? It may be a very different question to say that Mali or Mozambique is entitled to have debt relief and whether or not Nigeria would qualify in the same way, that is quite a different kind of conversation. Perhaps debt restructuring ought to be factored into our conversation on the debt question.

There are a number of variables I think that are at play here. Everybody embraces the idea that Africa's debt burden is too heavy and we must find a way to relieve that burden. The timetable, who qualifies, and under what circumstances I think are the details, and that is where the devil comes in.

Senator FRIST. Professor Sachs, debt.

Dr. SACHS. We have been at the details much too long. I think it is actually not that complicated. The problem, the biggest problem with the debt, is that this is debt owed by governments and the governments are absolutely bankrupt in the literal financial sense. So that if you want good governance, if you want stability, if you want governments that can function properly, they have to get out of bankruptcy.

We hold them in a kind of limbo now because you have a mountain of debt, every year a lot of debt comes due, a certain fraction of that is postponed in these formal Paris club and such arrangements, a certain part is covered by new loans to repay old loans, and then a part is paid out of the grants that are given to Africa, still about $15 billion of so-called official development assistance, and a lot of that gets rechanneled to repay debt.

So you have governments basically living month to month, waiting for the next IMF mission to come, because what they are trying to do is stay out of outright default. The IMF mission is the way to do that because if it is a thumbs-up the next tranche comes in and then the other donors pour in their money and everything continues. If it is a thumbs-down everything goes to hell because when the IMF blocks its money then the World Bank is not allowed to lend in general, the doors stop, and since the government is bankrupt you just open up a morass of instability and arrears.

It is a great game, and the theory of it is that this kind of tight leash, month to month surveillance being run from Washington and so forth, is somehow good for development, that we really keep our hold on this.

The problem is that actually nobody can think, nobody can plan for the future. There is profound and pervasive instability. You get a new government in Nigeria, one of the most significant developments in the last 25 years in sub-Saharan Africa, and this guy is pleading for debt relief. And we are saying: Do not worry so much; we will get around to that later on.

And if the new government goes under we will say: See, you know, it just did not make sense. The story that I always tell my class is of the aristocrat walking by the pond, and he hears a man screaming: Help, help; I cannot swim, I cannot swim. And he looks down at the man and says: Sir, I cannot swim either, but I do not make such a fuss about it.

This is what we do with the debt. You have a new President of Nigeria, the first chance for democratization in more than 10 years. We do not know in our own government whether this is something we want to get into or not because there is a lot of debt there. It happens to be absolutely unpayable, a great proportion of it, but it is too much for us to face up to at this moment.

Let me put some numbers on it, though, to show how it is really not so complicated even for us to resolve. There is this list called the HIPC countries, which are highly indebted poor countries. Depending on who keeps the score, there are either 41 or 42 countries on the list. Since I am the kind of radical on debt relief, I put all 42 on. That means including Nigeria, basically.

Those countries owe to official creditors, meaning the IMF, the World Bank, and the bilateral institutions and the regional development banks, those countries owe about $120 billion in so-called net present value, if you take out the concessionality elements. About half of that is owed to bilateral creditors, which means governments. Our claims on these 42 HIPC countries are $6 billion.

Of these 42 HIPC countries, roughly 80 percent are in sub-Saharan Africa, and then there is a smattering of very poor countries in other parts of the world. But the HIPC list is very close to being an Africa list, so we can think about it in those terms.

In our books, Senator, we do under the Credit Control Act the scoring for all of this debt, and these are generally F or F-minus countries, which means that they are already held on our books at something like 6 or 7 percent of face value. If you were to wipe out the entire $6 billion owed to the U.S. Government by the 42 HIPC's, the budgetary outlays would just be the part still on the books. The rest has disappeared forever.

Those outlays are estimated right now at $635 million to do the full complete cleanup of the U.S. part. If we aggressively championed 100 percent, the other G–7 would come along, Japan and France kicking and screaming because they have larger claims, but they would come along, and we could get about half of this done for $600 million of outright outlays.

The issue about gold comes up in only one point of this and that is the IMF's own claims on these countries. The IMF has claims of $7.8 billion on the 42 HIPC countries, roughly. Five billion are what is called ESAF claims, which is a kind of concessional loan, and about $2.8 billion are what is called standby loans, which are non-concessional loans. The World Bank has about $37 billion of claims on these countries, of which about 34 are so-called IDA money, concessional, and about $3 billion is so-called IBRD money.

The whole issue of gold is basically the IMF's own piece. The IMF does not want to take a loss, so it says it has to be made whole somehow. We said: Well, sell some of your gold, which you are holding on the books at 35 SDR's or $47 an ounce and you can get a capital gain and use that toward the relief.

There is another way to do it, which is just make them take a loss, which is no big issue. It is no big metaphysical issue.

Senator FRIST. How do they carry it on their books?

Dr. SACHS. They have reserve accounts all through their books, which are basically reserves—they have a special and general reserve account, they have reserve accounts on ESAF, to allow them to write down debt, because they have cushions.

The World Bank has cushions also. The fact of the matter is, if we just told these institutions, face up to your bad losses, we could absorb it, they could absorb it with their own balance sheets.

But everybody in a debt relief game, like a bankruptcy, is "After you, Alfonse." You know, the head of the World Bank wants us to make up their losses dollar for dollar. Well, why?

So my own view is let us go for a very deep solution and force each holder of claims to absorb within their own means the claims. Now, the World Bank says that would squeeze future IDA lending and that is true. But we should separate the old debt issue from where we would like to put in the new funds, in my opinion. Maybe the Senate would say, the U.S. Congress would say, we do not want to put in new funds. I think that would be a tragedy actually. But if we were to put in new money into Africa, I do not think it should go through IDA particularly. I would rather see it go through UNAID's or the World Health Organization or through UNICEF to handle directly some of these urgent health problems, for example.

So I would like to disaggregate the various issues and say, if you made bad debts almost by definition you can afford to write them down; you just cancel them in your books. Then what do we do about future programs? Well, that we should face up to once we have a better strategy for how we are going to help Africa in the future.

Let me just finish by saying where we are. Where we are, given all of these interests and all of the limits and the maybe politically realistic, but in my view not so, resistance of this administration to come before the Congress and ask for what really is needed—but I know my friends in the Treasury are afraid to do so, but I believe that the American people would understand this issue actually. But they do not ask, clearly.

The result of all of this is that we are in a typical minimalist position on this, that we are going to do a little bit, and we are going to keep them living from month to month and IMF missions coming in to give them the thumbs up or the thumbs down. My own view is that the American people understand or could understand what the poorest of the poor face in the world and how, given our bounty, there is something actually we could do a little bit more ambitious than that.

I would like to see the administration really take the moment, to be much more bold in this. It will barely cost us anything, is the irony of it all. But given all this flux and noise around, as I said in the introduction, when you are absolutely poor and off the radar screen, you have no voice in this at all, and the end results turn out to be remarkably limited.

Secretary Mallett knows very well the whole discussion of the HIPC. We are now 3, 4 years into a program that has produced almost no results. For us it does not matter, but for them it is life or death day by day when this clock ticks, because you have people literally dying or literally being unfed or literally not being immunized because of the delay in trying to work out the details.

Mr. MALLETT. Obviously, one of the great things about being a college professor is you can say what you want to say and you do not lose your job.

Dr. SACHS. Bravo for tenure.

Senator FRIST. That is right, after that tenure comes.

Mr. MALLETT. As sympathetic as I may be to what Professor Sachs had to say, obviously that is not the position of the administration. But you ask the questions here, but if I may ask you to pose a question to Professor Sachs.

Senator FRIST. Oh, yes.

Mr. MALLETT. Whether or not in his scenario that the relief that he would provide—and it is a very intriguing idea—would it be conditioned in any way? Are there any conditionalities attached to it? What reforms, what would have to take place by the countries benefiting from the initiative? What would we like to see them do? If you could maybe sort of amplify that question.

Senator FRIST. Basically, the whole purpose is an exchange. Professor Sachs, how would you respond?

Dr. SACHS. I would surely put on conditionality, although I would do it in a different way from how we do it now. Conditionality now means waiting for that dread IMF mission to come, and I know it because I have worked with a lot of governments waiting for this team to walk off the steps. It is really the thumbs up or thumbs down of survival.

So what I have in mind always in these matters is trying to engage the best on the other side and saying: We will walk the extra mile if you will. In the Soviet Union there was the famous slogan "We pretend to work and they pretend to pay us." When you come to this situation, it is: They pretend to reform and we pretend to help.

What I always believe in these matters is that we ought to push them much harder on the other side, but then say: Look, we will go all the way; we will wipe this debt off 100 percent, but we want to see you rise to the occasion as well with something much bolder, much more thoughtful, on a variety of things.

Now, my experience has been you can energize an incredible response for that kind of offer. I have seen it a couple of times. I saw it in Poland, I saw it in a few other countries where because of our politics we made the offer.

If we went to the Africans, went to President Mkapa in Tanzania, went to President Musebene, whom I admire enormously, and said, we are ready to go the whole way, it barely costs us anything, now let us sit down together and think about what bold response you are ready to go, and then we will go shop that with the creditors together, you will get a completely different kind of response than we get right now, which is, we are willing to do a little bit, and everybody knows it is nothing.

Uganda went through 3 years to get its HIPC and it made a tiny dent in its debt service flow. They know it. It made a good headline, but it did not ease debt relief—debt burden.

Senator FEINGOLD. Let me just follow on.

Senator FRIST. Go ahead, go ahead.

Senator FEINGOLD. You are actually right. The challenge here is to get both Members of Congress and our constituents to understand the importance of this. Maybe you could help us, Dr. Sachs, or perhaps others by comparing this in some ways to the Asian financial crisis. Are there lessons to be learned from that? Are there dangers in a cookie cutter type of approach? It would be helpful if you could elaborate.

Dr. SACHS. I think that the general crisis that Africa faces is not the same as Asia. Asia faced basically a financial crisis because it was such a good investment that investors poured in hundreds of billions of dollars and then one day decided they better take it out.

Africa has not had the good luck of running into such a financial crisis because no one has poured in so much money, and no one is likely to in the short term.

Mr. KANSTEINER. Although South Africa did experience some of the contagion.

Dr. SACHS. It did, of course.

Mr. KANSTEINER. Because in fact it did have the investment that had come in.

Dr. SACHS. When I say Africa, always again I mean tropical, sub-Saharan Africa, because the conditions in Morocco, Tunisia, Egypt, and South Africa are really totally distinct from the rest in disease, in death, in economic prospects, and so forth, in complexity of the economy and so on.

So I think Africa is a different challenge. Africa is the hardest and most urgent development challenge in the world. There is no place poorer, there is no place having more chronic difficulty overcoming the struggle of daily survival than this part of the world.

I have been speaking to Americans, not my constituents of course, but I have been speaking to Americans and to Congress people for many years on this, and I have always found that the biggest barrier to the aid issue is the pervasive feeling that it is money down a rat hole, not that there is not the good will in this country, because I think the good will is actually phenomenal, but the feeling that it will not work.

So I think the true test is not the test of generosity. The test is the test of efficacy: How can you show that something is actually going to work, or how can you get people to make the investment in trying to having something work, when they have such skepticism?

This is why I am always in favor of bolder approaches than we usually do, because when you do not engage the hopes and vision you absolutely engage the cynicism that, well, we have all seen that that does not go anywhere any more. That is why I believe we are at the end of the old approach, should be, with the IMF and so forth, because we have been doing this 20 years and neither side rises to the occasion with the commitment and the drama that is possible.

I think the right way forward in general is to engage the few really remarkable political leaders in Africa. There are some and I would start with them. We do all this issue one-way dialog. We just give—we go to Cologne and we make an initiative. No one asks the Africans about any of this. We just told them: OK, we're going to lower your targets from a net present value 250 percent of exports to NPV of 150 percent. Then I get finance ministers calling, asking what does it mean. They do not have a clue. And when I ask friends at the Treasury they are not so sure what the announcements always mean as well.

But we have done it in a way that absolutely minimizes the chance of success because it is so grudging and it is so minimalist and it is so technocratic, and it is without the political commitment at the very top, which really could engage dramatically the hopes of populations. We see when President Clinton has gone to Africa millions of people turn out. The hopes can be engaged and mobilized, but we are not doing that right now. This is partly what I do not really understand.

What is true is you face a reality which is a very tough one. I was shocked how the most minimal provisions of the Trade and Opportunity Act were stopped by the textile lobby. You know, here you have the poorest place in the world. We are talking about hundreds of jobs perhaps in the U.S. lost, perhaps a few thousand, in an economy of 130 million plus jobs, the most dynamic economy in the world, average incomes $30,000 per capita. We are talking about people starving because they cannot subsist in the countryside or cities overflowing with the migrants from the countryside who cannot find jobs in the cities. And we are saying you cannot start a T-shirt factory there because it is not in the U.S. interest.

So from the African side, we are not engaged right now in the real way. We are just not engaged. We are also therefore not able to show efficacy, and that is a big problem for the American people.

Senator FRIST. If we put the 635 in and got the cooperation of other nations, that is bold, if the efficacy there? It comes back to that initial statement, is that enough of a jump start in and of itself when governments are still corrupt, when things may be better and we have 25 countries making progress?

Dr. SACHS. First, if we could ever go to an African country and say that we are going to wipe your debt clean to give you a fresh start—and not just the U.S., but the G–7 and the overhang of other sources, which is what the bold proposal would be—first, you would get such disbelief. But then you would get real mobilization. That would be a way to trigger things. When you are broke and when you are desperately poor, money looms very large. It generally does even when you are rich.

But I can tell you, Mr. Gorbachev, whom I also knew in days when we were holding back, sold, if I could put it in very crude terms, was ready to sell the GDR into NATO and into German unification for a very clever bid of Mr. Kohl, of Chancellor Kohl, of about $7 billion for housing for Soviet officers, because money was so absolutely central that he actually got response.

What we get is this very bizarre situation where we say, we do not really have too much leverage in all of this, so we should be very, very cautious, and the other side says, well, there is nothing there to really talk about, and we just miss this chance.

Now, I think there are many parts of Africa where it is much more complicated than that, because there is no doubt what Chester says, that when you have the violent conflicts we are not going to easily solve this through a debt relief operation. There are many deeper problems.

But I could easily enumerate 15 or 20 countries where, if we just started a more ambitious dialog, you would be amazed at the quality of the response.

Senator FRIST. Let us go—Mr. Jaycox, Ambassador Crocker, let us wrap up on debt and then we will move on to some of the other issues, just in the interest of time. We have about, oh, 30 minutes or so. But do you have comments on things we have not touched on or from a different perspective?

Mr. JAYCOX. I just would like to touch on debt.

Senator FRIST. Pull the microphone up just a little bit.

Mr. JAYCOX. Yes. Obviously, it is the governments that are bankrupt. Almost every society that is civilized has bankruptcy laws which allow life to go on after mistakes are made. We have to do that. Otherwise there is no hope for Africa at all in my view. The debt is building as we sit here because the interest cannot be paid and it is being capitalized.

Now, I do not know whose book this money is going onto, but they are just obviously fooling their stockholders and whatever, savers. If there are U.S. agencies that are holding paper in Africa owned by indebted governments, this is ridiculous. It ought to be revealed to the American public, because they are broke, too.

Now, this has been one of the major reasons this has not happened, is that people are afraid to show exactly where their money has gone bad and fix their institutions, their domestic institutions, accordingly.

HIPC was a great idea. I despair of the idea that we go to 100 percent debt relief when we could not get that miserable thing called HIPC actually accomplished. I was with Jim Wolfensohn in Cote d'Ivoire when HIPC was born. We were just sitting there watching the IDA money. We were raising IDA money and it was going out the window to pay the debts of Cote d'Ivoire. It was harder to raise the money than it was to forgive it. It was very clear we were exhausted.

I do not know who has got the short leash, but I can tell you that the guy at the other end of the leash is certainly tired and exhausted and sick of it, too.

HIPC was born and Wolfensohn provided quite a bit of leadership at the time, and the World Bank was willing to take losses, write down, IDA and the World Bank, provided everybody else did, too, and we in fact got to a solution which was viable. This definition of viability was set after a lot of haggling, and I must say in the wrong direction, raised to 20, 25 percent net present value of the GDP.

When I first joined the World Bank, 15 percent of exports going for debt service was considered healthy, provided you were borrowing for the right reasons, et cetera. There is no reason why, if we could get these economies down to 15 to 20 percent of export proceeds as a debt service obligation, why these economies would not have a new lease on life, provided they behaved themselves as they should. Of course, that is the big proviso and that is why the conditionality and all that.

But that was not accomplished here. You know, people dug in. They protected the balance sheets of the domestic financial institutions. It is not so that the private sector has not moved on. The private sector is basically selling their debt for 9, 10 cents on the dollar. It is only official agencies of governments that are holding onto this 100 cents on the dollar business.

Mr. KANSTEINER. In fact, there are very few African countries on the secondary debt market that are at 100 percent of the face value. The secondary debt market has discounted everything. We can get Sudanese debt now for 2 cents on the dollar.

Mr. JAYCOX. Two cents on the dollar. You have got to be a big gambler, but you can get it for 2 cents on the dollar.

The private sector is not sitting around waiting to get paid. In fact, if you hold a London club meeting on almost any private debt held in Africa nobody will show up. Nobody would bother to buy a plane ticket to go to London to talk about it.

So this is a myth. It is only the governments and it is bureaucrats who have failed, have so far stonewalled debt relief in Africa. But it is a very high thing. Whether you pay at home or pay at the office, when it comes to the World Bank and IMF, they are your institutions. You are the major stockholder. You have to decide where you are going to pay, because somebody has got to pay down the line. If not, the burden will be shifted to the countries that need these institutions' help. Either they will borrow at a higher interest rate or they will not be able to get as much money as they want. That is just the facts of life. That is just basically the entropy of the system.

Senator FRIST. Ambassador Crocker, final comments on debt.

Ambassador CROCKER. The final word on debt. I think what this really boils down to, we have heard a lot of eloquent remarks on the subject. This has to do with political will and with priorities, because all the entities that we are talking about that ought to face facts and recognize that they are not going to ever get paid are in fact either governmental agencies or intergovernmental agencies, and you have to get an agreement from the authorities that control them to recognize the losses in their balance sheets, which is exactly what Professor Sachs was saying about the IMF and the World Bank.

There is a way to do it by revaluing the gold. That is another way to do it, so you compensate on their balance sheet. There are lots of ways to do these things, but it does take two things: It takes political will, which means that you have got to put—and then priorities. You have got to get Africa on the radar screen, Senator. That is what this is really all about.

Intermittently it is on our radar screen in this country. I am pleased to see it is more on the radar screen now than it has been for a while. That is good. But that has got to translate into trans-Atlantic phone calls where you get our Japanese counterparts, our French counterparts, and all the official credit agencies and everybody overseas to say: Let us get around the table and work this problem and work it for a concrete outcome within a specific time-frame.

That means putting Africa up on the top, and that does not happen all the time across the Atlantic.

Senator FRIST. Let us move on. I will turn to my colleague to introduce it, but is there a moral hazards argument to be made, that we are forgiving all this debt and in some way perpetuating either unhealthy trends, things that we would like not to perpetuate, corruption? Is that an argument?

Let me turn to my colleague. We will kind of shift gears off that, but it is a question that I have that over the next 10 or 15 minutes I would like to answer.

Senator FEINGOLD. Thank you, Mr. Chairman, very much.

First let me say it was a very helpful conversation and as we consider the Africa trade bill in the Senate I see that as an opportunity to consider some of these debt issues, and I am hoping that at least the Foreign Relations Committee is a place where that aspect is considered, if not the Finance Committee, which I understand there will be a joint referral of the matter.

I am interested in the corruption issue, working for years on the issue of corruption and bribery in general. One of my predecessors from Wisconsin, Senator William Proxmire, was the author of the Foreign Corrupt Practices Act. I would like to ask any of you to what extent corruption and bribery are prevalent in Africa, specific instances of promising opportunity being dropped because of those constraints, and to what extent you either indirectly or directly have felt constrained by the fact that our business people are required to follow the Foreign Corrupt Practices Act and many in other countries are not?

Mr. MALLETT. Well, Senator, to the extent that, if I may, Secretary Daly and I and others deal with this a lot in our bilateral relationships with other governments, there are a lot of unhealthy places in the world to do business, a lot of places where bribery, lack of transparency, is prevalent. All of them are not in Africa.

To that extent, I have often felt, and I think research done by Professor Sachs' group demonstrates, that probably Africans have been penalized more with the perception of corruption than other regions of the world. Certainly all of us find ourselves very familiar with some of the practices of Nigeria over the last 12 to 16 years.

Fortunately, we finally have a window of opportunity where we have a president and a government writ large that has dedicated itself to trying to eradicate corruption root and branch, trying to take it out. I mean, it has sort of stopped its contracting practices so that it can examine all contracts given over the last year going back 16 years—23 years, when he was last in power, saying that we are going to get to the bottom of this, land bills that were given inappropriately.

So I think we do have an opportunity to take up the issue of corruption with the Africans writ large, the Nigerians, the Cote d'Ivoirians, the southern Africans, west Africans, east Africans. Certainly we can have that dialog.

One of the things we have wanted to see is sort of to see if we could have an anti-bribery convention perhaps, to begin to start the discussion about some kind of anti-bribery convention regionally in

Africa, so that we can sort of take away this notion that you cannot do business in Africa because everybody is corrupt. It just is not true.

Senator FEINGOLD. What are the prospects for African nations joining the OECD convention to combat corruption?

Mr. MALLETT. We have had that discussion internally and one of the issues raised is that it may be better for us to sort of create a different kind of convention, Africa-specific, because of the perception of the problem of corruption on the African continent. I certainly, I have got to tell you, have no necessary objections to it and we certainly want to see that spread.

But if you look at the countries on Transparency International's sort of list of corrupt countries in the world, you will find that many regions of the world are well represented on that list. Far too many of them are on the African continent, but by and large, by and large, I think—and it is based on data put together by a number of groups, not government-sponsored—Africa is probably penalized more on that basis by the practices of some of its neighboring countries. Some increase in Africa are more penalized than they ought to be than others.

Senator FEINGOLD. I appreciate that comment. When I meet with African leaders, especially in our informal gatherings in the Foreign Relations Committee, like to bring up this subject, and I am assuming it is consistent with administration policy to ask the leaders of those countries to at least consider joining that convention. Is that fair?

Mr. MALLETT. It is fair to say that the issue of anti-bribery practices, anti-corrupt practices, often comes up in our conversations. We often use the OECD anti-bribery convention as a model and suggest that it be taken up. But I know of no specific instance where I have been in bilateral meetings where I have asked them to join that particular convention.

I am always, I suppose probably needlessly, just a little sensitive about the Americans coming in to tell them that they ought to have this convention. But it is a conversation about corruption and transparency that I have incessantly with my counterparts in countries all over the world, not just in Africa. But I do it a lot with African leaders.

Senator FEINGOLD. Let me agree with that. I certainly do not restrict my urging of this to African leaders.

Let me just follow, Mr. Chairman——

Dr. SACHS. Senator.

Senator FEINGOLD. Yes, please, Dr. Sachs.

Dr. SACHS. There is a conference in September in south Africa organized by Transparency International, which has gotten the most remarkable response of African leadership. So I just saw the roster of attendees planned for September. Obasanjo is going. Mbeke is the local host. A tremendous response of African leadership.

I think it is fair to say you could get a lot of resonance on the issue right now. President Obasanjo was a senior international member of Transparency International. This is really a big issue for him.

I would like to just come back again. To me, the Nigeria situation is so ripe for some serious foreign policy initiative by us. I hope it is happening. I do not see it happening. But that issue is crucial for Nigeria. Nigeria is crucial for Africa. I would love to see the two put together, and the corruption issue is absolutely at the top of their agenda, not by us forcing it, but by us trying to figure out how to help them do an extremely difficult thing, which is cleaning up an army, after all, that has run the country for more than a decade.

So it is ripe if we can really—but it has got to be, of course, starting at the White House.

Senator FEINGOLD. I would like to talk about that a bit, because I am delighted that you mentioned Nigeria, both of you. In fact, that was going to be my next question, to put this in concrete terms. I have spent the last 6½ years on this committee hoping that there could be some change in Nigeria. I have authored some of the main legislation, in fact perhaps the only legislation in the Senate this year, that tries to set some benchmarks with regard to what we hope will be improvements and the possibility of further sanctions if we do not have improvements.

I am hearing good things. I had a very good conversation with Susan Rice just this past Thursday. I am cautious because of the record of the past. It affects us in Wisconsin. We have a terrible problem with these business fraud problems. We have a terrible problem with heroin coming through Chicago, through Nigeria, that now on occasion goes through Mitchell Field in Milwaukee, and the threat to the kids in our State.

So I come to this with a great deal of, I do not want to call it baggage, but concerns. I do not want to be too quick to just sign off on this and I will not, but I do want to say that I am encouraged. I understand Obasanjo already was involved in helping, in making a number of arrests with regard to some of these questionable business practices.

So I do think this is the opportunity. I hope we do not get carried away, given how serious the problem, the corruption is so deep in that country, that if just a couple good things happen, we just sign a blank check and then end up feeling foolish later on and doing more harm than good. It is in the interest of Nigerians and our country and our investors to make sure it is a gradual process that gradually builds confidence.

But I am glad to hear of your emphasis on this, because I do think Nigeria is probably the key if you had to pick one to this.

Ambassador CROCKER. Senator, there is just one issue of maybe just diplomacy more than anything. Asking African countries to sign onto an OECD protocol does not make a whole lot of sense if they are not members of the OECD. I think what we are talking about is finding a way to get an African protocol and build toward a global protocol. That was I think the point that Secretary Mallett was alluding to. The standards would be hopefully the same, but there has got to be an ownership of it in each region. I think that is the point.

Senator FEINGOLD. I think that is fair. There are already five non-OECD members who are members of that. But I think to make it something that is appealing seems appropriate. I am certainly willing to explore that.

Dr. SACHS. Senator, could I followup? These moments of transition are so pregnant with opportunity that the tactics that one follows are of the essence. While I agree with you that you do not want to just jump in as if everything is solved—by no means would I recommend that—it is crucial in my opinion to set extremely high targets for both sides early on, even if they do not happen immediately, to set the vision extremely high, so that even if you do not forgive all the debt next month—and I think that would be a little bit premature, to say that this could happen, that it really could happen—let us both sides try to engage in the most ambitious vision of this.

Again, we all appeal to our personal experiences, and mine that is I find most relevant for this were the events in Poland in 1989 and 1990, where, largely because of our domestic politics and global politics, we were ready to enter into an incredibly bold discussion on both sides. Actually, there was a whole heated debate about whether Poland should get debt cancellation, for example.

A couple things made the difference. One was a lot of Polish-Americans and the second thing that made the difference was the Germans finally, after a lot of reluctance, came along when it was reminded to them that in 1953 they got deep debt relief for Nazi era and pre-World War II debt. The prime minister of Poland handed that to the chancellor and the chancellor said: I cannot argue with that one; we are on board.

But the point is that there were two competing visions of how to proceed, one very cautious, step by step, in which the reformers saw themselves going down and in which they did not see how they were ever going to pass the thresholds; and the other was the bold approach. Now, the bold approach ended up taking 3 years to cancel the debt, but soon enough the White House put some pretty bold things on the table and started telling them this could happen. We do not know how it is going to happen, but it could happen, and we are ready to work with you to make it happen.

I think that that—I know that, from Waleca's point of view, many key participants, this was crucial in how they comported themselves, in how they were able to deal with their own internal constituencies at crucial points.

I feel that my Nigeria is that important in Africa's future in terms of scale of solution, in terms of scale of the problem that they face right now, that we should really be aiming very, very high, even if we do not jump in entirely at the moment, to lay out an absolutely bold common vision.

Senator FEINGOLD. Mr. Chairman, you have certainly been generous with the time.

Let me just say I think this is the moment for a bold approach. I think the Africa trade bill may be the vehicle for such a bold approach to be considered, and let me report to you that in my State constituents in general, in African-Americans, are expressing to me the kinds of feelings that the very large Polish population in Wisconsin expressed at the time with regard to your excellent analogy. I think this is the moment, and I think that is a very powerful and effective statement.

Thank you, Mr. Chairman.

Senator FRIST. Further comments? Yes, sir.

Mr. MALLETT. Mr. Chairman, if I can give you three reasons to be reasonably optimistic about Nigeria. While I was there 3 weeks ago, there were three things that happened. Some of them happened before I got there, but two of them happened while I was there. One was while I was in country President Obasanjo introduced into the legislature there an anti-corruption bill and they published it in the newspapers. It took them 2 days to publish the entire text of the bill, but it was published in the newspapers for everyone to see. Unprecedented in Nigeria. Under consideration by the legislature, and I met the president of the senate there and they said they would be passing that legislation.

The second thing that happened while there, President Obasanjo had committed during his campaign that he would eliminate this fund that—it is not quite a slush fund. Actually it was the most well-audited fund that they had in the Nigerian Government. But it did not go through the legislative budget process. It was something that the government could use to fund road projects and other kinds of things.

Senator FEINGOLD. Kind of like the Social Security Trust Fund.

Mr. MALLETT. It obviously could be abused and he wanted to abolish it, and he fired the person who was in charge and said, we are going to abolish the fund. No disagreement about doing that, disagreement with the tactic. What the senate decided to do, what the Nigerian legislature said: We agree to abolish the fund, but the way you went about doing it we did not agree. And they said you cannot do it that way, and they then put in a law while I was there to do what he wanted, but to do it in a way that it comported with the legislative processes. He did not object.

That was very unusual for Nigeria. That was a democratic experiment at work.

The third thing were a set of things. They happened before I got there. Before arriving and shortly after his election, President Obasanjo did three things—four things: he established a commission to review human rights abuses in Nigeria. No one thought he would have the courage to do it. He did it. That commission is operating, operating. I met a number of people who are members of it.

Second, he put on hold all contracts that were awarded the year before he took office. The former military government toward the end of their term sort of made a number of procurement decisions that may not quite have been able to stand the test of light, and he put all of those on hold for review. Those that could stand the test of light could go forward, those that could not he was canceling.

The third, he would put on review all land deals that the Federal Government in Nigeria had done. All land deals where people could acquire government land at sort of little or no cost, he wanted to review them. Where there was clear abuse, he was going back to see if the state could take back the land.

Finally, something that no one believed he would do, he decided that he would look at enrichment of government officials starting from the time he was last in office in 1976. Everyone thought he would just do the last 16 years of sort of military rule. He went all the way back to when he was last in office, 1976, and said it is all on the table. They have a government commissions. It is having hearings all over the country to talk about this.

Now, that for Nigeria, and to hear the Nigerians talking about it, is an unbelievable breath of fresh air. So you are right, we certainly should not squander this opportunity. So there is some reason to hope that it is moving. It certainly has the right trend and moving in the right direction, Senator.

Senator FEINGOLD. Thank you, Mr. Chairman.

Senator FRIST. Let us shift gears a little bit.

First of all, people in the audience who have questions, we will have 4 or 5 minutes if somebody has a specific question that has come up. There are obviously a number of issues that have been raised and we cannot touch upon all of them. It is of some advantage to us to go in a little more depth in certain ones than in others. But I want to throw that opportunity open.

Let me just throw out for the discussion to the panel: What do we have to learn in terms of petroleum investments from the past that can apply to the future? I mentioned in my opening comments the lack of diversity and it was mentioned that eventually diversity is going to be important. As we look back to the past, as we mentioned or as I mentioned, possibly some moral hazards there.

As we look at what has happened in the past with our petroleum investments, what do we have to learn that we can apply to the future? Anybody? Yes, Dr. Crocker.

Ambassador CROCKER. On the issue of moral hazard, which I think you first raised, Senator, in the context of debt relief——

Senator FRIST. Right.

Ambassador CROCKER. I think Professor Sachs in a sense has an answer for that. The bolder you are in what you are offering, the bolder you can be in what you are demanding. So I think you deal with moral hazard at the government to government level, that way.

The history of petroleum exploitation and exploration in Africa is an exciting story which has just begun. This is the next Persian Gulf we are talking about. The west central African littoral is a very exciting, very prospective area, much more exciting, much more important in fact in the long scheme of things than the Caspian Basin in my judgment. I am not an engineer, but that is what my sources tell me.

So I think it is an exciting area. The issue is how do you make it compatible with the societies in which petroleum companies operate, and I think they are the first to tell us that they are learning, too. I do not think any of us should be getting on a soap box giving sermons to industry or to government. I think we should be saying, look, this has got to be sustainable.

We have seen in Nigeria and other places where sometimes it has not been so sustainable. So people have to listen. They have to listen to their constituents.

Senator FRIST. Other comments?

Mr. MALLETT. Senator, our imports from Africa are very concentrated. They are concentrated—six countries account for 88 percent of all of our purchases, six countries: Nigeria, South Africa, Angola, Gabon, Cote d'Ivoire, and Congo-Brazzaville. Five of those six countries are major oil exporters to the United States. South Africa is a nonferrous metal exporter to the United States.

We import, the United States, about as much crude oil from sub-Saharan Africa as we do from all of the Persian Gulf. Nigeria and Angola are our No. 5 and No. 6 suppliers of crude oil imports.

We obviously have some very substantial interests and we are often meeting with major companies in the petroleum industry to talk about this. One of the issues raised in Nigeria with the government while there was that we do understand that there are some inequities and the relationship, but the Nigerians, given how critical crude oil development is to their economy, they had to do something about the crime that was occurring in the delta region with respect to kidnapping oil executives and taking hostages. It simply was an unacceptable answer to say, well, you cannot do anything about it and we cannot get the army in there.

All of us would sort of embrace the idea of trying to diversify both our exports to and imports from Africa. But if you just look at the trade flows, it is staggering that only six countries account for 88 percent of all the purchases that we make, and most of that is oil.

Mr. KANSTEINER. There are some short and midterm problems that we are going to be facing, and huge opportunities. As Chet suggests, Angola, for instance, will probably surpass Nigeria in barrels per day in the next few years and that is all offshore. That is not even beginning to look at the potential reserves onshore.

The reason that there is not serious consideration of onshore reserves and exploration is another thing that Chet mentioned, and that is the war. If we could get conflict resolution in a place like Angola, their proven reserves will become very significant.

Senator FRIST. Question from the audience? Anybody have a specific question they would like to ask our panelists?

[No response.]

We are going to close down in just a few minutes. I want to give—it is not a very aggressive audience back there.

Why do we not give each of you the opportunity. We have talked about a number of barriers. Many we have just touched upon. Again, I cannot tell you how just this level of discussion, how useful it is for us and will be for our colleagues as we share it with them.

In our sort of closing comments, why do you not—we have identified barriers as we look forward from a policy standpoint. We have talked about some bold ones in terms of debt relief. What other specific recommendations you might have as we, having identified and discussed a little bit these barriers, that we might incorporate, think about, both sort of inside the box of what we normally do, but also outside the box in terms of increasing the boldness? Let me just throw that out and ask each of you to make a few recommendations, and then also if you would like to make any closing comments as we start.

We can start with anybody who would like. Yes, sir, Mr. Jaycox.

Mr. JAYCOX. Thanks very much, Senator. I would like to make a pitch for generally capacity building in Africa, starting with primary education, but including all levels of education, training, leadership training, involving NGO's as well as the USAID and other agencies of the U.S. Government. It seems to me that this is the one single area where progress has not been made, even in recent times.

In fact, there has been a general deterioration. With the exception of these economic teams I referred to, I think in general there are more technical assistance, more dependence, being generated in Africa than ever before, and that unless there is an internal solution to almost every problem we have raised I do not see it actually being sustainable.

I think that I do not have the answers for this. The World Bank and others have given a lot of thought to how this might be done, but I do not see it as an energizing fact yet in general.

Senator FRIST. Good.

Dr. Sachs, you want to make some closing comments?

Dr. SACHS. I would like to touch on some of the topics that we have not had a chance to discuss at length, two, actually three, but two main ones in particular.

First on trade, I mentioned briefly that for most of the region the tragedy is they trade extremely little in general, these countries. It is all a few natural resource commodities, and generally no progress toward export diversification. If you look at the long history of successful development, whether you go back to the east Asian countries like Korea or Taiwan or now Poland with rapid growth for the last 10 years or north Africa, Nigeria, Tunisia, or I would say what is happening now in the Dominican Republic or in Costa Rica or Mexico, all of those regions that start to achieve some stable growth are countries that get out of their dependence on a single resource and become a part of a more complicated international production system.

Generally what happens at the beginning is that multinationals invest in those countries and use them as export platforms. That is the way that poor countries get started. So they make T-shirts, they make shoes, they assemble electronics equipment, and then the technology rises. All sorts of good things happen when you get this kind of transformation under way.

This has not happened at all in Africa, anywhere in tropical Africa. There is only one exception in the whole region, which is a pseudo-exception in a way. It is Mauritius, because it is counted in the African region. It is an Indian Ocean island which back in 1968 said: We want to do what Taiwan is doing; we want to have some textile and apparel-based exports. It is the most successful developing country in the region over the last 30 years, by doing this basic strategy. Now they have reached a quite sophisticated level and many other things in services, in tourism, and so on.

It is crucial for us to help Africa get started in this. It is a complex topic because one thing we also know from all of this is that this kind of export zone strategy works in coastal areas, where you can bring in the port, bring in the goods, reship them and send them out. Africa, interestingly, has the highest proportion of any continent's population away from the coast.

There are all sorts of deep geographical reasons for this, but mainly because in the tropics people live in the highlands rather than on the coasts for all sorts of reasons, but disease and agricultural productivity and water control and so forth tends to be better in highlight regions. So you get high population densities in very unlikely places, like Rwanda and Burundi, rather than at the coast.

OK, putting these details aside, my shock in looking at Africa compared to all the other places where I have ever worked is that the major coastal cities, like Dar es Salaam or Acra or Abijan or Dakar are not the kind of export-based locations that you would find in any east Asian city or any Caribbean island now or Central America, where you have San Pedro Sula in Honduras or San Jose with Intel and so forth.

So from the strategic development point of view, making Africa's urban coastal areas the normal export sites is from a development specialist point of view where I would put my effort right now.

Now, I say all of this because it comes to the core of the legislation and the core of the controversy over the legislation. The political interests in this country do not care too much about Africa, it seems, but they did care a lot about any T-shirts coming from Africa. But I just have to say that realistically that is how Africa is going to get started.

It really is true that creating some thousands of jobs in these sectors is one of the few ways that you can get some manufacturing going and get out of sisal, jute, coffee, tea, dead end sectors.

So I know it is not easy, but the question of the local content and whether the fabrics are cut by—are U.S. fabrics, I know this is near and dear to the hearts of all of us. But these details are going to make a huge difference, Senator, in whether Dar es Salaam continues to be a magnet for disease and a dead end and dependent on foreign aid or whether it is a thriving port area doing electronics assembly, selling shoes abroad, selling shirts to Europe, and so on.

So I just want to put that as a key. It is the most controversial part of this legislation and I am sorry to go to that, but I think it is really important to say that this is what makes the difference over a 10 to 20 year period. It is why Mexico, I believe, really is turning the corner now fundamentally in development. It is that we have opened up, and I think it is mutually beneficial. I think the same thing for Africa.

Last point. I do not mean to filibuster, but I want to say a word about what we might do about disease, because I hope, with your leadership, Senator, maybe we could try some creative things in the future. I have been looking in quite a bit of detail over the past year at the international efforts on malaria and to some extent on HIV-AIDS, which is even now, of course, a more explosive killer in Africa.

In general, we are not doing the biotechnology work that is going to be needed to deliver what is deliverable, which is vaccine, new vaccines based on all the new delivery systems and all the new biotechnology, deliverable probably within a 10-year period if there were a major effort.

When you talk to Merck, SmithKline, Pasteur, and all of the other—there are not that many, actually—major vaccine firms these days, they are happy to work on Hep B and HIB and others because that is rich country markets. But for the poor country diseases, they cannot do it on their own, and there are a hundred barriers to making a real market out of this, not the least of which is that they feel that if they ever came up with something UNICEF would say: OK, we demand it at 50 cents a dose, which is the normal way that vaccines get delivered. And they would say: But we just spent a billion dollars developing it; where is our market? And they are right.

So they are afraid. So we are stuck in a dead end right now on something that American science could really deliver. What I have been talking with the White House and the Office of Science in the White House and others around the world—and there have been a number of discussions about this—is the idea of creating a kind of contingent purchase fund for malaria or for HIV-AIDS vaccine, which would say: This does not exist right now, but some day it might exist, and if it ever did exist we can assure you that the major countries would stand there ready to be a market for this, to help the poorest countries be able to afford such vaccines.

The idea is that by making a commitment up front you could generate a huge private sector mobilization of science now, because they would see the prize at the other end, bottom line prize, in a much more clear way. My feeling is it would not cost us a penny of outlay if it never happened, but all we would be doing is saying what would absolutely be true, that if it ever did happen we would be there ready to purchase it.

There are a lot of details, and I would love to share them with you, on the idea. But my point is that with some creative leadership, my view is we could turn American science strongly in perhaps the most vital direction of all, and that is making these new technologies reach millions and millions of people. It would be about the most cost effective assistance program we could ever have.

You know, the vaccine companies say, and I believe them, it is probably a couple billion dollars to get a malaria vaccine developed, and in the scheme of things that just is not anything compared to the $16 billion that we put in year after year in worldwide development assistance to Africa. But the vaccine companies do not believe that one penny of the current flow is actually an inducement to them to do what they could do.

So just to stop on that, it seems to me that if we recognize this triumvirate of trade, debt, and disease and we go after each one in a very creative and bold way, in about the most cost effective foreign policy we could have, because we are talking about very poor places for which even modest amounts can make a difference of life and death, we could do phenomenal things, I think.

Senator FRIST. Thank you, and that is very well said and I do look forward to working with you on the disease, public health initiative.

Dr. SACHS. I would love to do it, Senator. It would be a privilege.

Senator FRIST. The incremental effect of that, obviously, would be—I promised everybody we would be out a little bit ago. Any final statements?

Mr. MALLETT. Well, Senator, I just want to thank you again for holding the hearing. Clearly there ought to be a more robust conversation between the administration and Congress about this question of debt relief. Although we clearly have a position on the subject, I think the President is certainly amenable to having a more vigorous conversation about it and I think it is time to have it, speaking from my own parochial vantage point.

As well, in the engagement that we do with the business community about issues related to Africa we are trying at the Commerce Department to assure more coordination and a fuller conversation with business people about what we ought to be trying to help them get accomplished.

The disease conversation that was here, particularly around HIV, I sort of just associate myself with everything that was said. But the best thing we can do with respect to the prevention of HIV and AIDS in Africa is a public education campaign in Africa and let the Africans help to do that. We have a shining example in Uganda, which eliminated the growth rate of AIDS in their country by simply the government deciding that it would walk out of the closet with respect to this question.

The more U.S. companies do there—and U.S. companies are good citizens on the African continent. The more they do, they more they can engage in disease prevention, particularly HIV-AIDS, the more education they can do, the better off that continent is going to be.

There are of course many things that individual agencies around the U.S. Government can do. I know in my own Department the Patent and Trademark Office, the Census Bureau, NOAA, our Telecommunications Agency, there are a number of programs we have that can sort of help in small ways that would be very significant to the Africans through its technical assistance and through capacity building.

But the one thing we know will work, that is to see if we can enable a better commercial environment. We have commercial law development programs that we have sort of developed along with AID, and we sort of live hand to mouth in those programs. But we have taken them many different places in Latin America, in Asia, and in Africa. They are welcomed by governments and the private sector in those areas. They make a huge difference in institution building.

If we can sort of do more of that and institutionalize programs like that, we will do far more than we even will ever know that we have done if we do that.

Thank you for having us today.

Senator FRIST. Thank you, and I sincerely want to thank everybody for participating, in this format especially, where we really can flow and we are not stuck in the little categories as we bounce around. It is a little bit frustrating, I think, for all of us. I do want to thank all of you for participating, for taking time out.

Senator Feingold, you have the final word.

Senator FEINGOLD. Mr. Chairman, I just want to thank you. The last thing I want to do is to discourage you, because you have put an enormous amount of time into this and this is one of the better conversations I have heard about Africa in the 6½ years that I have been here. So I want to thank you and just express my appreciation that the last few remarks did have to do with the HIV-AIDS situation. I believe that this has to be a significant barrier to investment if we do not get a handle on it in Africa, and I know Dr. Frist knows that better than I do.

Thank you very much, Mr. Chairman.
Senator FRIST. Thank you all.
We stand adjourned.
[Whereupon, at 4:23 p.m., the subcommittee was adjourned.]